

On Track for Record Performance

Export Potentials Underscore Positive Topline Outlook

Dangote Cement Plc's (DANGCEM) financial scorecard in Q3:2019 showed clearly that the company has put the COVID-19 setback behind and, based on our estimates, is set to hit a record turnover by full year. On a standalone basis, group sales volume in Q3:2020 was higher by 23.92%YoY, thereby putting the total volumes sold in the quarter at 7.1MT (vs 5.7MT in Q3:2019). This is due to improvements in sales volumes in both Nigerian and Pan- African operations. In Nigeria, a combination of strong local demand for cement, land border exports waiver, commencement of clinker exports via the Apapa Export Terminal and product promotion ensured the 39.86% YoY increase in sales volume in Q3:2020.

Taking into cognizance the commencement of operations at the Onne Export Terminal in November, we have estimated clinker exports from Nigeria to contribute c.0.35MT to total volumes by full year (vs. 0.17MT as at 9M:2020). There were stellar performances across its pan-African business segment, save for Tanzania and Zambia, where volumes declined year-on-year. Senegal, however, stands out as it nears full capacity utilization (c.92%). Overall, pan African volumes in Q3:2020 increased by 9.23%YoY. Consequently, group revenue in Q3:2020 was up by 34.20%YoY from NGN212.06bn in Q3:2019 to NGN284.59bn, thereby also pushing year-to-date (9M:2020) revenue higher by 12.01%, from NGN679.79bn in 9M:2019 to NGN761.44bn. *By full year, we expect the company to post a total turnover of NGN1.00trn - the highest in the company's history and a growth of 12.18% when compared to NGN891.67bn recorded in 2019FY. On a trailing twelve months basis, group revenue stood at NGN973.32bn in 9M:2020. Hence, our optimism stems from expectations of a positive outing in Q4:2020. We expect cement demand in Nigeria to remain strong while clinker and cement exports should further support sales volumes.*

Improved Earnings and Modest CAPEX Boost Free Cash Flows

Although the positive topline performance strongly supported the company's profitability, we highlight some cost pressure points. In 9M:2020, we note the sharp rise in energy costs by 13.01% and the rise in materials cost (+10.14%) triggered by the naira devaluation. Nonetheless, strong topline gains ensured the cost to sales ratio in 9M:2020 was lower at 41.70% (vs 42.66% in 9M:2019). Further, despite advertisement and promotional costs increasing by 25.99%YoY, EBITDA margin was higher at 46.62% (vs 44.61% in 9M:2019). Ultimately, earnings per share improved markedly by 35.20% to NGN12.25 (vs NGN9.06 in 9M:2019) implying a return on equity of 25.50% (vs 18.02% in 9M:2019).

The company continues to reap gains of the cash and cost optimization initiatives launched in Q2:2020. In 9M:2020, free cash flow improved by 63.43% to NGN283.23bn (vs NGN173.30bn in 9M:2019) following modest CAPEX and improved cash earnings. Also, the robust cash position puts the company in a better liquidity position when compared to H1:2020 with current and cash ratios of 0.65x and 0.23x (vs 0.55x and 0.13x in H1:2020) respectively.

Recommendation

Considering our new topline expectations for 2020FY, we revise our **EBITDA** estimate upwards from **NGN503.42bn** to **NGN522.25bn**. We also employ a forward **EV/EBITDA of 7.03x** (vs 7.70x current EV/EBITDA). Hence, having adjusted for a net debt of NGN262.41bn, we arrive at our revised target price of NGN200.06. This represents an upside potential of 0.03% when compared to its current price of NGN200. Hence, we rate the counter as **HOLD**

Company	DANGCEM
Valuation	
EPS	14.96
BVPS	48.02x
P/E	13.37x
P/BV	4.16x
Target EV/EBITDA	7.03x
Dec-2020 Exp. EBITDA	522.25bn
Dec 2020 Target price	200.06
Current Price	200.00
Up/Downside Potential	+0.03%
Ratings	HOLD
Key metrics	
ROE	31.15%
ROA	13.78%
Net margin	26.18%
Asset Turnover	0.53x
Leverage	0.59x
Yr Hi	200
Yr Lo	116.80
YTD return	+40.85%
Beta	1.30
Adjusted Beta	1.20
52-Week average volume	2.59mn
Shares outstanding	17.04bn
Market cap [NGN]	3.41trn
Financial year end	Dec
Most Recent Period (MRP)	9M:2020

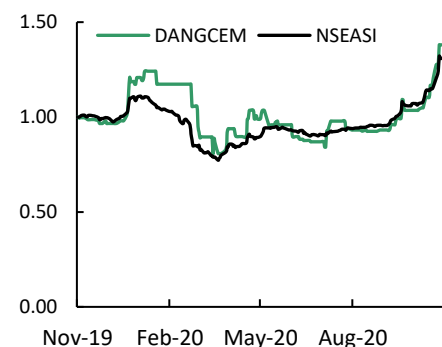


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	183.78
EBITDA per share						Max	217.02
		29.42	30.04	30.65	31.26	31.87	
Target EV/EBITDA	6.75x	183.78	187.61	191.44	195.27	199.10	
	6.89x	187.92	191.83	195.75	199.66	203.58	
	7.03x	192.06	196.06	200.06	204.06	208.06	
	7.17x	196.19	200.28	204.37	208.45	212.54	
	7.31x	200.33	204.50	208.68	212.85	217.02	

Financial Highlights (NGN million) 9M:2020 Financial result

Profit & Loss Account	9M:2020	9M:2019	y/y Growth
Revenue	761,444	679,791	12.01%
Cost of Sales	317,540	290,015	9.49%
Gross Profit	443,904	389,776	13.89%
Investment Income	18,330	5,984	206.32%
Other Income	3,438	2,048	67.87%
Operating Expense	159,414	160,342	-0.58%
Finance Cost	34,298	39,786	-13.79%
PBT	271,960	197,680	37.58%
PAT	208,685	154,350	35.20%
Balance Sheet	9M:2020	2019FY	
Inventories	110,709	114,806	-3.57%
Trade and other Receivables	40,647	30,001	35.49%
Cash and bank	176,653	123,903	42.57%
Property, Plant and Equipment	1,259,906	1,206,749	4.40%
Other Assets	260,977	265,892	-1.85%
Total Assets	1,848,892	1,741,351	6.18%
Shareholders' fund	818,275	897,937	-8.87%
Trade and Other Payables	340,696	284,739	19.65%
Tax Liabilities	54,253	49,932	8.65%
Total Liabilities	1,030,617	843,414	22.20%

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Movements in Price Target

Company Name: Dangote Cement Plc.

Date	Price (N)	Previous Target Price (N)	New Target Price (N)	Previous Recommendation	New Recommendation
16-November-2020	200.00	171.80	200.06	BUY	HOLD
29-May-2020	139.00	171.80	171.80	BUY	BUY

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Dangote Cement Plc	

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