

Robust Domestic Demand Props Performance

Topline Expands Despite Subdued Exports

With a revenue growth of 33.39%YoY to NGN63.09bn in Q2:2021, **BUACEMENT** realized a cumulative topline of NGN124.28bn in H1:2021 (vs NGN101.26bn in H1:2020). This performance was on the back of a robust demand for cement in Nigeria, which offset the impact of muted exports in H1:2021. **Management's guidance on export is that the company's production in the period was mopped up by the teeming local demand. Thus, we infer that an expansion in the company's operational capacity could spur increased sales volumes.** The performance also reflected the tighter discount policy which ensured a higher realized net revenue. Revenue per tonne increased by 9.80% to NGN45,479 in H1:2021 from NGN41,420 in 2020FY. **For the rest of the year, we remain positive about cement sales as Government Capital expenditure, and real estate sector performance are key tailwinds we expect to keep cement demand strong. Thus, we revise our revenue projection for 2021FY upwards to NGN265.14bn (from NGN248.10bn).**

Profitability Margins Remain Largely Unchanged

The cement maker's cost to sales ratio for the period dropped slightly to 53.23% from 54.85% in H1:2020, reflective of its efforts to rein in costs through fuel mix optimization. **The reconfiguration of its Kalambaina plant is now completed and the company commenced the use of Liquefied Natural Gas (LNG) in powering its kilns (to replace imported coal). The immediate impact of this is seen in the 1.40%YoY decline in energy cost per tonne to NGN9,104. Going forward, we expect more efficiency gains from progress made so far and added benefits from the 50-megawatt LNG power plant to be commissioned in October.** The company's gross profit thereby improved to NGN58.12bn in H1:2021 from NGN45.72bn in H1:2020. Although, Operating Expenses for the period ticked higher by 24.48%YoY, driven by a 57.88%YoY increase in administrative expenses, distribution expenses declined by 16.39%YoY - due to increased instances of goods self-collection by customers and synergy benefits from the merger. Thus, EBITDA improved by 20.27%YoY to NGN58.40bn in H1:2021, translating to an EBITDA margin of 46.97% (vs 47.93% in H1:2020). Furthermore, lower net finance cost (-49.87%YoY) as well as an effective tax rate of 12.68% (vs 11.10% in H1:2020) for the period resulted to a Profit after tax of NGN43.40bn – an advancement of 24.63%YoY. Net margin for the period was however stable at 34.92% (vs.34.39% in H1:2020).

Shareholder Loan Repayment: Negligible Impact on Liquidity Ratios

Despite generating an operating cashflow of NGN113.47bn in H1:2021, repayment of the company's NGN71.03bn related party loan pared its cash balance for the period by 53.70% to NGN57.33bn (vs NGN123.82bn in 2020FY). Although this precipitated a drop in current and cash ratio to 0.98x and 0.47x, respectively in H1:2020 (vs 1.15x and 0.59x in 2020FY), the company still compares favourably to its Nigerian peers (**DANGCEM**: Current ratio - 0.78x and Cash ratio - 0.17x, **WAPCO**: current ratio - 0.96x and cash ratio - 0.48x). Also, with a trailing interest coverage of 27.71x in 2021, the company's ability to meet its short-term obligations is not in doubt.

Recommendation

We revise our EBITDA forecast slightly upwards from NGN125.88bn to NGN129.18bn (due to the expectation of better revenue) and adopted an EV/EBITDA of 17.85x (Emerging Market Peer average – 13.91x) for 2021FY. After adjusting for an expected net debt of NGN80.69bn, we arrive at our target price of NGN70.48. This presents an upside potential of 3.64% from the stock's closing price on August 16, 2021. Thus, we maintain our **HOLD** rating on the counter.

Company	BUACEMENT
Valuation	
Trailing EPS	2.39
BVPS	10.32
P/E	28.46x
P/BV	6.59x
Target EV/EBITDA	17.85x
Dec-2021 Exp. EBITDA	129.18bn
Dec 2021 Target price	70.48
Current Price	68.00
Up/Downside Potential	+3.64%
Ratings	HOLD
Key metrics	
ROE	23.16%
ROA	12.15%
Net margin	34.92%
Asset Turnover	0.35x
Leverage	1.91x
Yr Hi	85.00
Yr Lo	67.30
YTD return	-12.09%
Beta	1.35
Adjusted Beta	1.23
Shares outstanding	33.86bn
Market cap [NGN]	2.30trn
Financial year end	December
Most Recent Period (MRP)	H1:2021

