

Heightened Cost Pressures Subdue Margins

Higher Price-Volume Mix Bolsters Revenue

DANGSUGAR's revenue hit record high in 2021FY. The firm's topline climbed to NGN276.05bn (vs NGN214.30bn in 2020FY), driven by a combination of modest improvement in sales volumes (+5.70% to 15.5million bags) and a significant upward review of prices (+21.88% to NGN17,848 per 50kg bag). With increases in sale of 50kg sugar (+30.33%) and molasses (+43.99%) which jointly account for 97.90% of the total revenue, the Group's total revenue grew by 28.82% YoY. On the other hand, Freight income (-15.20%) and sale of sugar: retail (-17.85%), which account for the remaining 2.10%, declined significantly. Regional sales increased across markets, with the Northern market recording the highest sales growth of 42.78%, while the Eastern, Western and Lagos business segments grew by 11.58%, 24.51% and 20.72% respectively. **For 2022FY, we remain optimistic about prospects for improved revenue generation. We expect that the company's backward integration drive will give room for an expanded import quota and sustain volume growth amid strong local demand. Also, the rising price of raw sugar could necessitate further upward price adjustment. Overall, we project a 22.93% increase in revenue from NGN276.05bn in 2021FY to NGN339.36bn in 2022FY.**

Profitability Shrinks Under Cost Pressures

During the year, cost of sales increased significantly by 40.67% YoY to NGN225.85bn mainly driven by higher raw material costs (+53.54% YoY to NGN183.37bn). As a result, cost to sales ratio worsened to 81.81% (vs 74.92% in 2020FY). We note that the inflationary pressure as well as the impact of the foreign exchange volatility could have stemmed up the prices of these raw materials (especially for raw sugar which increased by 37.59%). Similarly, operating expenses shot up during the year (+19.10%YoY). Administrative expenses expanded by 17.98% YoY to NGN10.63bn as the firm incurred higher costs on salaries (+12.39% YoY). Also, selling and distribution expenses grew by 33.91%YoY to NGN906.50mn. This, altogether, dragged the firm's operating profit to NGN39.02bn (vs NGN44.44bn in 2020FY).

During the year, finance income increased by 107.25%YoY to NGN1.42bn. The company's finance costs also shot up by 246.71%YoY to NGN6.63bn in 2021 despite a 7.57% decline in total debts. The firm's Management indicated that finance cost on letters of credit, which were earlier reported as cost of sales, have now been reclassified and included as finance costs. Overall, PBT and PAT declined by 25.43%YoY and 25.94%YoY to NGN34.02bn and NGN22.05bn respectively in 2021FY.

While we note the impact of higher cost pressures based on the aforementioned factors, we expect a faster revenue growth coupled with a lower profit base in 2021 to propel a 62.48% increase in bottomline.

Trade Payable Management Positively Impacts Cash Generating Ability

Though the company's working capital position slipped into the negative region – mainly due to significant increase in short term obligations to trade creditors (trade payables expanded by +115.90%), its cash generating ability (net operating cycle: -113.93x vs -6.45x in 2020FY) remains unfazed, as the firm maintains a robust cash position (cash ratio- 0.47x vs 0.32x in 2020).

Recommendation

For 2022FY, we maintain our EPS forecast of NGN2.95 and applied a target PE of 8.10x to arrive at our NGN23.90 target price. This implies a potential 51.28% upside when compared to its closing price as of March 9th, 2022. We therefore recommend as **BUY**.

Company	DANGSUGAR
Valuation	
EPS	NGN1.82
BVPS	NGN10.59
P/E	8.70x
P/BV	1.49x
Target PE	8.10x
Dec-2021 Exp. EPS	NGN2.95
Dec 2021 Target price	NGN23.90
Current Price	NGN15.80
Up/Downside Potential	51.28%
Ratings	BUY
Key metrics	
ROE	17.41%
ROA	6.92%
Net margin	7.99%
Asset Turnover	0.87x
Leverage	2.52x
Yr Hi	NGN18.75
Yr Lo	NGN15.00
YTD return	-9.20%
Beta	1.30
Adjusted Beta	1.20
Proposed Dividend	NGN1.00
Shares outstanding	12.15bn
Market cap [NGN]	191.92bn
Financial year end	December
Most Recent Period (MRP)	2021FY

