

Highest Revenue in Eleven Quarters

Upward Review of Product Prices Supports Revenue

Dangote Sugar Refinery Plc. improved on its first quarter performance, reporting a 31.68% YoY growth in topline to NGN55.59bn in Q2:2020 (vs. NGN42.22bn in Q2:2019) – *its highest quarterly revenue since Q2:2017*. The company profited from modest improvements in both production (+10.80% YoY to 375,276 tonnes) and sales volumes (+13.55% YoY to 382,917 tonnes) as well as an upward review of prices in the first half of the year. **In addition, Management alluded to the improvement in yield as crushing season ended and the continued closure of the land borders, as drivers of revenue during the period.** Overall, revenue for H1:2020 (NGN103.23bn) was 28.46% higher than H1:2019, with revenue from the sale of 50kg and retail sugar jointly accounting for 99.01% of total revenues, while sale of molasses and freight revenue made up the remainder. In the second quarter, regional sales improved across markets with the Western market seeing the most increase of +33.43%, followed closely by the Northern: +29.87%, Lagos: +29.57% and Eastern markets: +2.95%. **We remain optimistic about the prospect for further topline growth hinged on the headroom we see for volume expansion. However, a reopening of the land borders and further weakening of consumer purchasing power pose a downside risk to our outlook. On this note, we maintain our forecast of a 13.55% growth in 2020FY revenue to NGN182.91bn (vs. NGN161.09bn in 2019FY).**

Direct Costs Surge by 40.95%

During the quarter, cost of sales spiked by 40.95% to NGN47.49bn, bringing total production costs to NGN82.41bn in H1:2020 (vs. NGN59.25bn in H1:2019). Raw material costs (*accounting for 74.72% of total costs*) was up by 37.51% due to the impact of *Covid-19* on raw sugar prices.. Thus, cost to sales expanded to 79.83% (vs. 73.73%) resulting in a contraction in gross margin to 20.17% (vs. 26.27% in H1:2019). Meanwhile, OPEX moderated by 1.95% YoY to NGN3.83bn as both administrative (-0.37%) and distribution costs (-15.93%) declined.

Finance costs surged to NGN1.48bn during the period (vs. NGN516.21mn as at 2019FY) while interest income dropped to NGN308.30mn (vs. NGN720.02mn as at 2019FY), reflecting the current low yield environment. A reassessment of the company's biological assets led to a fair value gain of NGN815.56mn (vs. – NGN770mn in H1:2019) which upheld PBT at NGN17.04bn (7bps higher than in H1:2019). A lower effective tax rate of 32.06% (vs. 35.56% in H1:2019) contributed to the 5.51% growth in bottom-line to NGN11.58bn. **Premised on the firm's performance and the current macroeconomic environment, we have adjusted our 2020FY cost-to-sales forecast to 75.50% and net margin to 10.94%.**

Update on Savannah Sugar Merger

Earlier in the year, shareholders gave final approval to the merger between *Savannah Sugar Company Ltd.* (a backward integration project) and *Dangote Sugar Refinery Plc. (DANGSUGAR)*. This is in line with the company's journey towards self-sufficiency in sugar production and would provide synergies especially with raw material sourcing. Already, Savannah refined sugar accounts for 7.23% of Group sales (up from 1.67% in H1:2019) and 5.88% of Group production (from 4.21% in H1:2019) respectively.

Outlook and Recommendation

Following our adjustment to net profit, we forecast 2020FY EPS of NGN1.67 and a target P/E ratio of 8.00x. This results in a 2020FY target price of NGN13.36, and an upside potential of 16.17% from its current price of NGN11.50 as at 5th August 2020. Thus we rate the counter a **BUY**.

Company	DANGSUGAR
Valuation	
Trailing EPS	1.91
BVPS	9.98
P/E	6.26x
P/BV	1.20x
Target PE	8.00x
Dec-2020 Exp. EPS	1.67
Dec 2020 Target price	13.36
Current Price	11.50
Up/Downside Potential	16.17%
Ratings	BUY
Key metrics	
RoAE	10.17%
RoAA	5.48%
Net margin	11.22%
Asset Turnover	0.87x
Leverage	1.91x
Yr Hi	15.05
Yr Lo	8.90
YTD return	-23.59%
Beta	1.00
Adjusted Beta	0.99
Shares outstanding	12.00bn
Market cap [NGN]	143.40bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

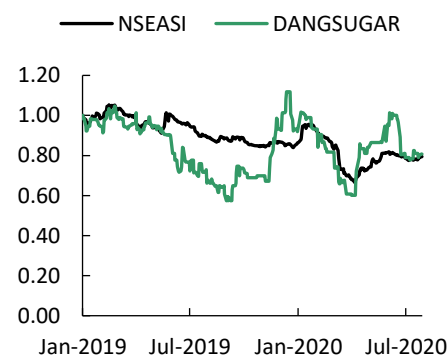


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	11.59
EPS (NGN)						Max	15.29
Target PE		1.55	1.61	1.67	1.73	1.80	
	7.5x	11.59	12.05	12.53	13.00	13.49	
	7.8x	11.98	12.45	12.94	13.43	13.94	
	8.0x	12.36	12.85	13.36	13.87	14.39	
	8.3x	12.75	13.25	13.78	14.30	14.84	
	8.5x	13.14	13.66	14.20	14.73	15.29	

Financial Highlights (NGN billion) DANGSUGAR PLC H1:2020 Unaudited Results			
Profit & Loss Account	H1:2020	H1:2019	y/y Growth
Revenue	103.23	80.36	28.46%
Cost of Sales	82.41	59.25	39.09%
Gross Profit	20.82	21.11	-1.38%
Operating Expense	3.83	3.91	-1.95%
Operating Profit	17.40	17.28	0.68%
Other Income	0.41	0.08	434.33%
Net Finance Charges	1.48	0.08	1,695.61%
PBT	17.04	17.03	0.07%
PAT	11.58	10.98	5.51%
Balance Sheet	H1:2020	FY: 2019	
Property, Plant and Equipment	84.21	83.00	1.46%
Inventories	29.41	38.86	-24.33%
Trade and other Receivables	36.07	33.78	6.79%
Cash and Cash Equivalents	65.16	24.61	164.75%
Other Assets	14.36	13.45	6.72%
Total Assets	229.20	193.71	18.33%
Shareholders' fund	119.72	108.14	10.71%
Trade and Other Payables	82.74	63.22	30.87%
Tax Liabilities	5.02	5.02	0.00%
Total Liabilities	109.49	85.57	27.95%

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

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
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Target Price Estimate

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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
05-Aug-2020	11.50	13.44	13.36	BUY	BUY

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Company	Disclosure
Dangote Sugar Refinery Plc	

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