

Grinding Through a Rocky Path

Revenue Improves Despite Drop in Sales Volume

Bedeveloped by the unfavorable macroeconomic environment during the first half of the year, **DANGCEM** reported a drop in its group sales volume by 7.01% to 14.21Mta (vs. 15.27Mta in H1:2021). This was impacted by the decline in sales volume from its Nigerian business (down 5.34% YoY to 9.34Mta in H1:2022), due to the high base effect from H1:2021. High inflationary pressures and energy supply disruptions which led to low gas generation and severe power outage impacted production in H1:2022. Similarly, sales volume from its Pan-African operations came in lower at 4.86Mta (vs. 5.46Mta in H1:2021) due mainly to extended plant maintenance and repair activities in Congo and Senegal. Nevertheless, **DANGCEM**'s revenue improved 17.01% YoY to NGN808.03bn in H1:2022, due to better price realization. Specifically, growth in revenue (+26.07% YoY) from its Nigerian operations (which accounted for 77.10% of total revenue) was the major catalyst to the group's top-line growth. The expansion witnessed in its Nigerian business was as a result of price revisions and increased cement exportation (+21.20% YoY) during the period. On the contrary, the firm was unable to ramp up more sales from its pan-African business as revenue declined to NGN185.06bn in H1:2022 from NGN198.49bn in H1:2021. **For 2022FY, we maintain our expectation of growth in the firms topline. This is hinged on the completion of the 3Mta Okpella plant and the commencement of the National Consumer Promotion ("Bag of Goodies Season 3") which is expected to drive demand higher.**

Heightened Cost Pressures Drags Margins

Although the firm's cost-to-sales moderated to 39.91% (vs 39.99% in H1:2021), the heightened inflationary environment was a major headwind, as production cost surged (+16.79% YoY to NGN322.46bn). The major cost contributors were manufacturing materials cost (+30.17% YoY) and energy cost (+40.41% YoY). Similarly, rising haulage expense (+65.25%YoY) due to the increase in Automotive Gas Oil (AGO), alongside uptick in general administrative expenses (+62.82% YoY) and selling and distribution expense (+54.46% YoY) resulted to a surge in OPEX to NGN169.41bn in H1:2022. Thus, EBITDA margin dropped to 39.37% (vs. 43.76% in H1:2021). Also, the spike in finance cost (+147.87% YoY to NGN75.23bn), due to the additional loan taken by the firm and exchange losses during the period further pressured bottom-line. Consequently, after-tax profit declined by 10.19% YoY to NGN172.10bn for the first time in 5 years and pressured net margin downwards to 21.30% (vs. 27.75% in H1:2021). **We maintain a positive outlook for the firm in 2022FY as it ramps up the usage of its alternative fuel sources to provide some respite to some of its cost lines. However, the continuous increase in effective tax and finance cost remains a risk to this outlook.**

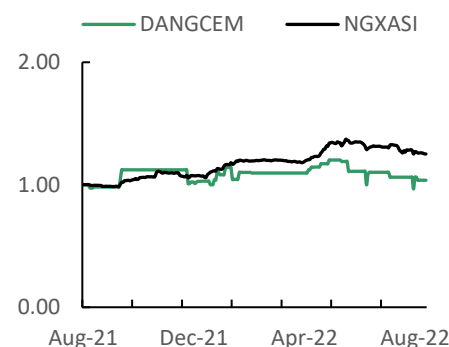
Leverage Position Remains Elevated

In H1:2022, **DANGCEM** as usual, tapped into the domestic debt market in pursuant of its export strategy and expansion of its operational capacity. Specifically, during the period, the company issued a series 2 bond of NGN116.00bn, increasing its total debt stock to NGN634.41bn (vs. NGN577.95bn in H1:2021). Thus, its financial leverage and debt to equity stood at 2.88x and 0.82x respectively (vs. 2.43x and 0.59x in H1:2021). Although we note a decline in interest coverage to 4.23x (vs. 9.96x in H1:2021) we opine that the firm is still in a good position to meet its debts obligation.

Recommendation

For 2022FY, we maintain our projection for EBITDA per share of NGN50.78 and an EV/EBITDA of 6.86x. Hence, we arrived at our target price of NGN333.38, which implies an upside of 36.07% from the opening share price on 24th August 2022. Thus, we rate the counter a **"BUY"**.

