

Impressive Performance at Home and Abroad

Strong Demand Props Group Performance

In the first half of 2021, DANGCEM raked in a total of NGN434.14bn (+48.66%YoY) and NGN198.50bn (+36.87%YoY) in revenue from its Nigerian and Pan-African businesses respectively.

While cement demand in Nigeria remained strong due to Government CAPEX and increased activities of homebuilders and real estate developers, the company also resumed cement exports via its terminals in Q2:2021, with a shipment of 57Kilotons. In total, the cement giant sold 9,869 Kilotons of cement from its Nigerian operations in H1:2021 – an increase of 33.18%YoY. Similarly, its Pan-African volumes was up by 15.49%YoY to 5,465 Kilotons, with exceptional volume growth in Congo (+70.00%YoY), Ghana (44.40%YoY), Sierra Leone (+46.40%YoY), and Tanzania (50.00%YoY). Although, sales volume growth in Q2:2021 was flattered by a low 2020 base (due to COVID-19 restrictions), volume was nonetheless better than the corresponding period in 2019 by 29.00%. We also recognize the positive impact of reduced discounts and rebates on net revenue as revenue per tonne increased by 15.71%YoY. Overall, the company garnered a total of NGN690.55bn from sales in H1:2021, exceeding its H1:2020 performance by 44.81%. **For the rest of the year, we have a positive outlook for revenue mainly due to better export volumes (clinker especially) and higher ex-factory prices. Thus, we revise our revenue forecast for 2021FY to NGN1.43trn (previously NGN1.22trn) – an increase of 38.46%YoY.**

Topline Growth Masks Cost Pressure

Reflective of the inflationary environment, cost pressures continued to build up in Q2:2021 as raw material and energy cost further increased by 34.96%YoY and 45.58%YoY, respectively (both items had increased by 59.25%YoY and 21.44%YoY, respectively in Q1:2021). However, the faster growth in cumulative topline for H1:2021 as well as efficiency gains from its new plant ensured cost-to-sales ratio settled lower at 39.99% (vs 42.45% in H1:2020). Consequently, gross profit improved (+51.01%YoY) to NGN414.43bn in H1:2021. The expansion in gross profit surmounted the impact of the 17.17% increase in operating expense to improve the company's EBITDA (NGN351.07bn) by 60.99%YoY. This made for an EBITDA margin of 50.83%. Net Finance cost increased by 97.05%YoY, owing to higher debt servicing expenses (+20.29%YoY), lower finance income (-8.00%YoY) and a foreign exchange loss of NGN4.94bn. The company also recognized a higher effective tax rate of 31.87% in the period (vs 22.54% in H1:2020). **It is important to note that although none of its plants currently operates under the pioneer tax status, there is an expected pioneer status approval on the just completed Obajana line 5.** Nonetheless, profit after tax expanded by 51.91%YoY to NGN191.63bn and reflected in an improved annualized ROE and ROA of 42.43% and 16.46%, respectively (from 30.99% and 14.67%, respectively in 2020FY).

DANGCEM to Continue Share Buyback Programme

With only 0.24% of its shares outstanding recalled in 2020FY, the company stated its commitment to purchasing up to c.10% of its total shares outstanding, after getting regulatory approval in July. **A share buyback of 9.76% would translate to an EPS of c.NGN27.20 (based on our 2021FY PAT forecast). Also, at current price, this would imply an estimated cash outflow of NGN412.63bn. Although the buy back is expected to be staggered, considering the company's cash balance of NGN151.71bn, we do not expect full adherence to the 9.76% target in the year.**

Recommendation

We raise our EBITDA forecast for 2021FY to NGN699.05bn and adopted an EV/EBITDA of 7.40x. After adjusting for an expected net debt of NGN222.83, we arrive at our target price of NGN290.60 for 2021FY. This implies an upside of 17.12% from its closing share price on August 9th, 2021. Hence, we maintain our **BUY** rating on the counter.

