

Burgeoning Local Demand Underpins Performance

Revenue Soars Despite Zero Exports From Nigeria

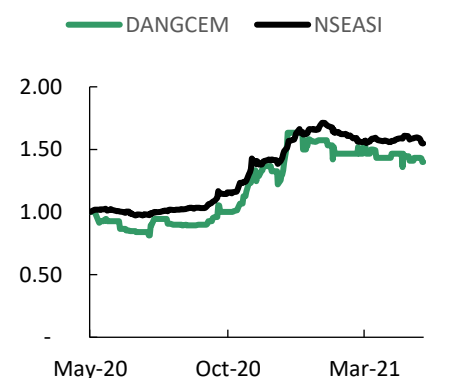
In Q1:2021, Dangote Cement Plc (**DANGCEM**) put up an impressive performance, with a total revenue of NGN332.65bn (up by 33.50% from NGN249.18bn in Q1:2020). The cement maker continued to milk its cash cow (the Nigerian market) as it realized revenue to the tune of NGN239.68bn (vs NGN179.34bn in Q1:2020) from Nigeria alone. Overall, the stellar group performance was supported by the burgeoning demand for housing infrastructure and commercial construction in its home market, which boosted cement sales. Although it had to place a hold on cement exports during the period to meet local demand, sales volume from its Nigerian operations reached a record high 4,901 Kilotons (22.20% up from 4,018 Kilotons in Q1:2020). Among its Pan-African businesses, Congo, Zambia, and Sierra Leone stood out with growth of 57.00%, 47.00%, and 39.00% in sales volume year-on-year, respectively. Other Pan-African operations also put up laudable performances, save for Ethiopia where sales volumes declined by 4.00% YoY due to plant maintenance. Thus, total sales volume and revenue from its Pan-African businesses increased by 12.80% and 33.10% to 2,613 Kilotons and NGN92.97bn (vs 2,316 Kilotons and NGN69.85bn in Q1:2020), respectively. **We acknowledge the increasing participation of the private sector in real estate development and we expect this to support sales volumes for the rest of the year. We also retain our positive outlook on exports following management's guidance on resuming exports via its terminals in Q2. On this note, we revise our revenue forecast to NGN1.22trn for 2021FY (previously NGN1.18trn).**

Margins Shun Finance Cost Pressures

We like that DANGCEM is not relenting on its efforts to contain growing costs. The commissioning of a new power plant in Tanzania as well as the modern and enhanced fifth line in its Obajana plant in Nigeria yielded some efficiency gains for the cement maker. While cost of sales for the period shot up by 22.69%, fueled by an increase in cost of raw materials (+59.25%) and fuel (+21.44%), the impact was offset by the growth in topline as cost-to-sales ratio moderated to 38.48% (vs 41.87% in Q1:2020). Operating Expenses for the period ticked higher by 4.84%, mainly driven by the increase in administrative expenses (+22.80%) and haulage expenses (+16.04%). However, we note the significant cost savings recorded on advertisement expenses (-84.71%) and salaries (-9.77%). Thus, EBITDA advanced by 55.81% to NGN177.97bn (vs 114.22bn in Q1:2020). Payment of accrued interest on the company's borrowings as well as a realized foreign exchange loss of NGN10.62bn resulted in higher net finance costs (+481.49%) of NGN21.64bn. **The company is in the process of raising a NGN300bn bond to meet maturing short-term obligations, finance ongoing expansions projects, and support working capital requirements. Armed with a long term "AAA" rating by GCR and considering the relatively low interest rate environment, our assessment is that it will be able to access the debt at a favourable rate. Ultimately, this should support the company's drive for debt sustainability as it seeks to sustain an optimal capital structure (debt-to-equity at 0.44x).**

Overall, Profit before tax and Profit after tax improved by 47.75% and 48.06% to NGN130.10bn and NGN89.71bn, respectively. Consequently, there was a notable improvement in profitability ratios for the period as Net margin, ROE and ROA advanced to 26.97%, 9.24%, and 4.23% from 24.32%, 6.39%, and 3.37%, respectively.

Company	DANGCEM
Valuation	
Trailing EPS	17.91
BVPS	56.99
P/E	11.73x
P/BV	3.68x
Target EV/EBITDA	7.83x
Dec-2021 Exp. EBITDA	556.93bn
Dec 2021 Target price	232.64
Current Price	210.00
Up/Downside Potential	+10.78%
Ratings	BUY
Key metrics	
ROE	31.42%
ROA	14.39%
Net margin	26.97%
Asset Turnover	0.53x
Leverage	2.18x
Share/Share Price Statistics	
Yr Hi	244.90
Yr Lo	204.00
YTD return	-14.25%
Beta	1.34
Adjusted Beta	1.23
52-wk average volume	1.64mn
Shares outstanding	17.04bn
Market cap [NGN]	3.58trn
Financial year end	December
Most Recent Period (MRP)	Q1:2021



Recommendation

We maintain our EBITDA projection of NGN556.93.bn and an EV/EBITDA of 7.83x. Thus, we retain our target price at NGN232.64, implying an upside potential of 10.78% when compared to its closing price of NGN210.00 on May 25, 2021. Hence, we rate the counter as **BUY**.

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	232.64	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) Q1:2021 Financial Result

<i>Profit & Loss Account</i>	Q1:2021	Q1:2020	y/y Growth
Revenue	332,651	249,182	33.50%
Cost of Sales	127,996	104,325	22.69%
Gross Profit	204,655	144,857	41.28%
Investment Income	3,654	5,290	-30.93%
Other Income	3,912	1,122	248.66%
Operating Expense	56,823	54,200	4.84%
Finance cost	25,297	9,012	180.70%
PBT	130,101	88,057	47.75%
PAT	89,710	60,592	48.06%
<i>Balance Sheet</i>	Q1:2021	2020FY	
Inventories	129,046	108,270	19.19%
Trade and Other Receivables	33,601	35,194	-4.53%
Cash and bank	147,871	145,835	1.40%
Property, Plant and Equipment	1,377,311	1,390,687	-0.96%
Other Assets	433,411	342,465	26.56%
Total Assets	2,121,240	2,022,451	4.88%
Shareholders' fund	971,160	890,970	9.00%
Trade and Other Payables	398,415	349,388	14.03%
Tax Liabilities	98,004	59,781	63.94%
Total Liabilities	1,150,080	1,131,481	1.64%

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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
25-May-2021	210.00	232.64	232.64	HOLD	BUY
29-Mar-2021	224.00	220.70	232.64	HOLD	HOLD
1-Jan-2021	244.90	200.06	220.70	HOLD	HOLD

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Company	Disclosure
Dangote Cement Plc.	

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