

Demand is still strong, supply is the limiting factor

Dangote Cement also had a fair share of the impact of the current inflationary pressures, FX depreciation and supply chain disruptions on business volumes as its group volume was down 3.6% y/y to 7.2m MT in Q1 2022. However, the combined better price realization (up 28.9% y/y) from both its Nigerian and Pan African operations came to the rescue, resulting in Revenue growth of 24.2% y/y in Q1 2022. Net Income was N105.5bn in Q1 2022, a 17.6% growth compared to Q1 2021.

Despite current production challenges faced by the Nigerian cement producers, which have led to aggressive price hikes, the demand for cement remains strong. Hence, the industry player with sufficient capacity to capture the growing demand will have a competitive edge and that puts Dangote Cement in a favourable position, given its sizable market capacity from its plants including its new 3million MT Okpella plant. However, the management noted low gas availability in its Nigerian operations, affecting production volume. Likewise, shutdown and extended plant maintenance in some of its plants in the Pan-African region (Congo and Senegal) also impacted volume growth in that region. Also, elevated bottlenecks in the Pan-African segment may affect volume growth.

We forecast price growth of 18.9%, which will be the main driver of the group's topline performance for the year while we expect subdued volume growth of 5.4% due to the identified concerns. We have revised our model and the overall effect is an upward review to our target price to N338.48 from N294.42, with an upside potential of 12.8% based on the last closing price of N300/s. We maintain our HOLD recommendation. On a relative valuation basis, the cement producer is currently trading at a 2022e EV/EBITDA of 7.0x compared with its EM peer average of 12.3x.

Dangcem Q1 2022						
Nm, except mentioned otherwise	Q1'22	Q1'21	y/y	Q1'22	Q4'21	q/q
Sales	413,181	332,651	24.2%	413,181	361,451	14.3%
Cost of Sales (Ex-Dep)	(132,725)	(107,628)	23.3%	(132,725)	(127,419)	4.2%
Gross Profit	280,456	225,023	24.6%	280,456	234,032	19.8%
Other Income	1,017	3,912	-74.0%	1,017	(993)	-202.4%
Selling and Distribution Expenses (ex-dep)	(55,836)	(36,826)	51.6%	(55,836)	(48,646)	14.8%
Administrative Expenses (ex-dep)	(15,224)	(14,138)	7.7%	(15,224)	(15,280)	-0.4%
EBITDA	210,413	177,971	18.2%	210,413	169,113	24.4%
Depreciation and Amortization	27,943	26,227	6.5%	27,943	26,831	4.1%
EBIT	182,470	151,744	20.2%	182,470	142,282	28.2%
Net Finance Income/ (Cost)	(26,405)	(21,643)	22.0%	(26,405)	(10,105)	161.3%
Profit before tax	156,065	130,101	20.0%	156,065	132,177	18.1%
Tax expense	(50,547)	(40,391)	25.1%	(50,547)	(46,690)	8.3%
Net Profit	105,518	89,710	17.6%	105,518	85,487	23.4%
Net income attributable to equity holders	104,415	89,957	16.1%	104,415	85,082	22.7%
Diluted EPS	6.18	5.29	16.8%	6.18	5.00	23.4%

Margins:	Q1'22	Q1'21	y/y	Q1'22	Q4'21	q/q
Gross margin	67.9%	67.6%	0.2ppt	67.9%	64.7%	3.1ppt
EBITDA Margin	50.9%	53.5%	-2.6ppt	50.9%	46.8%	4.1ppt
PBT Margin	37.8%	39.1%	-1.3ppt	37.8%	36.6%	1.2ppt
Net margin	25.5%	27.0%	-1.4ppt	25.5%	23.7%	1.9ppt

Source: Company data, CSL Research

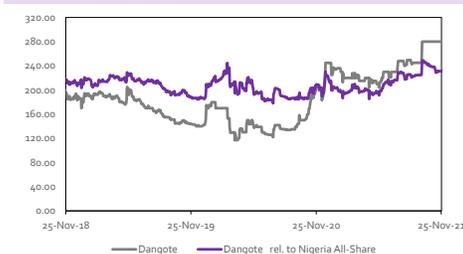
Recommendation	Hold
Target Price	N338.48
Closing Price	N300.00

