

Topline Growth Sustains Momentum

Summary: DANGSUGAR’s topline grew by +40.15% YoY to NGN94.45bn in Q1:2022 from NGN67.39bn in Q1:2021. Cost of sales increased by 51.95% YoY to NGN74.99bn in Q1:2022, thereby driving cost to sales higher to 79.39% in Q1:2022 (vs 73.23% in Q1:2021). The high cost of sales is largely attributable to high cost of raw materials. However, gross profit expanded by 7.86% to NGN19.46bn (albeit translating to a lower gross margin of 20.61% from 26.77% in Q1:2021).

OPEX also increased by 10.81%YoY to NGN2.50bn in Q1:2022. The heightened operating expenses is mainly due to the increase in employee costs during the period under review (NGN993.43mn vs NGN847.71mn in Q1:2021). Finance cost also increased to NGN3.51bn (vs NGN3.41bn in Q1:2021).

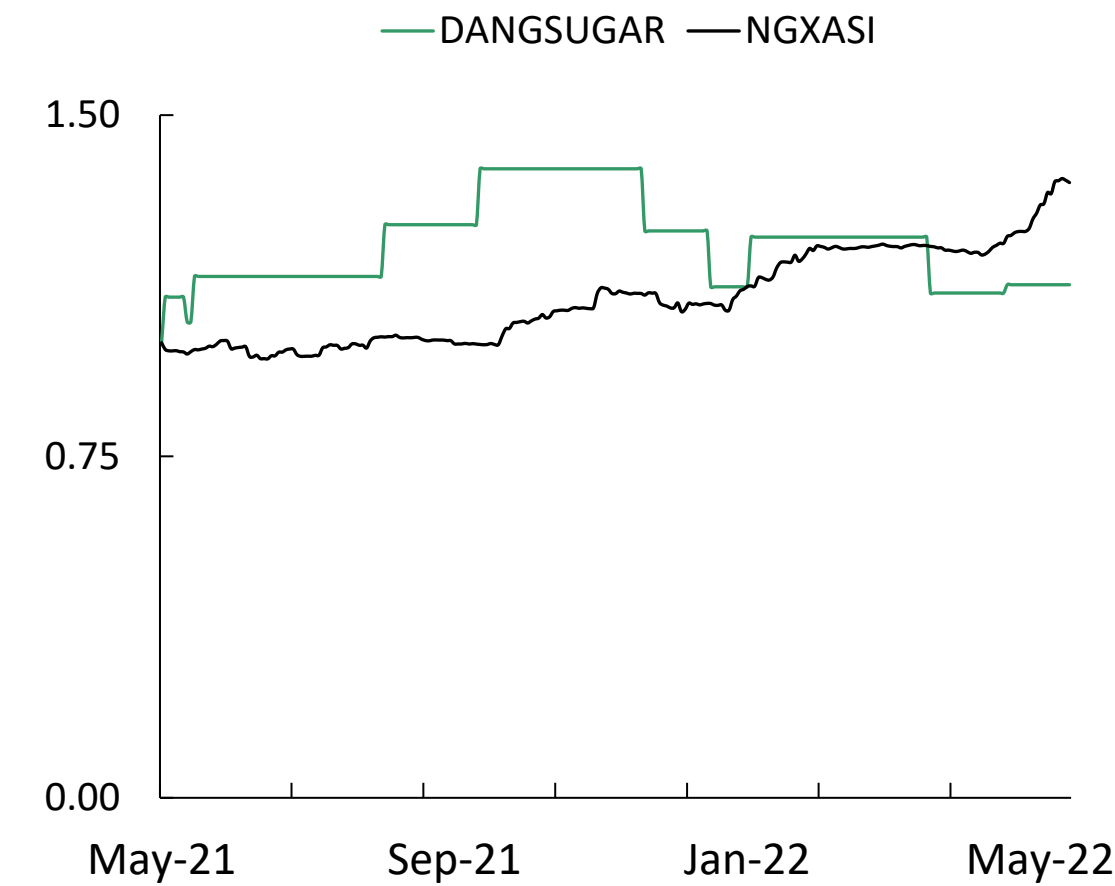
Overall PBT and PAT settled higher at NGN13.60bn and NGN8.87bn during the period under review (vs. NGN11.95bn and NGN8.30bn in Q1:2021).

Outlook: We maintain our forecast of 22.93% YoY increase in topline to NGN339.36bn in 2022FY. While we note the impact of higher cost pressures, we expect topline growth to outpace cost increases, thereby resulting in a 62.48%YoY increase in bottomline.

Positive: Gross profit expanded by 40.15% YoY to NGN94.45bn from NGN67.39bn .

Negative: Finance cost increased to NGN3.51bn vs NGN3.41bn in Q1:2021, this is due to the higher exchange loss in the ordinary course of business (NGN2.61bn vs NGN2.30bn in Q1:2021).