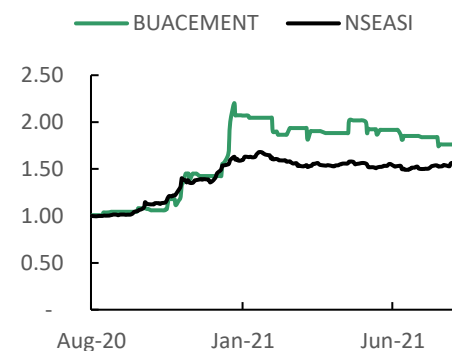


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	68.27
EBITDA per share						Max	72.75
		3.71	3.76	3.81	3.86	3.91	
Target EV/EBITDA	17.74x	68.27	69.16	70.04	70.93	71.82	
	17.79x	68.46	69.35	70.24	71.13	72.02	
	17.85x	68.69	69.59	70.48	71.37	72.26	
	17.91x	68.92	69.82	70.71	71.61	72.51	
	17.97x	69.15	70.05	70.95	71.85	72.75	

Financial Highlights and Forecasts (NGN billion)							
<i>Profit & Loss Account</i>	H1:2021	H1:2020	2021F	2022F	2023F	2024F	2025F
Revenue	124.28	101.26	265.14	319.20	368.00	418.50	483.60
Cost of sales	66.16	55.54	116.90	143.07	163.50	186.02	215.20
Gross Profit	58.12	45.72	148.24	176.13	204.50	232.48	268.40
OPEX	7.67	6.16	19.59	23.37	27.06	30.71	35.53
Other Income	0.07	0.05	0.53	0.48	0.55	0.63	0.73
EBITDA	58.38	48.54	129.18	153.24	177.98	202.40	233.60
Net Finance Cost	(0.82)	(1.64)	(1.36)	(1.77)	(1.81)	(2.20)	(1.25)
PBT	49.70	39.16	109.92	130.80	153.77	175.83	206.41
PAT	43.40	34.82	100.60	119.71	140.73	160.91	188.91

<i>Balance Sheet</i>	H1:2021	2020A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	541.13	523.31	558.77	586.39	619.67	658.64	681.75
Total Debt	184.13	269.33	189.00	192.41	202.95	213.30	227.34
Total Assets	665.86	766.30	730.70	776.77	832.37	887.32	960.50
Total Equity	349.35	375.95	406.45	427.57	450.99	473.99	505.20
Total Current Liabilities	122.28	208.10	135.43	158.56	179.99	201.31	228.95
Non-Current Liabilities	194.23	182.25	188.81	190.63	201.39	212.01	226.35
Total Liabilities	316.51	390.35	324.24	349.20	381.37	413.33	455.30

<i>Financial Ratios</i>	H1:2021	2020A	2021F	2022F	2023F	2024F	2025F
Gross Margin	46.77%	45.15%	55.91%	55.18%	55.57%	55.55%	55.50%
EBITDA Margin	46.97%	47.93%	48.72%	48.01%	48.37%	48.36%	48.30%
Net Margin	34.92%	34.39%	37.94%	37.50%	38.24%	38.45%	39.06%
Return on Asset	12.15%	9.44%	13.77%	15.41%	16.91%	18.13%	19.67%
Return on Equity	23.16%	19.24%	24.75%	28.00%	31.20%	33.95%	37.39%
Return on Invested Capital	8.85%	12.16%	17.27%	18.71%	21.25%	23.11%	25.29%
Earnings Per Share	1.28	1.03	2.97	3.53	4.16	4.75	5.58
Asset Turnover	0.35x	0.27x	0.36x	0.41x	0.44x	0.47x	0.50x
Financial Leverage	1.91x	2.04x	1.80x	1.82x	1.85x	1.87x	1.90x
Debt to Asset Ratio	0.28x	0.35x	0.26x	0.25x	0.24x	0.24x	0.24x
Debt to EBITDA Ratio	3.15x	2.80x	1.46x	1.26x	1.14x	1.05x	0.97x
Current Ratio	0.98	1.15	1.23	1.16	1.14	1.09	1.17
Quick Ratio	0.71	1.00	0.97	0.89	0.87	0.82	0.89

Contact Information

Brokerage and Retail Services

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

Investment Banking/Corporate Finance

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

Wealth Management

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

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

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
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

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

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
16-Aug-2021	68.00	71.57	70.48	HOLD	HOLD
26-May-2021	74.25	71.57	71.57	HOLD	HOLD
14-Apr-2021	72.70	49.01	71.57	SELL	HOLD

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
BUA Cement Plc.	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2021 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.