

## Sustained Earnings Growth Despite High Cost

**Summary:** Dangote Cement Plc sustained its growth momentum in Q1:2022 as the topline improved by 24.21% YoY to NGN413.81bn, despite the numerous technical issues (gas shortages and plant maintenance) across its different operations that led to a fall in sales volume. In its Nigerian business, volume fell by 1.51% to 4.83Mta while volume in its Pan-African business fell by -7.60% to 7.25Mta. However, the upward review of prices in 2021 compensated for the fall in volume and supported the overall revenue growth.

Inflationary pressures fueled by the global macroeconomic environment drove the firm's costs higher (production cost and operating cost increased by 20.40% YoY and 36.60% YoY respectively) due to the surge in energy and haulage costs. Hence, the firm's margins weakened as EBITDA margin declined to 51.07% (vs. 53.50% in Q1:2021) and net margin fell to 25.62% (vs. 26.97% in Q1:2021) despite the increase in after-tax-profit (+17.99% YoY NGN105.85bn). We however note that the firm's margins still compare favorably with its peers – (BUA 47.72% and WAPCO 32.08% respectively) and maintain our positive outlook for the firm by 2022FY.

**Positives:** The interest coverage ratio rose to 4.97x (vs. 3.35x in Q1:2021). There was an improvement in working capital management as the cash conversion cycle reduced from 189.27 days to 103.53days in Q1:2022.

**Negative:** Leverage position worsened as net debt to EBITDA grew to 0.46x from 0.35x in Q1'2021. Sales volume also declined by 3.63% to 7.24Mta.

Valuation		Stock Highlights	
EPS	22.54	Yr Hi	300
BVPS	61.93	Yr Lo	250
P/E	13.18	YTD Return	15.56%
P/BV	4.80	Beta	1.15
Target EV/EBITDA	6.86	Adjusted Beta	1.13
Dec-2022 Exp.EBITDA	865.30bn	Share Outstanding	17.04
Dec.2022 Target Price	333.38	Market Cap [NGN]	5.06trn
Current Price	297	Financial year end	December
Up/Downside Potential	12.25%	Most Recent Period	Q1:2022

**Recommendation: BUY TP: 333.38 CP: 297.00 URR: 12.25%**

### Financial Highlight (NGN'000)

Profit and Loss Account	Q1:2022	Q1:2021	Y/Y Growth
Revenue	413,181,000	332,651,000	24.21%
Cost of sales	154,108,000	127,996,000	20.40%
OPEX	77,620,000	56,823,000	36.60%
Operating Profit	182,803,000	151,744,000	20.47%
Finance Cost	36,761,000	25,297,000	45.32%
PBT	156,398,000	130,101,000	20.21%
PAT	105,851,000	89,710,000	17.99%
Balance Sheet	Q1:2022	2021A	Y/Y Growth
PPE	1,428,001,000	1,472,859,000	-3.05%
Total Asset	2,460,411,000	2,392,019,000	2.86%
Total Equity	1,033,865,000	983,669,000	5.10%
Total Debt	547,473,000	577,955,000	-5.27%
Total Liabilities	1,405,013,000	1,408,350,000	-0.24%

### Key Metrics

Profitability Ratio	2022T	2021A	3-yr Hist. Avg
ROA	0.16	0.15	0.13
ROE	0.38	0.37	0.30
Net Margin	0.25	0.26	0.25
Efficiency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Asset Turnover	0.17	0.58	0.53
Cash Conversion Cycle	103.53	189.27	214.68
Liquidity Ratio	Q1:2022	2021A	3-yr Hist. Avg
Current Ratio	0.70	0.81	0.71
Quick Ratio	0.57	0.66	0.55
Cash Ratio	0.16	0.24	0.17
Solvency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Interest Coverage	4.97	3.35	4.44
Debt to Equity	0.53	0.59	0.52
Debt to Asset	0.22	0.24	0.23

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	326.88
EBITDA per share						Max	347.20
		49.76	50.27	50.78	51.29	51.80	
Target EV/EBITDA	7.00	333.71	337.04	340.37	343.43	346.49	
	6.93	330.29	333.59	336.88	339.91	342.93	
	6.86	326.88	330.14	<b>333.39</b>	336.38	339.38	
	6.94	330.64	333.93	337.23	340.26	343.29	
	7.02	334.39	337.73	341.06	344.13	347.20	



### Q1 Performance Topples Previous Quarters

**Summary:** Lafarge Africa Plc (WAPCO) performance remained upbeat in Q1:2022, as revenue advanced by +26.77% YoY to NGN90.61bn in Q1:2022 (vs NGN71.47bn in Q1:2021). The performance was broad-based as all business segments; cement (+25.96%), aggregates and concretes (+62.29%), and sale of mortar (+60.41%) advanced. While the firm's volume for the period remained flat at c.1,400 Kilotons, top-line growth was majorly anchored on the upward review of cement prices in Q2:2021 necessitated by naira devaluation and inflationary pressures.