*Price as of 23 May

Key data

	2021	2022e	2023e	2024e
Sales	1383.6	1722.3	1951.0	2234.1
EBITDA	683.6	874.8	990.2	1,164.0
EBIT	582.8	763.8	872.3	1044.6
PBT	538.7	725.5	859.0	1043.8
Net Profits	364.8	493.4	584.2	709.8
EPS, N	21.24	29.2	34.6	42.1
EV/EBITDA	7.3	6.1	4.9	4.1
PE	13.2	12.7	11.8	11.7
Dividend Yield	6.7%	8.3%	9.8%	11.9%
Market cap.	N5.1tn (US\$122.2bn)			
Free float	11.8%			
Bloomberg	DANGCEM.NL			
Reuters	DANGCEM.LG			

Three-year graph



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Revenue growth riding on price increment

Y/y Revenue growth was price induced and plugged the decline in volume growth in Q1 2022. Notably, the management noted that prices were raised at the end of 2021. While prices were raised at both its Nigerian and Pan African operations, the significant price increment in the former drove the y/y Group Revenue growth as the price increase by the latter could not make up for the decline in y/y volume growth in Q1 2022. Specifically, Revenue from the Nigerian operations increased by 34.3% y/y to N329.9bn in Q1 2022 due to a significant increase in realised price per tonne (+36.4% y/y to N66,595) which compensated for the 1.5% y/y decline in volume (4.8m MT). Notably, the local demand for cement remains strong and as such, the decline in sales volume was due to a shortfall in production which according to the Management was due to low gas generation in the country, further worsened by global supply chain disruptions. Looking ahead, the uncertainty that surrounds gas generation in the country poses a sizable downside risk to production volume. Although, we believe additional volumes from its new 3m MT Okpella plant should provide some respite and should be supportive of the firm's earnings, production from the new plant is also subject to gas availability in the country. In our view, the firm may need to resort to price increases to rescue margins, especially at a time when general prices of goods and services are on the rise. This makes us estimate a 20.0% y/y growth in price per tonne for the year, while projecting a 10.0% y/y volume growth. Overall, we expect Revenue from the Nigerian operations to increase by 32.0% y/y to N1.3tn in FY 2022.

The Pan African region also raised prices (+6.3% y/y) in the review period, but it was not sufficient to cover the 7.5% y/y fall in volume growth, which led to the 1.8% y/y decline in Revenue to Ng1.3bn in Q1 2022. The management attributed the decline in volume to the combined impact of the shutdown in its Congo plant for over 2 months, extended power plant maintenance in its operations in Senegal, as well as volatility in cement/clinker landing costs in Cameroon, Ghana, and Sierra-Leone. On the other hand, since DANGCEM attained better energy efficiency in its operations in Tanzania, production has improved, which was evidenced in the 77% growth in sales volume to 0.51Mt in Q1 2022 in the country. Going forward, we are relatively cautious about the production outturn in the Pan-African region. Though the management notified that its plant in Senegal was already up and running at the investors' call. However, the significant decline in production volume alluded to by the management in Q1 2022 indicates a slow start to the year. This makes us forecast a 95% utilization rate in the plant, coming below the 5-year average utilization rate of 97%. The uncertainty around the Russian-Ukraine crisis portends downside risk for countries that depend on either Russia or Ukraine for importing key inputs such as coal. Consequently, we forecast sales volume to decline by 2.4% y/y in 2022, while assuming price growth of 11.0% y/y in the Pan-African segment. Thus, we forecast Revenue from Pan-African operations to rise by 8.8% y/y to N432.3bn in FY 2022. All in, we forecast the FY 2022 Group Revenue to grow by 26.0% y/y to N1.7tn.

