

Staying on the Path of Growth.

Price Revision Alongside Volume Growth Lifts Topline

Nothing takes us by surprise in the just released 2021FY financial scorecard of Dangote Cement Plc. Revenue performance was very much in line with expectation, exceeding our projection by only 47bps. Also, earnings came in shy of expectation by only 0.20%. Details reveal that revenue from its Nigerian business grew by 37.98% YoY to NGN993.40bn during the period (vs. NGN719.95bn in 2020FY). This was due to volume growth supported by enhanced distribution and strong local demand. While volume dispatch grew by 13.8% from 15.94Mta in 2020FY to 18.61Mta in 2021FY, the upward price review witnessed in Q2:2021 also contributed to the improved sales value reported. Operations in pan-Africa was mixed with volume growth recorded only in Tanzania (+56.00%), Congo (+25%), Ethiopia (+11%), Cameroon (+3%) and Senegal (+0.63%). Overall, volumes in pan-Africa were up by 8.7% which crystallized into a 28.72% contribution to group topline. Hence, group volume was up by 13.81% to 29.27Mta (vs 25.70mta in 2020FY) and revenue by 33.79% to NGN1.38trn (vs NGN1.03trn in 2020FY). **For 2022, we expect revenue to grow by 18.24% to NGN1.64trn on the back of strong local demand, increased government CAPEX and sustained economic growth. Also, the increased production capacity, as the 3Mta Okpella plant is expected to come on stream, is projected to drive topline in 2022FY.**

OPEX and Finance Cost Pares Net Margin

The Company's operational efficiency improved as cost to sales declined to 39.82% in 2021FY (vs 42.35% in 2020FY), this supports our earlier expectation of improved cost efficiency given the near completion of its alternative fuel initiative. On the other hand, haulage costs (up 49.05%) was the sole driver of OPEX by 19.60% YoY, as other cost components moderated during the period. We attribute this to the company's push to expand its distribution network. Similarly, finance costs grew by 42.46% to NGN65.71bn in 2021FY (vs NGN43.99bn in 2020FY) as the company continues to tap the debt market to finance its expansion plan and for working capital purposes. Effective tax rate for the period rose to 32.31% from 26.05% in 2020FY reflecting the absence of tax credit. Consequently, net margin was down to 26.34% in 2021FY from 26.69% in 2021FY. Management responded to this development by proposing a dividend payout of NGN20, a 25.00% increase from NGN16.00 paid in the previous years, implying a payout ratio of 93.52%. **For 2022FY, we expect a PAT growth of 14.38% YoY given the expected completion of the firm's alternative fuel initiative which should support its operational efficiency. However, we note the continuous increase in effective tax and finance cost as a downside to this outlook.**

Increased Borrowing Drives up Leverage Ratio

In pursuant of its export strategy and expansion of its operational capacity, the company has continued to tap the local debt market. As at 2021FY, the company's total debt stood at NGN577.96bn – a 17.01% YoY growth to (vs NGN493.92bn in 2020FY). The company's net debt to EBITDA improved to 0.35x vs 0.73x in 2020FY. This compares favorably to its peer – **BUACEMENT** – 1.14x but falls short of **WAPCO** – 0.28x.

Recommendation

For 2022FY, we project an EBITDA of NGN763.57bn and an EV/EBITDA of 6.90x. Having adjusted to an expected net debt of NGN292.49bn, we arrived at our target price of NGN287.81, which implies an upside of 5.20% from the closing share price on 24th March 2022. Thus, we rate the counter as **HOLD**.