Valuation		Stock Highlights	
Trailing EPS	NGN1.86	Yr Hi	18.30
BVPS	NGN11.32	Yr Lo	15.50
P/E	9.14x	YTD return	-2.30%
P/BV	1.50x	Beta	1.28
Target PE	8.10x	Adjusted Beta	1.19
Dec-2021 Exp. EPS	NGN2.95	Shares outstanding	12.15bn
Dec 2021 Target price	NGN23.90	Market cap [NGN]	206.50bn
Current Price	NGN17.00	Financial year end	December



Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	13.85
		EPS				Max	27.76
		1.95	2.45	2.95	3.00	3.05	
Target PE	7.10x	13.85	17.40	20.95	21.30	21.66	
	7.60x	14.82	18.62	22.42	22.80	23.18	
	8.10x	15.80	19.85	23.90	24.30	24.71	
	8.60x	16.77	21.07	25.37	25.80	26.23	
	9.10x	17.75	22.30	26.85	27.30	27.76	

Recommendation: **BUY** TP: 23.90 CP:17.00 UPP: 40.59%

Financial Highlight (NGN'bn)			
Profit and Loss Account	Q1:2022	Q1:2021	Y/Y Growth
Revenue	94.45	67.39	40.15%
Cost of sales	74.99	49.35	51.95%
OPEX	2.50	2.26	10.81%
Operating Profit	17.03	15.88	7.20%
Finance Cost	3.51	3.41	2.72%
PBT	13.60	11.95	13.85%
PAT	8.87	8.30	6.84%
Balance Sheet	Q1:2022	2021A	Y/Y Growth
Property Plant and Equipment	149.94	144.68	3.63%
Total Asset	395.65	359.51	10.05%
Total Equity	137.50	128.63	6.90%
Total Debt	3.34	3.34	0.11%
Total Liabilities	258.15	230.87	11.81%

Key Metrics			
Profitability Ratio	Q1:2022	2021A	3-yr Hist. Avg
ROA	5.99%	6.92%	10.69%
ROE	16.99%	17.41%	21.73%
Net Margin	8.15%	7.99%	12.07%
Efficiency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Asset Turnover	0.73	0.87	0.79
Liquidity Ratio	Q1:2022	2021A	3-yr Hist. Avg
Current Ratio	1.00x	0.98x	1.17x
Quick Ratio	0.70x	0.51x	0.80x
Cash Ratio	0.52x	0.47x	0.37x
Solvency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Interest Coverage	4.86x	5.88x	29.33x
Debt to Equity	0.02x	0.03x	0.03x
Debt to Asset	0.01x	0.01x	0.01x

*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

Cost Pressures Suppress Profitability Margins

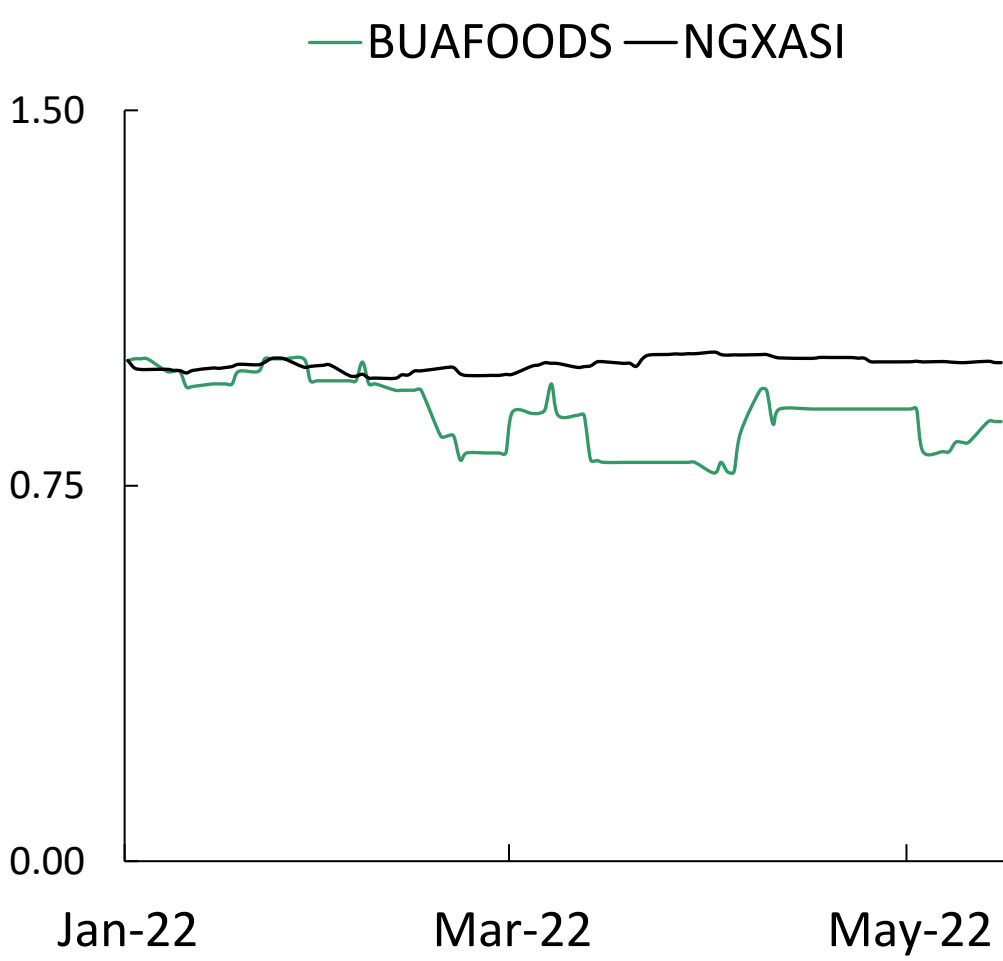
Summary: The firm’s revenue increased by 28.30% YoY to NGN90.07bn in Q1:2022. This performance was largely driven by higher revenue from the sugar division (+15.94%YoY) – which accounts for 60.11% of the total revenue for the period. Cost of sales soared by 35.50%YoY to NGN61.74bn. This impacted gross margin as it declined to 31.45% in Q1:2022 from 35.10% in Q1:2021. Operating expenses increased to NGN2.23bn in Q1:2022 (from NGN1.84bn in Q1:2021), thereby suppressing operating margin to 28.98% in Q1:2022 (vs 32.49% in Q1:2021). Finance cost increased to NGN1.66bn from NGN1.56bn. In conclusion, the company’s PBT and PAT settled higher at NGN 24.84bn and NGN22.84bn in Q1:2022 (vs NGN21.25bn and NGN19.26bn in Q1:2021) respectively. However, this translates to a lower net margin of 25.36% (vs.27.43% in Q1:2021).