Cost pressures on the horizon

Again, the conversation around elevated cost pressures has been in the spotlight for Dangote Cement, affecting not only its Nigerian operations but also the Pan-African region. Cost of sales adjusted for depreciation was up 23.3% y/y. The significant growth in cost of sales despite a 3.6% decline in sales volume points to cost pressures from inflation, FX depreciation, energy disruptions and supply chain bottlenecks. For Nigeria, the low gas generation in the country means more cost was incurred to power the plants and lends credence to the 44.5% increase in energy costs in the Nigerian operations. Besides, FX depreciation and inflationary pressures on freight costs of importing coal must also have contributed to the increase in energy costs. In

the Pan-African region, cost pressures came from the volatility in landing costs occasioned by an increase in freight costs associated with importing cement to Ghana & Sierra Leone and clinker to Cameroon. Overall, Gross Profit increased by 24.6% to N280.5bn, as Gross Margin also expanded by 0.2ppts y/y to 67.9% in Q1 2022 riding on the robust revenue growth. EBITDA climbed slower, rising by 18.2% y/y to N210.4bn, while EBITDA Margin contracted by 2.6ppts to 50.9% in Q1 2022. The pressure on EBITDA margin stems from the 57.5% y/y surge in haulage expenses arising from increased cost for Automotive Gas Oil (diesel) on its trucks which was reflected in the 51.6% y/y increase in Selling & Distribution Expenses (adjusted for depreciation). Also, Administrative Expenses (adjusted for depreciation) increased by 7.7% y/y in Q1 2022.

Going forward, we expect EBITDA Margin to remain stable, driven by Revenue growth and continued cost containment measures. Though inflationary pressures on energy costs will probably continue. However, we expect the gradual shift to alternative fuel projects which the company is exploring for an optimal energy mix to provide respite. Also, the current hike in diesel paves way for DANGCEM to sustain its investments in Compressed Natural Gas (CNG) for its trucks to ease the cost pressures from diesel. Overall, we estimate EBITDA of N895.7bn in 2022, which translates to an EBITDA Margin of 51.4% relative to 49.4% in 2021.

Strong cash generation leaves less to worry about debt maturity of N349bn in the year

Net Finance Cost increased, up 22.0% y/y to N26.4bn in Q1 2022 from N21.6bn in Q1 2021. The growth in Net Finance Cost came from a 45.3% y/y increase in Finance Cost to N36.8bn despite a 183.4% y/y increase in Finance Income to N10.4bn. Breakdown of the Finance Cost revealed that beyond the 27.6% growth in Interest Expense, a 71.6% y/y increase in FX loss of N18.2bn contributed to the jump in Finance Cost. Looking ahead, we forecast Finance Income of N31.0bn in 2022, benefitting from a good start of N10.4bn in Q1 2022 when compared to N3.7bn in Q1 2021. Also, the firm will have a debt maturity of up to N349bn in 2022 and we see cash adequacy given its robust cash flow generation capacity and proceeds from its undrawn debt programme. We project Finance Cost of N76.4bn, resulting in Net Finance Costs of N45.4bn in FY 2022.

Valuation

We have revised our model and the overall effect is an upward review to our target price to N338.48 from N294.42, with an upside potential of 12.8% based on the last closing price of N300/s. We maintain our HOLD recommendation. On a relative valuation basis, the cement producer is currently trading at a 2022e EV/EBITDA of 7.0x compared with its EM peer average of 12.3x. We arrived at our target price using a blend of discounted cash flow and relative valuation in a ratio of 60:40.

Dangote Cement Forecasts, Nm

Dec year-end; N million (except where stated)

