

## Successfully Tamed Turbulent Waters

### Strong Cement Sales Underscores Topline Growth

In 2020FY, Dangote Cement Plc. proved its mettle as it continued on the path of growth and like we expected, reached a revenue milestone. The company was unhindered by challenges from the COVID-19 pandemic as seen in the impressive year-on-year performance recorded in its home market and some pan-African locations. In Nigeria, the low interest rate environment in 2020 made an investment case for the real estate sector and as such, propped up cement demand. With support from its national consumer promotion (bag of goodies season 2) programme, DANGCEM continued to enjoy significant market share. Thus, the company sold 15,739 Kilotons of cement in Nigeria in 2020FY (up 11.47% YoY). Also, adding to the success of its maiden clinker export in June, the company pushed out six more vessels via its Apapa terminal and continued cement exports by road. Hence, total export volumes for the year amounted to 197 Kilotons. Overall, its Nigerian operations could boast of a total sales volume of 15,936 Kilotons (vs 14,119 Kilotons in 2019FY), that earned the company a revenue of NGN719.95 bn (vs NGN610.25bn in 2019FY). Giant strides were also recorded in some of its Pan-African operations, with Congo leading the pack with a 59.00% increase in sales volume and Senegal at full capacity utilization. Other Pan-African businesses also performed better year-on-year, with the exception of Zambia and Ghana where sales volumes declined. Consequently, Group sales volumes for the year was 25,721 Kilotons – an increase of 8.61% YoY. Thus, the company's total revenue grew by 15.98% to NGN1.03trn (vs NGN891.67bn in 2019FY). **For 2021, we expect revenue to grow by 14.24% to NGN1.18trn. Our optimism stems from the continued adoption of cement for road construction and higher export volumes (on the back of the recently reopened borders and AfCFTA).**

### Profitability Undeterred by Heavier Tax Burden

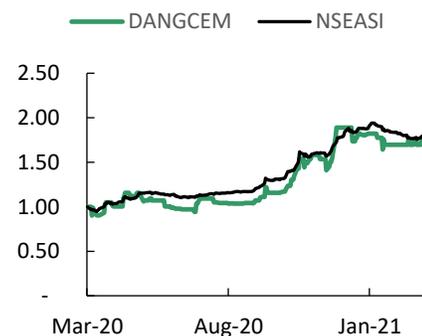
Although energy costs spiked by 19.12% (an offshoot of the Naira devaluations) in 2020, cost-to-sales ratio was marginally lower at 42.35% (vs 42.62% in 2019FY) as the increase in cost of sales only played catch-up to revenue performance. In a similar vein, improved logistics management which yielded a decline in haulage expenses (-7.67% YoY) ensured a moderation in operating expenses (-0.33%) despite higher administrative costs (+11.48%). EBITDA thereby increased by 16.67% to NGN421.42bn (vs 361.20bn in 2019). Furthermore, a combination of higher interest income (+76.23%) and foreign exchange gains of NGN16.63bn contributed to the increase in Profit before tax by 49.04% to NGN373.31bn. We note also that the expiration of the pioneer tax status on most of the company's plants in 2020 resulted in a higher effective tax rate of 26.05% (vs 19.94% in 2020FY). Nonetheless, Profit after tax (NGN276.07bn) bettered the previous year's performance (NGN200.52bn) by 37.68%. This put the company's net margin at 26.69% (vs 22.49% in 2019FY).

In the last quarter of the year, the company completed the first tranche of its share buyback programme, recalling 0.24% of its shares outstanding. While this did not significantly impact its share price, a combination of stronger earnings gave EPS a lift to settle at NGN16.14 (vs NGN11.79 in 2019).

### Recommendation

In arriving at our 2021FY target price, we project an EBITDA of NGN556.93.bn and an EV/EBITDA of 7.83x. Having adjusted for an expected net debt of NGN406.19bn, we arrived at a target price of **NGN232.64**, an upside potential of 3.86% when compared to its closing price of NGN224.00 on March 29, 2021. Hence, we rate the counter as **HOLD**.

Company	DANGCEM
<b>Valuation</b>	
EPS	16.20
BVPS	52.29
P/E	13.89x
P/BV	4.30x
Target EV/EBITDA	7.83x
Dec-2021 Exp. EBITDA	556.93bn
Dec 2021 Target price	<b>232.64</b>
Current Price	224.00
Up/Downside Potential	<b>+3.86%</b>
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	30.99%
ROA	14.67%
Net margin	26.69%
Asset Turnover	0.55x
Leverage	2.10x
<b>Share/Share Price Statistics</b>	
Yr Hi	244.90
Yr Lo	213.00
YTD return	-8.13%
Beta	1.35
Adjusted Beta	1.23
52-wk average volume	1.89mn
Shares outstanding	17.04bn
Market cap [NGN]	3.83trn
Financial year end	December
Most Recent Period (MRP)	2020FY



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	213.48
EBITDA per share						Max	252.61
		31.45	32.11	32.76	33.42	34.07	
Target EV/EBITDA	7.52x	213.48	217.93	222.37	226.82	231.27	
	7.67x	218.40	222.95	227.50	232.05	236.60	
	7.83x	223.33	227.98	<b>232.64</b>	237.29	241.94	
	7.99x	228.26	233.01	237.77	242.52	247.28	
	8.14x	233.18	238.04	242.90	247.75	252.61	

**Financial Highlights (NGN million) 2020FY Financial Result**

<i>Profit &amp; Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	1,034,196	891,671	15.98%
Cost of Sales	437,970	379,989	15.26%
Gross Profit	596,226	511,682	16.52%
Investment Income	29,814	7,610	291.77%
Other Income	4,754	2,980	59.53%
Operating Expense	214,058	214,769	-0.33%
Finance cost	43,988	57,673	-23.73%
PBT	373,310	250,479	49.04%
PAT	276,068	200,521	37.68%
<i>Balance Sheet</i>	2020FY	2019FY	
Inventories	108,270	114,806	-5.69%
Trade and Other Receivables	35,194	30,001	17.31%
Cash and bank	145,835	123,903	17.70%
Property, Plant and Equipment	1,390,687	1,206,749	15.24%
Other Assets	342,465	265,892	28.80%
<b>Total Assets</b>	<b>2,022,451</b>	<b>1,741,351</b>	<b>16.14%</b>
Shareholders' fund	890,970	897,937	-0.78%
Trade and Other Payables	349,388	284,739	22.70%
Tax Liabilities	59,781	49,932	19.72%
Total Liabilities	1,131,481	843,414	34.15%

## Contact Information

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### Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)  
olatunjifaniyi@meristemng.com (+234 803 446 3118)  
contact@meristemng.com

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### Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)  
seunlijofi@meristemng.com (+234 808 536 5766)

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### Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)  
crmwealth@meristemng.com  
Tel : +234 01 738 9948

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### Registrars

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

---

### Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)  
crmwealth@meristemng.com

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### Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)  
ifeomaogalue@meristemng.com (+234 802 3942967)  
emekaikpechukwu@meristemng.com (+234 803 791 5731)  
info@meristemng.com

---

### Client Services

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

---

### Investment Research

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

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**Corporate websites:** [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

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**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)	New Target Price (N)	Previous Recommendation	New Recommendation
29-Mar-2021	224.00	220.70	232.64	HOLD	HOLD
1-Jan-2021	244.90	200.06	220.70	HOLD	HOLD
16-Nov-2020	200.00	171.80	200.06	BUY	HOLD

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