Cost of sales advanced (+20.26% YoY) due mainly to the rise in energy prices and a higher maintenance cost. However, the cost-to-sales ratio improved to 53.45% (vs 56.35% in Q1:2021) as growth in revenue outweighed the cost. Similarly, OPEX rose by 17.97% YoY to NGN20.26bn largely driven by the spike in campaign and innovation expenses, reclassification of distribution fixed costs, and technical service fees. Nevertheless, operating profit bettered the Q1:2021 record of NGN14.70bn by +50.19% YoY benefiting from growth in revenue and other income. WAPCO's after-tax profit for the first quarter of the year came in stronger at NGN17.53bn (+91.82% YoY). This was on the back of a significant decline in finance costs (67.89%), given repayment of its debt obligations and lower foreign exchange loss.

**Positives:** The interest coverage ratio rose to 32.73x in Q1:2022 from 12.34x in 2021FY. EBITDA margin and net margin improved to 32.08% and 19.34% in Q1:2022 (from 30.93% and 12.78% in Q1:2021) respectively.

**Negative:** The firm's liquidity ratio weakened as cash and quick ratio declined to 0.32x and 0.64x (vs. 0.38x and 0.70x at the end of 2021) respectively.

Valuation		Stock Highlights	
Trailing EPS	3.69	Yr Hi	31.75
BVPS	24.59	Yr Lo	21.80
P/E	7.60x	YTD return	+18.16%
P/BV	1.14x	Beta6	1.42
Target EV/EBITDA	6.46x	Adjusted Beta	1.28
Dec-2022 Exp.		Shares outstanding	16.11bn
EBITDA	90.41	Market cap (NGN)	<b>451.89bn</b>
Dec 2021 Target price	<b>NGN38.65</b>	Financial year end	December
Current Price	NGN28.05	Most Recent Period	Q1:2022



**Recommendation: BUY TP: 38.65 CP: 28.05 UPP: 37.79%**

#### Financial Highlight (NGN'000)CC

Profit and Loss Account	Q1:2022	Q1:2021	Y/Y Growth
Revenue	90,605,738	71,470,248	+26.77%
Cost of sales	48,432,255	40,271,846	+20.26%
OPEX	20,255,103	17,170,208	+17.97%
Operating Profit	22,084,041	14,703,985	+50.19%
Finance Cost	675,734	2,104,110	-67.89%
PBT	21,434,499	12,771,578	+67.83%
PAT	17,525,388	9,136,374	+91.82%

  

Balance Sheet	Q1:2022	2021A	Y/Y Growth
PPE	335,117,238	338,721,747	-1.06%
Total Asset	535,638,306	526,838,197	+1.67%
Total Equity	396,118,753	378,560,676	+4.64%
Total Debt	24,638,019	23,287,321	+5.80%
Total Liabilities	139,519,553	148,277,521	-5.91%

#### Key Metrics

Profitability Ratio	2022T	2021A	3-yr Hist. Avg
ROA	9.80%	9.68%	6.29%
ROE	12.90%	13.47%	8.85%
Net Margin	17.32%	17.40%	12.69%

  

Efficiency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Asset Turnover	0.17x	0.56x	0.48x
Cash Conversion Cycle	417days	150days	132days

  

Liquidity Ratio	Q1:2022	2021A	3-yr Hist. Avg
Current Ratio	0.99x	1.04x	0.91x
Quick Ratio	0.64x	0.70x	0.59x
Cash Ratio	0.32x	0.38x	0.37x

  

Solvency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Interest Coverage	32.73x	12.34x	6.26x
Debt to Equity	0.06x	0.17x	0.13x
Debt to Asset	0.05x	0.12x	0.09x

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	37.86
						Max	45.16
		5.50	5.56	5.61	6.12	6.63	
Target EV/EBITDA	6.59	38.57	38.97	39.38	42.23	45.07	
	6.52	38.21	38.61	39.02	41.83	44.65	
	6.46	37.86	38.25	<b>38.65</b>	41.44	44.22	
	6.53	38.25	38.65	39.05	41.87	44.69	
	6.60	38.64	39.04	39.45	42.31	45.16	

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals



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## Movements in Price Target

**Company Name:** Dangote Cement Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-May -2022	297.00	286.76	333.38	BUY	BUY

**Company Name:** Lafarge Africa Plc (WAPCO)

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-May -2022	28.05	38.65	38.65	BUY	BUY

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Company	Disclosure
Dangote Cement Plc	
Lafarge Africa Plc (WAPCO)	

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