

Expansion Drive to Unlock Value

Revenue Growth Sustained

After the Federal Government gave the directive to reopen the borders last December, many had expected an end to the jolly ride that **DANGSUGAR** enjoyed throughout the year. Recall that the company hit a new revenue highpoint, generating a record NGN214.30bn in sales. The thinking was that a freer border would allow for smuggling of sugar, and consequently crash demand and local prices. So far this year, that has not been the case. The company reported strong numbers for the first three months of the year, with its financial scorecard brandishing an impressive 41.46% YoY growth in sales (mainly volume driven). On a product basis, revenue from all three product segments: 50kg sugar, sugar to retail customers and molasses has continued to grow, while freight income continued the trend observed from last year, dipping by 18.92% YoY – suggesting that challenges around logistics may have lingered.

Overall, the company's performance was well within our expectations. For 2021FY, we have revised upward our forecast for sugar volumes to 16.64 million bags (+13.73% from the 14.63 million bags sold in 2020FY). This review was informed by our expectation of a ramp up in volumes to meet burgeoning demand (despite the border reopening), and the company's sustained expansion efforts. Thus, we project a 39.60% year on year growth in 2021FY revenue to NGN299.17bn (vs. NGN214.30bn in 2020FY).

CAPEX Intensity to Remain Elevated

To achieve its Backward Integration Plans, the firm has maintained an uptrend in CAPEX spending since 2019FY (Capex intensity shot up from 7.16% in 2018FY to 13.60% in 2019FY and 12.55% in 2020FY). For Q1:2021, capital expenditure grew by 123.01% YoY to NGN5.48bn, while total assets advanced to NGN291.94bn (from NGN278.03bn as at year end 2020) driven by growth in PPE (+25.35%), trade and other receivables (+57.71%), and cash (+71.39%). The company continues to record improvement in asset utilization, with total asset turnover ticking up to 0.23x, from 0.20x in the corresponding 2020FY period. For the rest of 2021FY, we have modelled an increase in CAPEX (capex intensity: 20.00%) to support its ongoing backward integration efforts. Considering our projections for revenue and CAPEX spending, asset turnover should settle somewhere in the 0.90x region by year end 2021.

PBT (+25.65%) and PAT (+30.27%) settled higher despite heightened cost pressures (COGS shot up by 41.31% YoY to NGN49.35bn, cost to sales ratio: 73.23%). **On production costs, we expect the uptrend to be sustained (mainly due to exchange rate fluctuation and its impact on imported raw material costs). Conclusively, we forecast bottom line would settle at NGN37.36bn as faster revenue growth trickles down.**

Outlook and Recommendation

Premised on our 2021FY expected EPS of NGN3.08 and a revised target PE of 6.52x, we arrived at our target price of NGN20.05. This implies an upside potential of 16.91% when compared to its closing price as of May 27th, 2021. We therefore recommend a **BUY** on the ticker.

Company	DANGSUGAR
Valuation	
EPS	2.00
BVPS	10.95
P/E	8.55x
P/BV	1.56x
Target PE	6.52x
Dec-2021 Exp. EPS	3.08
Dec 2020 Target price	20.05
Current Price	17.15
Up/Downside Potential	+16.91%
Ratings	BUY
Key metrics	
ROE	19.48%
ROA	8.74%
Net margin	13.43%
Asset Turnover	0.65
Leverage	2.23x
Share/Share Price Statistics	
Yr Hi	NGN23.45
Yr Lo	NGN11.00
YTD return	-2.92%
Beta	1.23
Adjusted Beta	1.15
52-wk average volume	5,197,732.28
Shares outstanding	12.15bn
Market cap [NGN]	208.32bn
Financial year end	December
Most Recent Period (MRP)	Q1:2021

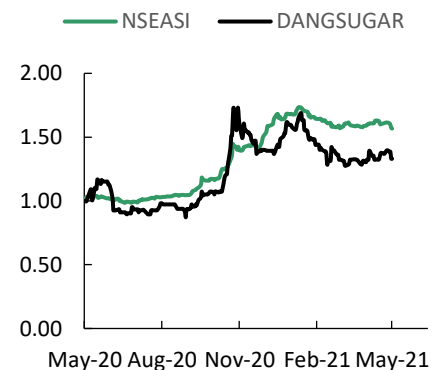


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	16.43			
						Max	23.88			
						EPS				
						2.98	3.03	3.08	3.13	3.18
Target PE	5.52x	16.43	16.70	16.98	17.25	17.53				
	6.02x	17.91	18.21	18.52	18.82	19.12				
	6.52x	19.40	19.73	20.05	20.38	20.70				
	7.02x	20.89	21.24	21.59	21.94	22.29				
	7.52x	22.38	22.75	23.13	23.50	23.88				

Financial Highlights (NGN billion) Dangote Sugar Refinery Plc. Q1:2021

Profit & Loss Account				
	Q1:2021	Q1:2020	y/y Growth	
Revenue	67.39	47.64	41.46%	
Cost of Sales	49.35	34.92	41.31%	
Gross Profit	18.04	12.72	41.85%	
Net Operating Expenses	2.16	1.97	9.46%	
Operating Profit	15.88	10.75	47.80%	
Finance Income	0.13	0.12	2.24%	
Finance Cost	3.41	1.35	152.22%	
Impairment Loss on Financial Assets	0.43	0.33	29.68%	
PBT	11.95	9.51	25.65%	
PAT	8.30	6.37	30.27%	
Balance Sheet				
	Q1:2021	2020FY	y/y Growth	
Inventories	55.64	63.00	-11.68%	
Trade and Other Receivables	57.53	63.06	-8.77%	
Cash and Bank	68.64	44.86	53.00%	
Property and Equipment	104.74	101.73	2.95%	
Total Assets	291.94	278.03	5.00%	
Shareholders' fund	133.01	124.71	6.66%	
Trade and Other Payables	138.21	135.52	1.99%	
Deferred Tax Liabilities	9.58	8.90	7.60%	
Total Liabilities	158.93	153.32	3.66%	

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Movements in Price Target

Company Name: Dangote Sugar Refinery Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
27-May-2021	17.15	20.00	20.05	BUY	BUY

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Company	Disclosure
Dangote Sugar Refinery Plc.	

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