

Strong Q4 Performance Supports Earnings

Top-line Climbs Despite Macroeconomic Headwinds

Strong Q4 performance supports Dangote Cement Plc's (DANGCEM) earnings in 2022FY despite the decline in profitability witnessed in 9M:2022. Expansion in revenue amidst lower volumes, robust cost reduction strategy (especially in Q4 were Nigeria EBITDA improved 37.01% QoQ), strengthened its earnings per share (EPS) to NGN22.27 in 2022FY (vs. NGN21.24 in 2021FY).

DANGCEM yet again delivered an impressive top-line performance (+16.96% YoY to NGN1.61trn) despite the various macroeconomic headwinds that plagued the firm during the year. The growth was driven by increased price realization as implied cement price per ton was higher (from NGN53,374.11 in 2021 to NGN67,563.53 in 2022). Meanwhile, the group recorded a reduction in sales volume by 5.14% YoY to 27.77MT as both its Nigeria and Pan African volumes declined by 4.14% YoY and 8.05% YoY respectively. Specifically, the slightly lower volume, which reflected the high base of 2021, significant rise in inflation, and energy supply disruptions (due to low gas generation) impaired **DANGCEM's** ability to maximize production in 2022. Furthermore, extended plant maintenance in Senegal and Congo and volatility in cement and clinker landing costs in Cameroon, Ghana and Sierra Leone impacted sales volumes from its Pan-African businesses. Nevertheless, the successful implementation of its national consumer promotion (Bag of Goodies Season 3) in Q3:2022 which improved its market share and extended into Q4:2022 where the firm recorded stronger revenue (19.46% QoQ) supported overall performance. **For 2023, we remain optimistic about the firm's topline performance premised on increase in local demand, and reduction in energy disruptions which lowered volumes in 2022. Specifically, we expect cement demand to be sustained by increasing housing infrastructure and commercial construction as well as the increase in exporting activities. Thus, we estimate a revenue growth of 15.50% YoY.**

Cost Savings Initiative and Reduction in Tax Props Bottom-line

The combined effect of increase in cost of sales (+20.30% YoY) and spike in operating expenses (+46.52% YoY) weakened the firm's EBITDA margin to 43.76% (vs. 49.48% in 2021). The rise in production costs - particularly energy (+35.52% YoY) which mirrored the inflationary environment (increase in Automotive Gas Oil prices) and jump in haulage expense (+64.38% YoY) pressured **DANGCEM's** total cost during the period. However, the firm implemented a cost reduction strategy which involved the increased use of alternative fuel to improve their energy mix and the use of Compressed Natural Gas (CNG) for trucks given the rising AGO cost. The effect of this cost reduction initiative resulted in improved EBITDA position in Q4:2022 (+34.78% QoQ) and EBITDA margin of 43.61%. Consequently, despite the spike in total finance costs (98.41% YoY) with foreign exchange (FX) losses (+515.21% YoY) constituting the bulk of the cost, after-tax-profit came in higher (+4.90% YoY to NGN382.31bn) in 2022. Also, reduction in tax expense (from NGN173.92bn in 2021 to NGN141.69bn in 2022) due to reversals of temporary differences from deferred taxes further strengthened bottom-line. **We project a 10.88% YoY growth in net income for 2023FY. This is based on the expected expansion in revenue, sustained innovative use of alternative fuel system to minimize cost and management's effort to mitigate its FX challenges.**

Recommendation

Based on our revised projections, we forecast an EBITDA per share of NGN50.75 and an EV/EBITDA of 6.54x. Hence, we arrived at our target price of NGN331.91, which implies an upside of 19.37% from the closing share price on 10th March 2022. Thus, we rate the ticker a "BUY".