Company	DANGCEM
Valuation	
EPS	11.25
BVPS	45.53
P/E	21.78x
P/BV	5.38x
Target EV/EBITDA	6.86
Dec-2022 EBITDA per share	50.78
Dec 2022 Target price	333.38
Current Price	245.00
Up/Downside Potential	+36.07%
Ratings	
	BUY
Key metrics-	
ROE	19.48%
ROA	8.01%
Net margin	27.75%
Asset Turnover	36.12%
Leverage	2.43x
Stock Highlights	
Yr Hi	300.00
Yr Lo	241.00
YTD return	-4.76%
Beta	1.26
Adjusted Beta	1.17
Shares outstanding	17.04bn
Market cap [NGN]	4.17trn
Financial year end	December
Most Recent Period	H1:2022



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	326.88
EBITDA per share						Max	347.20
Target EV/EBITDA		49.76	50.27	50.78	51.29	51.80	
	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	333.38	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	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2021	H1:2022	2022F	2023F	2024F	2025F	2026F
Revenue	690.55	808.04	1,839.68	1,975.51	2,133.14	2,344.65	2,586.29
Cost of sales	(276.12)	(322.46)	645.20	701.36	748.94	823.47	910.13
Gross Profit	414.43	485.58	1,194.48	1,274.16	1,384.20	1,521.19	1,676.16
OPEX	(118.28)	(169.41)	337.39	357.75	374.61	421.16	461.67
Other Income	6.05	1.60	8.20	10.61	11.53	12.02	13.91
EBITDA	302.20	318.12	865.30	927.02	1,021.12	1,112.04	1,228.40
Net Finance Cost	(20.94)	(53.23)	(5.56)	2.84	8.33	24.17	51.29
PBT	281.25	264.89	708.75	755.04	829.07	907.62	1,019.99
PAT	191.63	172.10	496.12	528.53	580.35	635.33	714.00

Balance Sheet	H1:2021	H1:2022	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	1,472.86	1,398.50	1,627.97	1,860.02	2,100.09	2,356.74	2,633.46
Total Debt	577.96	634.42	511.70	596.17	703.96	836.49	1,004.43
Total Assets	2,392.02	2,237.34	2,611.95	2,960.17	3,385.04	3,922.60	4,593.46
Total Equity	983.67	775.88	1,137.10	1,324.82	1,564.36	1,858.88	2,232.06
Total Current Liabilities	1,076.48	1,014.73	1,059.47	1,175.93	1,301.29	1,471.40	1,678.21
Non-Current Liabilities	331.87	446.73	415.37	459.42	519.40	592.32	683.19
Total Liabilities	1,408.35	1,461.46	1,474.84	1,635.35	1,820.69	2,063.72	2,361.40

Financial Ratios	H1:2021	H1:2022	2022F	2023F	2024F	2025F	2026F
Gross Margin	60.01%	60.09%	64.93%	64.50%	64.89%	64.88%	64.81%
EBITDA Margin	43.76%	39.37%	47.04%	46.93%	47.87%	47.43%	47.50%
Net Margin	27.75%	21.30%	26.97%	26.75%	27.21%	27.10%	27.61%
Return on Asset	8.01%	7.69%	18.99%	17.85%	17.14%	16.20%	15.54%
Return on Equity	19.48%	22.18%	43.63%	39.89%	37.10%	34.18%	31.99%
Return on Invested Capital	25.22%	22.76%	29.20%	24.62%	23.96%	21.86%	0.00%
Earnings Per Share	11.25	10.10	29.11	31.02	34.06	37.28	41.90
Asset Turnover	0.29x	0.36x	0.70x	0.67x	0.63x	0.60x	0.56x
Financial Leverage	2.43x	2.88x	2.30x	2.23x	2.16x	2.11x	2.06x
Debt to Asset Ratio	0.24x	0.28x	0.20x	0.20x	0.21x	0.21x	0.22x
Debt to EBITDA Ratio	1.91x	1.99x	0.59x	0.64x	0.69x	0.75x	0.82x
Current Ratio	0.81	0.77	0.78x	0.77x	0.83x	0.91x	1.02x
Quick Ratio	0.66	0.57	0.58x	0.58x	0.64x	0.73x	0.84x

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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
24-Aug-2022	245.00	333.38	-	BUY	BUY
25-May-2022	297.00	286.76	333.38	BUY	BUY

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Company	Disclosure
Dangote Cement Plc.	

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