Company	DANGCEM
Valuation	
Trailing EPS	20.04
BVPS	47.24
P/E	12.4x
P/BV	5.3x
Target EV/EBITDA	7.40x
Dec-2021 Exp. EBITDA	699.05bn
Dec 2021 Target price	290.60
Current Price	248.10
Up/Downside Potential	+17.12%
Ratings	BUY
Key metrics	
ROE	42.43%
ROA	16.46%
Net margin	27.75%
Asset Turnover	0.60x
Leverage	2.58x
Yr Hi	248.10
Yr Lo	204.00
YTD return	+1.31%
Beta	1.35
Adjusted Beta	1.23
Shares outstanding	17.04bn
Market cap [NGN]	4.23trn
Financial year end	December
Most Recent Period (MRP)	H1:2021

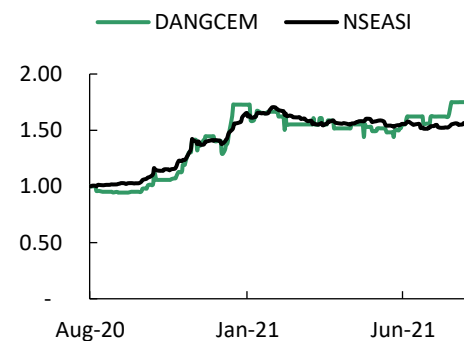


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	285.55
EBITDA per share						Max	296.06
		40.92	40.97	41.02	41.07	41.12	
Target EV/EBITDA	7.29x	285.55	285.91	286.28	286.64	287.01	
	7.34x	287.51	287.87	288.24	288.61	288.98	
	7.40x	289.86	290.23	290.60	290.97	291.34	
	7.46x	292.21	292.58	292.95	293.33	293.70	
	7.52x	294.56	294.93	295.31	295.69	296.06	

Financial Highlights and Forecasts (NGN billion)							
Profit & Loss Account	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	476.85	690.55	1,431.92	1,636.03	1,661.71	1,740.32	1,834.45
Cost of sales	202.42	276.12	506.60	580.55	590.38	615.78	650.48
Gross Profit	274.43	414.43	925.32	1,055.48	1,071.34	1,124.53	1,183.97
OPEX	103.69	118.28	236.20	300.61	299.66	306.28	330.14
Other Income	2.74	6.05	9.92	8.70	9.43	9.38	10.17
EBITDA	218.07	351.07	699.05	763.57	781.11	827.62	864.00
Net Finance Cost	(10.63)	(20.94)	(3.09)	0.25	(0.36)	(2.43)	0.41
PBT	162.85	281.25	556.30	615.06	611.99	635.67	652.88
PAT	126.14	281.25	378.28	418.24	428.39	444.97	457.02

Balance Sheet	2020A	H1:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	1,390.69	1,396.54	1,405.08	1,593.35	1,768.60	1,940.77	2,112.10
Total Debt	493.92	560.23	448.47	498.65	553.40	615.61	683.24
Total Assets	2,022.45	2,074.78	2,195.16	2,470.93	2,659.13	2,900.65	3,168.98
Total Equity	890.97	805.03	996.61	1,108.12	1,229.79	1,368.03	1,518.32
Total Current Liabilities	829.82	923.66	861.05	977.18	1,023.49	1,093.21	1,175.99
Non-Current Liabilities	301.66	345.99	337.50	385.63	405.86	439.41	474.67
Total Liabilities	1,131.48	1,269.65	1,198.56	1,362.81	1,429.35	1,532.62	1,650.67

Financial Ratios	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	57.55%	60.01%	64.62%	64.51%	64.47%	64.62%	64.54%
EBITDA Margin	45.73%	50.84%	48.82%	46.67%	47.01%	47.56%	47.10%
Net Margin	26.45%	27.75%	26.42%	25.56%	25.78%	25.57%	24.91%
Return on Asset	11.51%	13.65%	17.23%	16.93%	16.11%	15.34%	14.42%
Return on Equity	28.05%	42.43%	37.96%	37.74%	34.83%	32.53%	30.10%
Return on Invested Capital	18.67%	23.10%	25.86%	24.32%	21.32%	21.25%	19.62%
Earnings Per Share	12.17	20.04	22.20	24.54	25.14	26.11	26.82
Asset Turnover	0.50x	0.60x	0.65x	0.66x	0.62x	0.60x	0.58x
Financial Leverage	2.44x	2.58x	2.20x	2.23x	2.16x	2.12x	2.09x
Debt to Asset Ratio	0.27x	0.27x	0.20x	0.20x	0.21x	0.21x	0.22x
Debt to EBITDA Ratio	0.93x	1.04x	0.64x	0.65x	0.71x	0.74x	0.79x
Current Ratio	0.55	0.67	0.78	0.75	0.71	0.72	0.74

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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
10-Aug-2021	248.10	232.64	290.60	BUY	BUY
25-May-2021	210.00	232.64	232.64	HOLD	BUY
29-Mar-2021	224.00	220.70	232.64	HOLD	HOLD

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Company	Disclosure
Dangote Cement Plc.	

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