

## Macroeconomic Headwinds Impact Performance

### Expansion in Top-line Despite Lower Volumes

*Dangote Cement Plc's (DANGCEM) 9M:2022 financial performance was impaired by macroeconomic headwinds. Although the firm managed to expand revenue, higher operating and financing costs (especially FX losses), lowered its earnings per share (EPS) to NGN12.41 (vs. NGN16.23 as at 9M:2021).*

**DANGCEM's** revenue grew strongly to NGN1.18trn in 9M:2022 topping the corresponding period last year by 15.17%. The impressive group outing was supported by price increases and better realization from its national consumer promotion program (Bag of goodies season 3) which improved the firm's market share in Nigeria. However, sales volume at home and abroad (Nigeria and Pan-Africa respectively) declined by 4.69% and 9.69% to 13.48MT and 7.37MT respectively. The relatively lower sales volume reflects the high base of 9M:2021, alongside the impact of inflation and energy supply disruptions. Specifically, in Q3:2022, the rainy season in Nigeria, extended plant maintenance and repair activities in Senegal and Congo, and increased costs of importing clinker and cement in Cameroon, Ghana, and Sierra Leone impacted the firm's performance. However, in line with our expectation, **DANGCEM's** Nigerian capacity expanded to 35.25MTPA (vs. 32.35MTPA previously) as the 3MTPA Edo Okpella plant was commissioned in 9M:2022. *Hence, we have modeled a capacity utilization of 54.18% for 2022FY and expect it to translate into a total revenue of NGN1.27trn for the Nigerian operations. Performance is expected to be supported by much better volumes due to continuous construction activities and real-estate demand (especially in Q4 (dry season), where the highest volumes are typically recorded). Thus, we project the group revenue for the year at NGN1.71trn by 2022FY.*

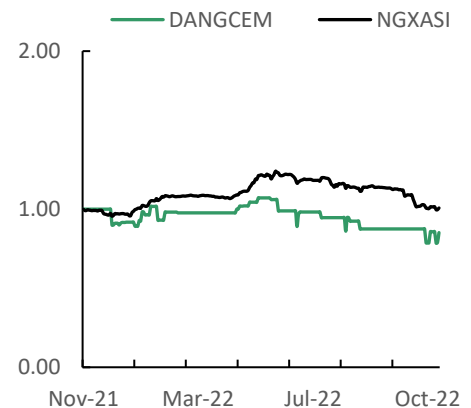
### High Foreign Exchange Losses Drags Earnings

The firm's cost-to-sales ratio for the period was higher at 41.10% (vs 39.46% in 9M:2021) due to rise in production costs - especially energy (+39.79%) which mirrored the inflationary environment (increase in Automotive Gas Oil prices). Similarly, haulage expense (+63.77%YoY) was the single significant driver of OPEX as other cost items increased marginally during the period. The underlying factors include the flood which impacted distribution, as trucks were held in gridlocks, slowing dispatch in Nigeria. Also, higher freight cost witnessed in clinker and cement importing countries was a contributing factor. Thus, the Group EBITDA margin declined to 43.82% (vs 50.36% in 9M:2021). **DANGCEM's** total finance costs spiked (+159.93%) with foreign exchange (FX) losses (+770.07% YoY) contributing the highest to the drag. The huge FX losses was as a result of the devaluation of the currencies especially the Ghana Cedis. *However, the management have indicated that the firm will explore hedging opportunities and localize some of its obligations in order to mitigate FX losses in the short to medium term. Consequently, profit after tax declined by 23.41% to NGN213.10bn (vs. NGN278.25bn). Nevertheless, based on our expectation for expansion in revenue, management guidance on mitigation of the FX challenges and the completion of alternative fuel system (waste recycling) in November, we remain optimistic about the firm's earnings growth by 2022FY.*

### Recommendation

Based on our revised projections, we forecast an EBITDA per share of NGN43.80 and an EV/EBITDA of 6.83x. Hence, we arrived at our target price of NGN299.20, which implies an upside of 25.45% from the closing share price on 11th November 2022. Thus, we rate the ticker a **"BUY"**.

Company	DANGCEM
<b>Valuation</b>	
Trailing EPS	20.24
BVPS	45.53
P/E	10.89x
P/BV	4.84x
Target EV/EBITDA	6.83x
Dec-2022 EBITDA Per Share	43.80
Dec 2022 Target price	<b>299.20</b>
Current Price	238.50
Up/Downside Potential	+25.45%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	44.45%
ROA	15.42%
Net margin	22.98%
Asset Turnover	0.67x
Leverage	2.88x
<b>Share Price Data</b>	
Year High	300.00
Year Low	220.00
YTD return	-7.20%
Beta	1.19
Adjusted Beta	1.13
Shares outstanding	17.04bn
Market cap [NGN]	4.06trn
Financial year end	December
Most Recent Period (MRP)	9M:2022