Outlook: For the rest of the year, we expect robust topline performance based on the increased demand for sugar and the currently high prices of sugar. We expect this topline growth to trickle down to bottomline. Thus, we project topline and bottomline to settle at NGN445.17bn and NGN85.09bn respectively in 2022FY (from NGN333.27bn and NGN69.77bn in 2021FY).

Positives: Operating profit increased to NGN26.10bn in Q1:2022 from NGN22.81bn in Q1:2021.

Negative: Cost to sales worsened to 68.55% (vs. 64.90% in Q1:2021).

Valuation		Stock Highlights	
Trailing EPS	NGN4.08	Yr Hi	66.00
BVPS	NGN12.42	Yr Lo	40.00
P/E	14.19x	YTD return	44.75%
P/BV	4.66x	Beta	0.08
Target PE	14.18x	Adjusted Beta	0.39
Dec-2021 Exp. EPS	NGN4.74	Shares outstanding	18.00bn
Dec 2021 Target price	NGN67.23	Market cap [NGN]	1.04trn
Current Price	NGN57.90	Financial year end	December



Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	65.35
						Max	69.13
EPS							
		4.64	4.69	4.74	4.79	4.84	
Target PE	14.08x	65.35	66.05	66.75	67.46	68.16	
	14.13x	65.58	66.29	66.99	67.70	68.40	
	14.18x	65.81	66.52	67.23	67.94	68.65	
	14.23x	66.04	66.75	67.47	68.18	68.89	
	14.28x	66.27	66.99	67.70	68.42	69.13	

Recommendation: **BUY** TP: 67.23 CP: 57.90 UPP: 16.11%

Financial Highlight (NGN’bn)			
Profit and Loss Account	Q1:2022	Q1:2021	Y/Y Growth
Revenue	90.07	70.20	28.30%
Cost of sales	61.74	45.56	35.50%
OPEX	2.23	1.84	21.35%
Operating Profit	26.10	22.81	14.46%
Finance Cost	1.66	1.56	6.14%
PBT	24.84	21.25	16.87%
PAT	22.84	19.26	18.61%
Balance Sheet	Q1:2022	2021A	Y/Y Growth
Property, Plant and Equipment	322.15	321.68	0.15%
Total Asset	619.71	593.47	4.42%
Total Equity	223.56	200.72	11.38%
Total Debt	234.97	253.23	-7.21%
Total Liabilities	396.15	392.75	0.86%

Key Metrics			
Profitability Ratio	Q1: 2022	2021A	3-yr Hist. Avg
ROA	12.09%	11.99%	9.74%
ROE	34.58%	34.58%	27.68%
Net Margin	20.77%	20.93%	16.70%
Efficiency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Asset Turnover	0.58	0.57	0.54
Liquidity Ratio	Q1:2022	2021A	3-yr Hist. Avg
Current Ratio	0.86x	0.79x	0.96x
Quick Ratio	0.82x	0.72x	0.87x
Cash Ratio	0.00x	0.09x	0.09x
Solvency Ratio	Q1:2022	2021A	3-yr Hist. Avg
Interest Coverage	15.77x	15.83x	11.07x
Debt to Equity	1.05x	1.26x	1.14x
Debt to Asset	0.38x	0.43x	0.40x

*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 Sugar Refinery Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
30- May-2022	17.00	23.90	23.90	BUY	BUY

Company Name: BUA Foods Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
30-May-2022	57.90	67.23	67.23	BUY	BUY

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Company	Disclosure
Dangote Sugar Refinery Plc	
BUA Foods Plc	

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