

## Setting New Performance Baseline

### Full year Performance Set to Topple Existing Record

*In line with our expectation, Dangote Cement Plc's (DANGCEM) 9M:2020 financial performance was broadly positive. Despite higher operating and financing costs, topline growth crystallized into a 33.33% growth in earnings per share (EPS) – NGN16.33 (vs. NGN12.25 as at 9M:2020).*

At NGN1.02trn, DANGCEM's revenue as at 9M:2021 surpassed that of the corresponding period last year by 34.24% and trailed 2020FY performance by only 1.16%. The impressive group outing mirrors volume growth at home and abroad (Nigeria and Pan-Africa respectively), where cumulative volumes (year-to-date) in Nigeria (14.14MT) and Pan-Africa (8.2MT) grew by 18.71% and 9.35%, respectively. Recall that in our H1:2021 earnings report, we highlighted reduced trade discounts, strong domestic cement demand and exceptional performance in select countries (Congo, Ghana, Sierra Leone and Tanzania) as the major performance drivers. In Q3:2021, however, Nigerian volumes dropped by 3.92%YoY owing to the extended rainy season and plant maintenance activities during the period. Nonetheless, higher prices and the superior first half performance masked the weakness recorded in the third quarter. In the Pan-African region, Tanzania, Senegal and Ethiopia posted stellar performances (the newly commissioned power plant contributed to enhanced production in Tanzania). However, increased costs of importing clinker and cement impacted performance across Cameroon, Ghana, and Sierra Leone. By full year, we expect DANGCEM's Nigerian capacity at 35.25MTPA (vs. 32.35MTPA currently) as the 3MTPA Edo Okpella plant comes on stream. Thus, we have modeled a capacity utilization of 54.47% for 2021FY and expect this to cascade into a total revenue of NGN1.01trn for the Nigerian operations. We maintain our group revenue projection for the year at NGN1.43trn (vs NGN1.03trn in 2020). Performance is expected to be propped by continued construction activities and real-estate related demand (especially in Q4 where the highest volumes are typically recorded).

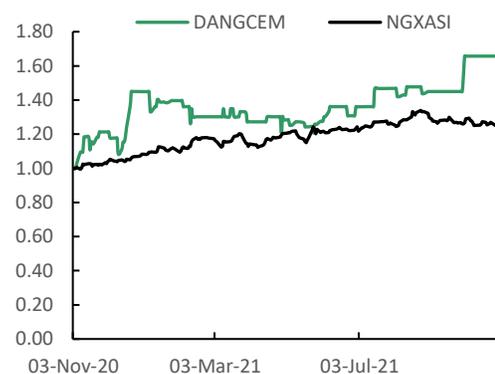
### Higher OPEX on Account of Increased Haulage Expenses

The company's costs - especially energy (+35.61%) and materials (+36.98%) costs- mirrored the inflationary environment as the cost-to-sales ratio for the period was higher at 41.70% (vs 39.46% in 9M:2020). Also, haulage expense (+40.13%YoY) was the single significant driver of OPEX as other cost items moderated during the period. Higher freight cost witnessed in clinker and cement importing countries (Cameroon, Ghana and Sierra Leone) was the underlying factor. Regardless, the Group EBITDA margin rose to 50.36% (vs 46.62% in 9M:2020) on the back of the solid growth in revenue. *Upon completion, we expect DANGCEM's adoption of alternative fuel (waste recycling) to improve cost efficiency over the short term (next 12 months).* Overall, despite higher finance costs (+58.49%) and effective tax rate (31.38% - vs 23.27% 9M:2020), profit after tax expanded by 33.33% to NGN278.25bn. On a twelve-month basis, this realized a Return on Equity (ROE) and Return on Asset (ROA) of 38.18% and 15.36% respectively.

### Recommendation

We maintain our EBITDA forecast for 2021FY at NGN699.05bn and adopted an EV/EBITDA of 7.40x. 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 3.79% from its closing share price on 2<sup>nd</sup> November 2021. Hence, we rate the counter as **HOLD**.

