

Still on Course to Deliver Value

Prospects for Export Volumes Underpins Positive Topline Outlook

At the end of H1:2020, Dangote Cement Plc's. (DANGCEM) topline performance surpassed the corresponding period in 2019, shrugging setbacks by the COVID-19 pandemic in Q2:2020. Although city lockdowns (April -May) in some of its operating regions and loss of export volumes in Nigeria (a result of the sustained border closure) left its mark on group volumes in H1:2020, which dropped by 1.46%, revenue, however, grew by 1.95%, lifted by higher realized prices in most regions. Although the land border closure in Nigeria affected cement exports, the company has commenced its clinker exports from its newly completed terminal at the Apapa Port– adding c.28 Kilotonnes to Nigerian volumes. *Despite the looming headwinds of a drop in public demand (owing to the reduction in Government CAPEX) and price discounts from promotional activity (the major drag to 2019 performance), we expect a positive full year performance. Although the company's annualized half year performance (NGN900.79bn) trails our forecast revenue (NGN942.58) by 4.43%, our optimism derives from the commencement of operations at the export terminals in Apapa and Onne (In full operation, export volumes from the terminals are expected to more than offset the c.60KT monthly exports volume lost due to the border closure), the pickup in economic activities and higher volumes resulting from its ongoing retail deepening strategy . Hence, we maintain our expectation that topline should grow by only 5.71% in 2020FY.*

Naira Devaluation Triggers Cost Pressures

The company's costs grew, in line with our expectation in our last update. As expected, direct costs rose by 4.79%, impacted by the CBN's FX devaluation as energy and raw material costs increased by 3.65% and 6.04% respectively in H1:2020. Hence, cost to sales ratio was higher at 42.45% (vs. 41.30% in H1:2019). Although OPEX dropped by 1.52% (a result of lower haulage expenses), EBITDA margin was flat at 39.11% (vs 39.64% in H1:2019). Net margin also widened to 26.45% (vs. 22.56% in H1:2019) as topline gains offset the 6.29% increase in finance costs. *For the rest of the year, we still expect higher prices of import requirements (a result of the Naira devaluation) to keep direct costs elevated. We also expect the "bag of goodies" promotion to drive OPEX higher. Also, given the company's dollar denominated debt and additional debt issuances during the past quarter, we still expect finance costs to rise by c.20.75% by full year.*

Funding Mix: Debt Issuance in Q2 lifts Gearing

The company's debt to asset ratio increased to 0.26x in H1:2020 (vs 0.21x in 2019FY), while its gearing ratio also moved higher to 0.64x (vs 0.41x in 2019FY). This shows the effect of the company's new debt issuances (a NGN100bn commercial paper and NGN100bn draw down from the NGN300bn bond issuance) in Q2:2020 to fund expansion projects and working capital. Thus, total debt stock stood at NGN475.41bn as at H1:2020. However, interest coverage remains healthy at 8.32x (vs. 8.69x in H1:2019).

Outlook and Recommendation

We project an EV/EBITDA of 6.30x and an EBITDA of NGN503.42bn to arrive at our 2020 target price of NGN171.80 (+21.16% upside). Thus, we maintain our **BUY** rating on the counter

Company	DANGCEM
Valuation	
EPS	12.98
BVPS	43.39x
P/E	10.34x
P/BV	3.09x
Target EV/EBITDA	6.30x
Dec-2020 Exp. EBITDA	503.42bn
Dec 2020 Target price	171.80
Current Price	141.80
Up/Downside Potential	+21.16%
Ratings	BUY
Key metrics	
ROE	29.91%
ROA	12.25%
Net margin	24.55%
Asset Turnover	0.50x
Leverage	0.66x
Yr Hi	179.90
Yr Lo	116.80
YTD return	-0.07%
Beta	1.15
Adjusted Beta	1.12
52-Week average volume	2.22mn
Shares outstanding	17.04bn
Market cap [NGN]	2.42tn
Financial year end	Dec
Most Recent Period (MRP)	H1:2020

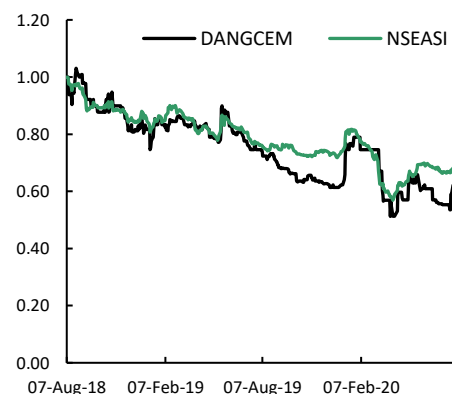


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	157.78
EBITDA per share						Max	186.42
Target EV/EBITDA		28.36	28.95	29.54	30.13	30.73	
	6.05x	157.78	161.07	164.36	167.65	170.93	
	6.17x	161.36	164.72	168.08	171.44	174.80	
	6.30x	164.93	168.37	171.80	175.24	178.68	
	6.43x	168.51	172.02	175.53	179.04	182.55	
	6.55x	172.08	175.66	179.25	182.83	186.42	

Financial Highlights (NGN million) H1:2020 Financial result

Profit & Loss Account	H1:2020	H1:2019	y/y Growth
Revenue	476,852	467,730	1.95%
Cost of Sales	202,420	193,172	4.79%
Gross Profit	274,432	274,558	-0.05%
Investment Income	10,226	4,611	121.77%
Other Income	2,740	1,228	123.13%
Operating Expense	103,693	105,290	-1.52%
Finance Cost	20,854	19,619	6.29%
PBT	162,851	155,488	4.74%
PAT	126,143	105,530	19.53%
Balance Sheet	H1:2020	2019FY	
Inventories	112,383	114,806	-2.11%
Trade and other Receivables	42,074	30,001	40.24%
Cash and bank	103,319	123,903	-16.61%
Property, Plant and Equipment	1,251,857	1,206,749	3.74%
Other Assets	295,565	265,892	11.16%
Total Assets	1,805,198	1,741,351	3.67%
Shareholders' fund	739,367	897,937	-17.66%
Trade and Other Payables	304,923	284,739	7.09%
Tax Liabilities	77,373	49,932	54.96%
Total Liabilities	1,065,831	843,414	26.37%

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)
blessingogwuiche@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 Cement Plc.

Date	Price (N)	Previous Target Price(N)	NewTarget Price (N)	Previous Recommendation	New Recommendation
29-May-2020	139.00	171.80	171.80	BUY	BUY

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 Cement 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.