

## Cost Transfer Successfully Preserves Margins

### Higher Price-Volume Mix Delivers Revenue Growth

For Dangote Sugar Refinery Plc. (**DANGSUGAR**), there could not have been a better way to end the 2020 financial year. **Revenue was up 33.03% YoY to NGN214.30bn (vs. 2019FY: NGN161.09bn) on the back of improved sugar production volumes (+13.73% YoY to 14.87million bags) and healthy local demand (sales: +6.90% YoY to 14.63million bags) – both of which were underpinned by greater control of the domestic sugar market. This, as well as the hike in product prices following the initial tax increase on raw sugar (from 5% to 10%) which has now been reversed.** In the period under review, revenue from the sale of sugar: both 50kg (+34.62%) and retail (+34.56%) and molasses (+52.08%) grew by strong double digits year on year, now accounting for 99.42% of total revenues. Freight income, on the other hand, slowed (-57.04% YoY) to NGN1.24bn (from 2019FY: NGN2.89bn) – most likely due to logistics and distribution challenges occasioned by the coronavirus pandemic and lockdown measures. **For 2021FY, we forecast a 7.00% growth in sugar sales volumes to 15.65 million bags (hinged on our expectation of strong local demand for sugar) while we envisage relatively stable prices over the year as the reopening of land borders once again offers consumers a cheaper alternative. This notwithstanding, the Federal Government’s decision to maintain protection on sugar and other agro-products should keep smuggling activities at bay. Thus, we project 2021FY revenue to come in at NGN229.30bn (vs. 2020FY: NGN214.30bn).**

### Exchange Loss Pushes up Finance Costs

Cost of sales grew by 30.74% YoY to NGN160.55bn (vs. 2019FY: NGN122.80bn) due to the impact of the increase in general price levels, and the Naira devaluation on input costs. **These, as well as the increase in excise duties on imported raw sugar prompted Management to increase prices. The decision paid off – with cost to sales moderating by c. 131bps to 74.92% and gross margin climbing to 25.08% (vs. 23.77%).** Despite booking NGN529.86mn in impairment losses (on Niger Sugar and financial assets), operating margin rose to 20.74% (2019FY: 18.58%), as operating profit settled higher (+48.47% YoY to NGN44.44bn) – reinforced by a NGN136.86mn drop in marketing expenses and a 49.59% surge in other income to NGN906.93mn.

Regardless of the drop in total interest-bearing liabilities from NGN1.35bn to NGN1.18bn, finance costs surged by 271.08% YoY to NGN1.92bn (2019FY: NGN516.21mn), due mainly to an exchange loss of NGN1.56bn recognized during the year. In the end, PBT and PAT expanded by 52.99% and 33.16% YoY respectively. **For 2021FY, we consider mounting cost pressure (FX driven) and the reopening of the land borders as the major headwinds to performance. Ultimately, we expect net income to settle at NGN30.41bn (expected EPS: NGN2.50k and net margin: 13.26%).**

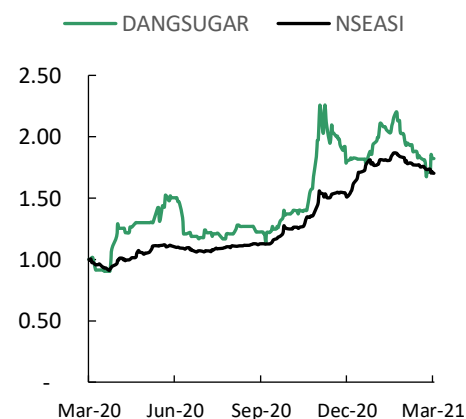
### Update on Savannah Sugar Combination

**DANGSUGAR** completed its combination with **SSCL** (one of its backward integration projects) in September 2020. This is a step forward in the company’s journey towards self-sufficiency in sugar production and is expected to provide synergy, especially with raw material sourcing.

### Outlook and Recommendation

Retaining our Target PE of 8.00x and projected EPS of NGN2.50k for 2021FY, we arrived at a target price of NGN20.00, and 17.99% implied upside based on yesterday’s closing price (22<sup>nd</sup> March 2021). Hence, we rate the ticker a **BUY**.

Company	DANGSUGAR
<b>Valuation</b>	
EPS	NGN2.45
BVPS	NGN10.27
P/E	6.91x
P/BV	1.65x
Target PE	8.00x
Dec-2021 Exp. EPS	NGN2.50
Dec 2021 Target price	<b>NGN20.00</b>
Current Price	NGN16.95
Up/Downside Potential	+17.99%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
RoAE	25.57%
RoAA	12.62%
Net Margin	13.89%
Asset Turnover	0.91
Leverage	2.23x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN21.70
Yr Lo	NGN16.50
YTD return	-3.69%
Beta	1.05
Adjusted Beta	1.03
Shares outstanding	12.15bn
Market cap [NGN]	205.89bn
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	17.35	
						Max	22.90	
		EPS						
		2.31	2.41	2.50	2.60	2.69		
Target PE	7.5x	17.35	18.04	18.75	19.46	20.20		
	7.8x	17.93	18.64	19.38	20.11	20.88		
	8.0x	18.51	19.24	20.00	20.76	21.55		
	8.3x	19.09	19.84	20.63	21.41	22.22		
	8.5x	19.67	20.44	21.25	22.06	22.90		

**Financial Highlights (NGN billion) DANGSUGAR Plc. 2020FY Audited Results**

<i>Profit &amp; Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	214.30	161.09	33.03%
Cost of Sales	160.55	122.80	30.74%
Gross Profit	53.75	38.29	40.38%
OPEX	9.69	8.63	12.26%
Operating Profit	44.44	29.93	48.47%
Other Income	0.91	0.61	49.59%
Finance Costs	1.92	0.52	271.08%
PBT	45.62	29.82	52.99%
PAT	29.78	22.36	33.16%
<i>Balance Sheet</i>	2020FY	2019FY	
Property, Plant and Equipment	101.73	83.00	22.57%
Inventories	63.00	38.86	62.11%
Trade and other Receivables	63.06	33.78	86.68%
Cash and Cash Equivalents	44.86	24.61	82.27%
Other Assets	5.38	13.45	-60.03%
<b>Total Assets</b>	<b>278.03</b>	<b>193.71</b>	<b>43.53%</b>
Shareholders' fund	124.71	108.14	15.33%
Trade and Other Payables	135.52	63.22	114.35%
Tax Liabilities	8.90	5.02	77.37%
Total Liabilities	153.32	85.57	79.18%

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**Company Name:** Dangote Sugar Refinery Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-Mar-2021	16.95	22.00	20.00	BUY	BUY

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DANGSUGAR	

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