Income statement	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Turnover	491,725	615,103	805,582	901,213	891,671	1,034,196	1,383,637	1,743,278	1,967,784	2,203,084	2,448,620	2,782,553
Cost of sales (ex-depreciation)	(163,565)	(272,571)	(291,692)	(318,767)	(314,735)	(373,024)	(475,065)	(575,108)	(652,352)	(732,770)	(815,697)	(909,073)
Gross profit	328,160	342,532	513,890	582,446	576,936	661,172	908,572	1,168,169	1,315,431	1,470,314	1,632,922	1,873,480
Total opex	(124,289)	(170,581)	(214,895)	(253,970)	(280,023)	(279,004)	(331,961)	(389,094)	(432,230)	(462,541)	(498,116)	(543,494)
Other income	3,951	10,542	5,213	10,222	2,980	4,754	6,221	5,599	5,711	5,825	5,942	6,060
EBIT	207,822	182,493	304,208	338,698	299,893	386,922	582,832	784,674	888,912	1,013,598	1,140,748	1,336,047
Depreciation and Amortisation	54,626	74,750	83,939	96,203	95,463	89,538	100,766	111,059	117,992	119,471	123,487	134,315
EBITDA	262,448	257,243	388,147	434,901	395,356	476,460	683,598	895,733	1,006,904	1,133,069	1,264,235	1,470,362
Net interest (expense)/income	(19,528)	(1,564)	(16,785)	(38,455)	(50,063)	(14,174)	(44,942)	(45,391)	(13,509)	(937)	(8,043)	(15,546)
PBT	188,294	180,929	289,590	300,806	250,479	373,498	538,707	739,283	875,403	1,012,662	1,132,705	1,320,501
Taxation	(6,971)	(38,071)	(85,342)	89,519	(49,958)	(97,242)	(173,927)	(236,571)	(280,129)	(324,052)	(362,465)	(422,560)
Profit after tax	181,323	142,858	204,248	390,325	200,521	276,256	364,780	502,713	595,274	688,610	770,239	897,941
Balance sheet	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Property plant and equipment	919,822	1,159,856	1,198,495	1,177,833	1,210,412	1,395,241	1,477,981	1,543,465	1,643,642	1,745,954	1,868,502	2,013,565
Other non-current assets	25,141	66,084	57,089	87,792	112,247	64,478	22,430	22,430	22,430	22,430	22,430	22,430
Total non-current assets	944,963	1,225,940	1,255,584	1,265,625	1,322,659	1,459,719	1,500,411	1,565,895	1,666,072	1,768,384	1,890,932	2,035,995
Current Assets												
Stocks	53,118	82,903	94,594	106,998	114,806	108,270	167,205	165,442	193,025	200,210	212,305	236,608
Trade debtors	11,544	26,279	30,155	44,468	31,093	35,194	47,469	62,089	70,085	72,232	80,503	91,481
Other debtors & prepayment	60,526	78,280	115,496	101,883	127,044	248,561	311,722	358,208	323,471	331,065	335,427	381,172
Due from related companies	-	-	1,608	2,380	4,266	5,249	3,752	7,305	7,856	7,979	9,643	10,724
Short term deposits	-	-	-	-	-	-	-	-	-	-	-	-
Cash	40,792	115,693	168,387	166,896	123,903	145,835	339,843	348,389	717,268	856,349	968,578	1,116,164
Total non-current assets	165,980	303,164	410,299	428,838	407,828	550,138	873,042	944,484	1,314,757	1,470,886	1,609,507	1,839,200
Total assets	1,110,943	1,529,104	1,665,883	1,694,463	1,730,487	2,009,857	2,373,453	2,510,380	2,980,829	3,239,270	3,500,439	3,875,195
Non-current liabilities												
Deferred taxation	24,504	103,162	116,898	83,350	93,841	122,980	135,003	135,003	135,003	135,003	135,003	135,003
Long term loans	208,329	152,475	242,894	125,725	107,279	158,908	176,562	190,989	180,725	217,368	237,345	316,710
Other	32,692	22,146	4,255	3,269	4,053	12,004	12,283	12,283	12,283	12,283	12,283	12,283
Total Non-current liabilities	265,525	277,783	364,047	212,344	205,173	293,892	323,848	338,275	328,011	364,654	384,631	463,996
Current Liabilities												