Company	DANGCEM
<b>Valuation</b>	
Trailing EPS	20.28
BVPS	53.12
P/E	13.80x
P/BV	5.27x
Target EV/EBITDA	7.40x
Dec-2021 Exp. EBITDA	699.05bn
Dec 2021 Target price	<b>290.60</b>
Current Price	280.00
Up/Downside Potential	+3.79%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	38.18%
ROA	15.36%
Net margin	33.81%
Asset Turnover	0.45xx
Leverage	2.49x
<b>Share Price Data</b>	
Year High	280.00
Year Low	204.00
YTD return	+14.33%
Beta	1.14
Adjusted Beta	1.09
Shares outstanding	17.04bn
Market cap [NGN]	4.77trn
Financial year end	December
Most Recent Period (MRP)	9M: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	<b>290.60</b>	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)							
<i>Profit &amp; Loss Account</i>	2019A	2020A	2021F	2022F	2023F	2024F	2025F
Revenue	891.67	1,034.20	1,431.92	1,636.03	1,661.71	1,740.32	1,834.45
Cost of sales	314.74	373.02	506.60	580.55	590.38	615.78	650.48
<b>Gross Profit</b>	<b>576.94</b>	<b>661.17</b>	<b>925.32</b>	<b>1,055.48</b>	<b>1,071.34</b>	<b>1,124.53</b>	<b>1,183.97</b>
OPEX	184.57	189.47	236.20	300.61	299.66	306.28	330.14
Other Income	2.98	4.75	9.92	8.70	9.43	9.38	10.17
<b>EBITDA</b>	<b>395.35</b>	<b>476.46</b>	<b>699.05</b>	<b>763.57</b>	<b>781.11</b>	<b>827.62</b>	<b>864.00</b>
Net Finance Cost	50.06	14.17	3.09	0.25	0.36	2.43	0.41
<b>PBT</b>	<b>250.47</b>	<b>373.31</b>	<b>556.30</b>	<b>615.06</b>	<b>611.99</b>	<b>635.67</b>	<b>652.88</b>
<b>PAT</b>	<b>200.51</b>	<b>276.07</b>	<b>378.28</b>	<b>418.24</b>	<b>428.39</b>	<b>444.97</b>	<b>457.02</b>

<i>Balance Sheet</i>	2019A	2020A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	1,206.75	1,390.69	1,405.08	1,593.35	1,768.60	1,940.77	2,112.10
Total Debt	367.91	493.92	448.47	498.65	553.40	615.61	683.24
<b>Total Assets</b>	<b>1,741.35</b>	<b>2,022.45</b>	<b>2,195.16</b>	<b>2,470.93</b>	<b>2,659.13</b>	<b>2,900.65</b>	<b>3,168.98</b>
<b>Total Equity</b>	<b>897.94</b>	<b>890.97</b>	<b>996.61</b>	<b>1,108.12</b>	<b>1,229.79</b>	<b>1,368.03</b>	<b>1,518.32</b>
<b>Total Current Liabilities</b>	<b>630.79</b>	<b>829.82</b>	<b>861.05</b>	<b>977.18</b>	<b>1,023.49</b>	<b>1,093.21</b>	<b>1,175.99</b>
<b>Non-Current Liabilities</b>	<b>212.62</b>	<b>301.66</b>	<b>337.50</b>	<b>385.63</b>	<b>405.86</b>	<b>439.41</b>	<b>474.67</b>
<b>Total Liabilities</b>	<b>843.41</b>	<b>1,131.48</b>	<b>1,198.56</b>	<b>1,362.81</b>	<b>1,429.35</b>	<b>1,532.62</b>	<b>1,650.67</b>

<i>Financial Ratios</i>	2019A	2020A	2021F	2022F	2023F	2024F	2025F
Gross Margin	64.70%	63.93%	64.62%	64.51%	64.47%	64.62%	64.54%
EBITDA Margin	44.34%	46.07%	48.82%	46.67%	47.01%	47.56%	47.10%
Net Margin	22.49%	26.69%	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	22.33%	30.99%	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	11.77	16.20	22.20	24.54	25.14	26.11	26.82
Asset Turnover	0.51x	0.51x	0.65x	0.66x	0.62x	0.60x	0.58x
Financial Leverage	1.94x	2.27x	2.20x	2.23x	2.16x	2.12x	2.09x
Debt to Asset Ratio	0.21x	0.24x	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	0.64	0.66	0.78	0.75	0.71	0.72	0.74

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### 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.

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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.

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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.

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**Movements in Price Target**


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**Company Name: Dangote Cement Plc.**

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-Nov-2021	280.00	290.60	290.60	BUY	HOLD
06-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
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