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**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	293.14
EBITDA per share						Max	312.86
		42.92	43.36	43.80	44.31	44.82	
Target EV/EBITDA	6.97	299.01	302.07	305.14	308.69	312.24	
	6.90	296.08	299.11	302.15	305.66	309.18	
	6.83	293.14	296.15	299.15	302.64	306.12	
	6.91	296.37	299.41	302.44	305.97	309.49	
	6.98	299.59	302.66	305.74	309.30	312.86	

Financial Highlights and Forecasts (NGN billion)								
Profit & Loss Account	9M:2021	9M:2022	2022F	2023F	2024F	2025F	2026F	
Revenue	1,022.19	1,177.26	1,710.47	1,975.51	2,133.14	2,344.65	2,586.29	
Cost of sales	403.39	483.83	628.06	719.03	772.85	859.43	940.76	
<b>Gross Profit</b>	<b>1,425.57</b>	<b>1,661.09</b>	<b>1,082.41</b>	<b>1,256.48</b>	<b>1,360.29</b>	<b>1,485.23</b>	<b>1,645.53</b>	
OPEX	185.46	263.28	343.10	360.95	390.86	445.17	478.52	
Other Income	7.21	3.12	7.07	10.46	11.33	12.02	13.92	
<b>EBITDA</b>	<b>514.79</b>	<b>515.88</b>	<b>746.37</b>	<b>906.00</b>	<b>980.77</b>	<b>1,052.07</b>	<b>1,180.93</b>	
Net Finance Cost	62.54	155.39	41.31	23.14	32.34	45.98	66.59	
<b>PBT</b>	<b>405.49</b>	<b>335.90</b>	<b>634.95</b>	<b>752.57</b>	<b>811.00</b>	<b>867.73</b>	<b>986.09</b>	
<b>PAT</b>	<b>278.25</b>	<b>213.10</b>	<b>444.46</b>	<b>526.80</b>	<b>567.70</b>	<b>607.41</b>	<b>690.26</b>	

Balance Sheet	9M:2021	9M:2022	2022F	2023F	2024F	2025F	2026F	
Property, Plant and Equipment	1,472.86	1,378.11	1,650.38	1,880.82	2,119.31	2,374.40	2,649.59	
Total Debt	588.16	718.65	559.42	643.11	745.21	865.18	1,022.43	
<b>Total Assets</b>	<b>2,392.02</b>	<b>2,333.74</b>	<b>2,726.81</b>	<b>3,129.22</b>	<b>3,541.66</b>	<b>4,050.15</b>	<b>4,681.29</b>	
<b>Total Equity</b>	<b>983.67</b>	<b>838.22</b>	<b>1,243.15</b>	<b>1,429.14</b>	<b>1,656.03</b>	<b>1,922.63</b>	<b>2,272.08</b>	
<b>Total Current Liabilities</b>	<b>1,076.48</b>	<b>1,044.26</b>	<b>1,066.76</b>	<b>1,223.56</b>	<b>1,351.18</b>	<b>1,524.66</b>	<b>1,719.37</b>	
<b>Non-Current Liabilities</b>	<b>331.87</b>	<b>451.26</b>	<b>416.90</b>	<b>476.52</b>	<b>534.46</b>	<b>602.86</b>	<b>689.84</b>	
<b>Total Liabilities</b>	<b>1,408.35</b>	<b>1,495.52</b>	<b>1,483.66</b>	<b>1,700.08</b>	<b>1,885.63</b>	<b>2,127.52</b>	<b>2,409.21</b>	

Financial Ratios	9M:2021	9M:2022	2022F	2023F	2024F	2025F	2026F	
Gross Margin	139.46%	141.10%	63.28%	63.60%	63.77%	63.35%	63.63%	
EBITDA Margin	50.36%	43.82%	43.64%	45.86%	45.98%	44.87%	45.66%	
Net Margin	27.22%	18.10%	25.98%	26.67%	26.61%	25.91%	26.69%	
Return on Asset	11.63%	9.13%	16.30%	16.83%	16.03%	15.00%	14.75%	
Return on Equity	28.29%	25.42%	35.75%	36.86%	34.28%	31.59%	30.38%	
Return on Invested Capital	23.10%	32.59%	19.53%	22.80%	21.59%	19.75%	0.00%	
Earnings Per Share	16.33	12.51	26.08	30.91	33.31	35.65	40.51	
Asset Turnover	0.43x	0.50x	0.63x	0.63x	0.60x	0.58x	0.55x	
Financial Leverage	2.43x	2.78x	2.19x	2.19x	2.14x	2.11x	2.06x	
Debt to Asset Ratio	24.59%	30.79%	20.52%	20.55%	21.04%	21.36%	21.84%	
Debt to EBITDA Ratio	114.25%	139.31%	74.95%	70.98%	75.98%	82.24%	86.58%	
Current Ratio	66.30%	96.56%	86.96%	86.53%	90.06%	95.12%	103.72%	
Quick Ratio	53.25%	76.03%	67.60%	67.21%	71.25%	76.58%	85.73%	

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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
11-Nov-2022	238.50	333.38	299.20	BUY	BUY
24-Aug-2022	245.00	286.76	333.38	BUY	BUY

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