Bank overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Trade creditors	44,044	83,164	78,561	86,265	63,277	56,168	105,518	102,417	125,109	140,147	167,609	186,796
Other creditors	83,553	185,802	192,160	144,705	222,554	293,220	265,706	358,208	404,339	451,452	503,141	571,757
Dues to related companies	-	-	-	-	1,409	2,073	2,187	3,001	3,481	3,714	4,229	4,810
Short term debts	47,275	220,300	144,783	220,128	260,631	335,011	401,393	405,852	335,632	370,113	421,947	437,362
Taxation	1,289	18,220	63,901	9,223	49,932	59,781	153,385	153,385	153,385	153,385	153,385	153,385
Other	24,537	18,307	41,071	35,185	34,083	83,460	148,294	50,420	135,595	148,025	135,429	174,677
Total Current Liabilities	200,698	525,793	520,476	495,506	631,886	829,817	1,076,483	1,073,283	1,157,541	1,266,835	1,385,740	1,528,787
EQUITY												
Share capital	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520
Share premium	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430
Other reserve	-	-	-	-	-	-	-	-	-	-	-	-
Revenue reserve	620,501	605,662	639,462	848,695	776,839	779,271	868,274	1,029,996	1,193,798	1,371,605	1,551,134	1,788,085
Non controlling interest	(6,235)	(12,925)	12,630	11,486	11,297	15,024	18,299	21,818	25,985	30,805	36,197	42,482
Total shareholders' funds	644,720	725,528	781,360	986,613	897,937	890,970	983,669	1,148,910	1,316,879	1,499,506	1,684,427	1,927,664
VALUATION	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Price to earnings	15.8x	20.0x	14.0x	7.3x	14.3x	13.3x	13.2x	10.1x	8.5x	7.4x	6.6x	5.6x
Dividend yield	3.6%	4.8%	5.1%	6.3%	9.5%	7.4%	5.7%	6.7%	8.4%	10.0%	11.6%	12.9%
EV / Sales	5.1x	4.2x	3.1x	2.8x	2.9x	2.6x	3.6x	3.0x	2.5x	2.2x	1.9x	1.7x
EV / EBITDA	9.6x	9.9x	6.5x	5.7x	6.4x	7.3x	5.9x	4.8x	4.2x	3.8x	3.2x	3.2x
EV / EBIT	12.1x	14.0x	8.3x	7.3x	8.5x	6.8x	8.6x	6.8x	5.5x	4.7x	4.2x	3.5x
Price to book value	4.4x	3.9x	3.7x	2.9x	3.2x	4.1x	4.8x	4.4x	3.8x	3.4x	3.0x	2.6x
Profitability ratios	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Gross margin	66.7%	55.7%	63.8%	64.6%	64.7%	63.9%	65.7%	67.0%	66.8%	66.7%	66.7%	67.3%
EBIT margin	42.3%	29.7%	37.8%	37.6%	33.6%	37.4%	42.1%	45.0%	45.2%	46.0%	46.6%	48.0%
EBITDA margin	53.4%	41.8%	48.2%	48.3%	44.3%	46.1%	49.4%	51.4%	51.2%	51.4%	51.6%	52.8%
PBT margin	38.3%	29.4%	35.9%	33.4%	28.1%	38.9%	38.9%	42.4%	44.5%	46.0%	46.3%	47.5%
Net profit margin	36.9%	23.2%	25.4%	43.3%	22.5%	26.7%	26.4%	28.8%	30.3%	31.3%	31.5%	32.3%
ROA av.	17.3%	10.8%	12.8%	23.2%	11.7%	14.8%	16.6%	20.6%	21.7%	22.1%	22.9%	24.3%
ROCE av.	20.1%	13.0%	17.5%	29.3%	15.8%	19.9%	23.4%	28.8%	32.5%	33.0%	32.9%	33.5%
ROE av.	29.3%	20.9%	27.1%	44.2%	21.3%	30.9%	34.9%	47.1%	48.3%	48.9%	48.4%	49.7%
Dividend yield	3.6%	4.8%	5.1%	6.3%	9.5%	7.4%	5.7%	6.7%	8.4%	10.0%	11.6%	12.9%

Source: Company, CSL estimates

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% distribution	49%	29%	14%	9%	
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% distribution	0%	50%	50%	0%	

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- I. FCMB Bank UK or the Group has received compensation for investment banking services from the company within the last 12 months.
- J. FCMB Bank UK or the Group expects to receive, or intends to seek, compensation for investment banking services from the company during the next 3 months.

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	Buy	Hold	Sell	Not Rated	Total
	0	0	1	0	1
% distribution	0%	0%	100%	0%	

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