

Growth in Volumes Prop Topline Performance

DANGSUGAR Records Improvement in Sales Across Regions

Dangote Sugar Refinery Plc. recently published its 2019FY and Q1:2020 financial scorecards. The firm reported a 7.12% growth in its 2019FY topline to NGN161.09bn (vs. NGN150.37bn in 2018FY). The performance was supported by improvements in both sugar production volumes (+13.33% YoY to 654,072 tonnes) and sales volumes (+17.71% YoY to 684,487 tonnes) during the period. So far in 2020, **DANGSUGAR** has sustained the momentum, beginning the financial year on a strong footing. The first-quarter revenue surged by 24.90% to NGN47.64bn, hinged on a 19.46% YoY growth in sales volume to 189,724 tonnes. The firm reported an improvement in regional performance across board, with the Lagos and Northern markets seeing the most expansion: +27.06% and +33.11% respectively. The Western and Eastern markets also grew, although marginally, by +4.21% and +1.17% during the period. **The near-term outlook seems promising with scope for further topline growth, driven by increased demand on account of consumer spending on essentials and the continued closure of the land borders. However, a downside to this outlook would be the impending economic contraction and weakened purchasing power of consumers as a result of the incessant rise in inflation. Thus, we project a 13.55% growth in 2020FY revenue to NGN182.91bn (vs. NGN161.09bn in 2019FY).**

Enhanced Topline Fails to Trickle Down to Earnings

During the review period (Q1:2020), the growth in topline (+24.90%) was outpaced by the 34.64% surge in cost of sales to NGN34.92bn. Raw material costs (*which accounted for 76.05% of total costs*) advanced by 43.47%, followed closely by an increase in other items of direct costs. As a result, cost to sales expanded to 73.30%, from 67% in Q1:2019. OPEX towed the same line, pegging at NGN2.01bn (vs. NGN1.76bn) as both administrative (+14.86%) and distribution costs (+4.61%) grew to accommodate the increased demand volume. A combination of the increase in direct and indirect costs wiped out the improvement in revenue, resulting in a contraction in operating margin to 22.56%, from 28.46% in Q1:2019. The firm recorded a significant increase in finance costs to NGN1.35bn from NGN41.43mn in the same period last year. The spike was hinged on an exchange loss on ordinary course of business which went from NGN256,000 in Q1:2019 to NGN1.31bn in Q1:2020. Although effective tax rate dropped to 32.99% (vs. 34.55% in the previous period), profit after tax eventually succumbed to cost pressures, contracting by 9.02% to NGN6.37bn (vs. NGN7.00bn in Q1:2019). **Given the observed moderation in global sugar prices which we expect to linger due to supply chain disruptions, we expect cost to sales to temper slightly to 69.34% in 2020FY (vs 76.32% in 2019FY).**

Deterioration of Net Margin Sustains Downtrend in ROE

As at Q1:2020, ROE pegged at 5.57% (vs. 6.61% in Q1:2019) owing largely to a deterioration in net margin. The company's working capital position came under constraint, settling at NGN28.52bn, from NGN41.73bn as current liabilities (fueled by a 72.36% growth in trade & other payables) outpaced current assets. Thus, both current and quick ratios worsened to 1.26x and 0.71x (from 1.58x and 0.97x as at Q1:2019).

Outlook and Recommendation

Premised on an Expected EPS of NGN1.92 and a Target P/E ratio of 7.00x, we arrived at a 2020FY target price of NGN13.44. This represents a downside potential of 5.02% from its current price of 14.05. Hence we recommend a **HOLD** on the counter.

Company	DANGSUGAR
Valuation	
Trailing EPS	21.73
BVPS	9.54
P/E	0.65x
P/BV	1.48x
Target PE	7.00x
Dec-2020 Exp. EPS	1.92
Dec 2020 Target price	13.44
Current Price	14.15
Up/Downside Potential	-5.02%
Ratings	HOLD
Key metrics	
RoAE	5.72%
RoAA	2.98%
Net margin	13.38%
Asset Turnover	0.80x
Leverage	2.04x
Yr Hi	15.05
Yr Lo	8.90
YTD return	-5.15%
Beta	1.00
Adjusted Beta	0.99
Shares outstanding	12.00bn
Market cap [NGN]	154.80bn
Financial year end	December
Most Recent Period (MRP)	Q1:2020

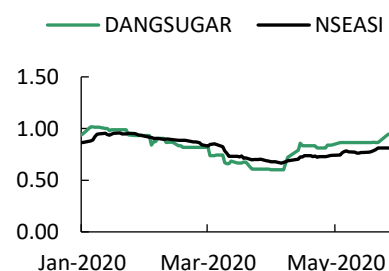


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	11.55
						Max	15.52
						EPS	
		1.78	1.85	1.92	1.99	2.07	
Target PE	6.5x	11.55	12.01	12.48	12.95	13.45	
	6.8x	11.99	12.47	12.96	13.45	13.96	
	7.0x	12.44	12.93	13.44	13.95	14.48	
	7.3x	12.88	13.39	13.92	14.45	15.00	
	7.5x	13.33	13.85	14.40	14.95	15.52	

Financial Highlights (NGN billion) DANGSUGAR PLC Q1:2020 Unaudited Results

<i>Profit & Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Revenue	47.64	38.15	24.90%
Cost of Sales	34.92	25.56	36.64%
Gross Profit	12.72	12.59	1.05%
Operating Expense	2.01	1.76	13.83%
Operating Profit	10.75	10.86	-1.00%
Other Income	0.03	0.03	10.12%
Net Finance Charges	1.35	0.04	3165.93%
PBT	9.51	10.70	-11.14%
PAT	6.37	7.00	-9.02%
<i>Balance Sheet</i>	Q1:2020	FY: 2019	
Property, Plant and Equipment	83.56	83.00	0.67%
Inventories	58.68	38.86	51.00%
Trade and other Receivables	37.82	33.78	11.95%
Cash and Cash Equivalents	40.05	24.61	62.72%
Other Assets	13.77	13.45	2.35%
Total Assets	233.87	193.71	20.74%
Shareholders' fund	114.51	108.14	5.89%
Trade and Other Payables	94.30	63.22	49.16%
Tax Liabilities	5.02	5.02	0.00%
Total Liabilities	119.36	85.57	39.49%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
abisoyeoludipe@meristemng.com (+234 708 000 7861)
contact@meristemng.com

Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)
www.meristemwealth.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: Dangote Sugar Refinery Plc.

Date	Price (NGN)	Previous Target Price(NGN)	New Target Price (NGN)	Previous Recommendation	New Recommendation
13-May-2019	13.80	12.99	13.41	HOLD	HOLD
08-Aug-2019	9.80	13.41	9.55	HOLD	HOLD
01-June-2020	14.15	9.55	13.44	HOLD	HOLD

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Dangote Sugar Refinery Plc	

- The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- Meristem beneficially owns 1% or more of the equity securities of the company
- Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- Meristem beneficially holds a major interest in the debt of the company
- Meristem has received compensation for investment banking activities from the company within the last 12 months
- Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- The company is a client of the stock broking division of the Meristem group.
- The company is a client of the investment banking division of the Meristem group.
- Meristem is the registrar to the company.
- The company owns more than 5% of the issued share capital of Meristem
- Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2020 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.