Company	DANGCEM
Valuation	
EPS	NGN21.24
BVPS	NGN57.73
P/E	12.79x
P/BV	4.74x
Target EV/EBITDA	6.90
Dec-2022 Exp. EBITDA	763.57bn
Dec 2022 Target price	287.81
Current Price	273.50
Up/Downside Potential	+5.20%
Ratings	HOLD
Key metrics-	
ROE	37.05%
ROA	15.24%
Net margin	26.34%
Asset Turnover	62.69%
Leverage	37.01%
Yr Hi	284.90
Yr Lo	250.00
YTD return	6.42%
Beta	1.15
Adjusted Beta	1.13
Shares outstanding	17.04bn
Market cap [NGN]	4.66trn
Financial year end	December
Most Recent Period	2021FY

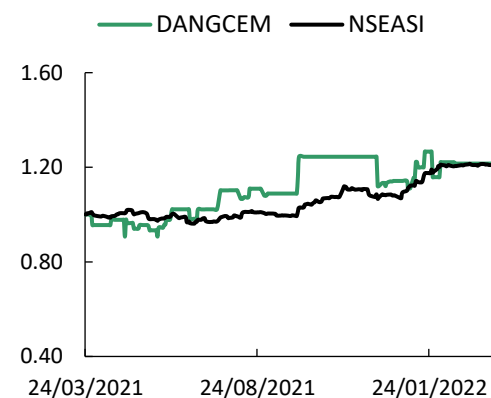


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	282.27
EBITDA per share						Max	300.79
Target EV/EBITDA		43.91	44.36	44.81	45.32	45.83	
	7.04	288.33	291.16	293.99	297.07	300.15	
	6.97	285.30	288.10	290.90	293.95	296.99	
	6.90	282.27	285.04	287.81	290.82	293.83	
	6.98	285.60	288.41	291.21	294.26	297.31	
	7.05	288.93	291.77	294.61	297.70	300.79	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2021A	2022F	2023F	2024F	2025F
Revenue	1,390.08	1,636.03	1,639.74	1,715.28	1,818.09
Cost of sales	492.77	580.55	582.81	606.40	644.59
Gross Profit	897.31	1,055.48	1,056.93	1,108.87	1,173.50
OPEX	229.67	300.61	295.91	301.57	327.10
Other Income	9.71	8.70	9.30	9.27	10.08
EBITDA	677.36	763.57	770.32	816.57	856.48
Net Finance Cost	(3.09)	(3.69)	(3.69)	(8.05)	(7.40)
PBT	534.51	611.39	598.40	619.83	638.60
PAT	363.47	415.74	418.88	433.88	447.02

Balance Sheet	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	1,401.16	1,589.69	1,761.06	1,929.03	2,098.08
Total Debt	441.81	490.86	541.33	598.55	661.68
Total Assets	2,152.91	2,445.70	2,608.85	2,831.89	3,090.58
Total Equity	981.79	1,090.80	1,202.96	1,330.11	1,470.40
Total Current Liabilities	841.04	972.09	1,007.08	1,071.62	1,155.32
Non-Current Liabilities	330.09	382.80	398.81	430.16	464.86
Total Liabilities	1,171.12	1,354.89	1,405.90	1,501.78	1,620.18

Financial Ratios	2021F	2022F	2023F	2024F	2025F
Gross Margin	64.55%	64.51%	64.46%	64.65%	64.55%
EBITDA Margin	48.73%	46.67%	46.98%	47.61%	47.11%
Net Margin	26.15%	25.41%	25.55%	25.30%	24.59%
Return on Asset	16.88%	17.00%	16.06%	15.32%	14.46%
Return on Equity	37.02%	38.11%	34.82%	32.62%	30.40%
Return on Invested Capital	25.09%	24.92%	21.30%	21.47%	20.06%
Earnings Per Share	21.33	24.40	24.58	25.46	26.23
Asset Turnover	0.65x	0.67x	0.63x	0.61x	0.59x
Financial Leverage	2.19x	2.24x	2.17x	2.13x	2.10x
Debt to Asset Ratio	0.21x	0.20x	0.21x	0.21x	0.21x
Debt to EBITDA Ratio	0.65x	0.64x	0.70x	0.73x	0.77x
Current Ratio	0.76	0.73	0.68	0.68	0.70
Quick Ratio	0.57	0.54	0.49	0.50	0.52

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
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)
trustees@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)
blissingogwuche@meristemng.com (+234 706 896 5173)
car@meristemng.com

Investment Research

timchanggwatau@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 a 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 several 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
24-Mar-2022	273.5	290.6	287.81	HOLD	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
Dangote 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 2022 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.