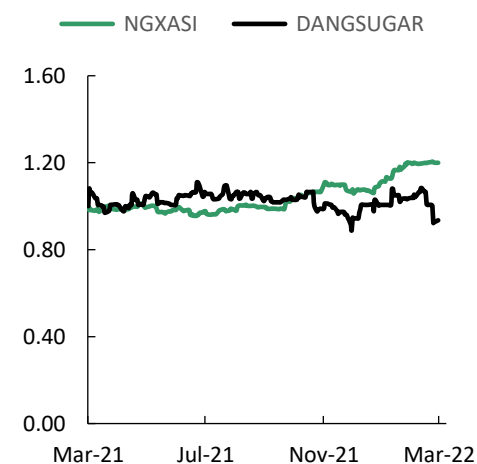


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021 Target Price to key model inputs						Min	20.24	
						Max	27.76	
		EPS						
		2.85	2.90	2.95	3.00	3.05		
Target PE	7.10x	20.24	20.60	20.95	21.31	21.66		
	7.60x	21.67	22.05	22.43	22.81	23.19		
	8.10x	23.09	23.50	23.90	24.31	24.71		
	8.60x	24.52	24.95	25.38	25.81	26.24		
	9.10x	25.94	26.40	26.85	27.31	27.76		

Financial Highlights and Forecasts (NGN billion)							
<i>Profit & Loss Account</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	214.30	276.05	339.36	371.50	407.86	440.31	498.76
Cost of sales	153.35	217.84	265.87	292.10	320.12	345.89	391.64
Gross Profit	60.95	58.22	73.49	79.40	87.74	94.41	107.12
Net OPEX	9.72	10.26	11.87	13.55	13.81	15.49	17.22
Other Income	0.91	0.33	4.07	1.49	1.63	1.76	2.00
Operating Profit	44.44	39.02	60.03	61.04	68.68	72.94	83.18
Finance Cost	1.92	6.63	5.74	1.62	4.78	3.85	5.44
PBT	45.62	34.02	56.88	59.23	62.83	71.12	80.09
PAT	29.78	22.05	35.83	37.32	39.59	44.80	50.45
<i>Balance Sheet</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	101.73	144.68	169.06	191.76	212.74	244.01	279.48
Total Debt	3.61	3.34	4.56	5.40	6.14	7.14	8.25
Total Assets	278.03	359.49	355.05	416.51	467.57	514.59	592.92
Total Equity	124.71	128.63	151.09	175.04	201.27	232.70	269.79
Total Current Liabilities	142.05	218.53	187.71	223.89	246.63	260.47	298.70
Non-Current Liabilities	11.27	12.33	16.26	17.57	19.68	21.41	24.43
Total Liabilities	153.32	230.87	203.96	241.46	266.31	281.88	323.13
<i>Financial Ratios</i>	2020A	2021 A	2022F	2023F	2024F	2025F	2026F
Gross Margin	25.08%	18.19%	21.65%	21.37%	21.51%	21.44%	21.48%
Operating Margin	20.74%	14.13%	17.69%	16.43%	16.84%	16.57%	16.68%
Net Margin	13.89%	7.99%	10.56%	10.04%	9.71%	10.18%	10.12%
Return on Asset	12.62%	6.92%	10.03%	9.67%	8.96%	9.12%	9.11%
Return on Equity	25.57%	17.41%	25.62%	22.88%	21.04%	20.65%	20.08%
Return on Invested Capital	48.68%	136.33%	25.78%	25.23%	27.18%	22.54%	23.34%
Asset Turnover	0.91	0.87	0.95	0.96	0.92	0.90	0.90
Financial Leverage	2.03	2.52	2.55	2.37	2.35	2.26	2.20
Debt to Asset Ratio	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Debt to EBIT Ratio	0.08	0.09	0.08	0.09	0.09	0.10	0.10
Current Ratio	1.24	0.98	0.99	1.00	1.03	1.04	1.05
Quick Ratio	0.80	0.73	0.53	0.57	0.61	0.60	0.62

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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
10-Mar-2022	15.80	20.05	23.90	BUY	BUY

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