Company DANGCEM

Valuation

Trailing EPS	31.32
BVPS	63.32
P/E	9.20x
P/BV	4.55x
Target EV/EBITDA	6.54x
Dec-2023 EBITDA Per Share	50.75
Dec 2023 Target price	331.91
Current Price	278.00
Up/Downside Potential	+19.37%

Ratings BUY

Key metrics

ROE	49.46%
ROA	20.40%
Net margin	32.98%
Asset Turnover	0.62x
Leverage	2.42x

Share Price Data

Year High	288.00
Year Low	261.00
YTD return	+10.34%

Beta	0.85
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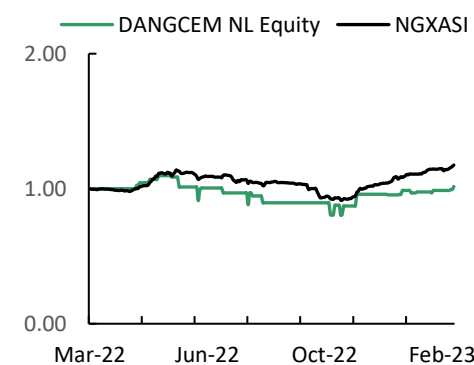
Adjusted Beta	0.89
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Shares outstanding	17.04bn
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Market cap [NGN]	4.06trn
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Financial year end	December
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Most Recent Period (MRP)	2022FY
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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	280.70
EBITDA per share							Max	339.21
	299.15	42.92	43.36	50.75	44.31	44.82		
Target EV/EBITDA	6.67	286.31	289.25	338.54	295.58	298.99		
	6.61	283.50	286.41	335.22	292.69	296.05		
	6.54	280.70	283.57	331.91	289.79	293.12		
	6.61	283.78	286.69	335.56	292.98	296.35		
	6.68	286.87	289.81	339.21	296.16	299.57		

Financial Highlights and Forecasts (NGN billion)						
Profit & Loss Account	2021FY	2022FY	2023F	2024F	2025F	2026F
Revenue	1,383.56	1,618.32	1,975.58	2,133.14	2,344.74	2,586.29
Cost of sales	475.07	572.13	(724.30)	(780.29)	(870.37)	(950.08)
Gross Profit	908.49	1,046.19	2,699.87	2,913.43	3,215.12	3,536.36
OPEX	231.20	345.48	360.95	390.86	445.17	478.52
Other Income	6.22	5.33	10.47	11.34	12.02	13.92
EBITDA	683.51	706.04	864.81	957.59	1,018.09	1,141.30
Net Finance Cost	44.94	91.66	23.14	32.34	45.98	66.59
PBT	538.37	524.00	605.55	710.71	738.14	827.07
PAT	364.44	382.31	423.89	497.50	516.70	578.95
Balance Sheet	2021FY	2022FY	2023F	2024F	2025F	2026F
Property, Plant and Equipment	1,472.86	1,527.29	1,547.14	1,782.54	2,025.89	2,285.79
Total Debt	564.94	706.73	425.68	463.07	533.58	612.73
Total Assets	2,392.02	2,615.66	2,223.36	2,551.28	2,863.52	3,243.21
Total Equity	983.67	1,078.95	945.97	1,029.04	1,185.73	1,361.62
Total Current Liabilities	1,076.48	1,021.69	920.42	1,111.01	1,220.08	1,370.27
Non-Current Liabilities	331.87	515.02	356.97	411.22	457.71	511.32
Total Liabilities	1,408.35	1,536.71	1,277.40	1,522.23	1,677.79	1,881.59
Financial Ratios	2021FY	2022FY	2023F	2024F	2025F	2026F
Gross Margin	65.66%	64.65%	136.66%	136.58%	137.12%	136.74%
EBITDA Margin	49.40%	43.63%	43.77%	44.89%	43.42%	44.13%
Net Margin	26.34%	23.62%	21.46%	23.32%	22.04%	22.39%
Return on Asset	15.24%	14.62%	19.07%	19.50%	18.04%	17.85%
Return on Equity	37.05%	35.43%	44.81%	48.35%	43.58%	42.52%
Return on Invested Capital	23.10%	32.59%	28.43%	29.72%	28.62%	26.17%
Earnings Per Share	21.39	22.44	24.88	29.20	30.32	33.97
Asset Turnover	0.58x	0.62x	0.89x	0.84x	0.82x	0.80x
Financial Leverage	2.43x	2.42x	2.35x	2.48x	2.41x	2.38x
Debt to Asset Ratio	23.62%	27.02%	19.15%	18.15%	18.63%	18.89%
Debt to EBITDA Ratio	82.65%	100.10%	49.22%	48.36%	52.41%	53.69%
Current Ratio	66.30%	96.56%	58.17%	52.25%	51.92%	53.50%
Quick Ratio	53.25%	76.03%	37.74%	30.82%	30.89%	32.61%

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of 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
13-Mar-2022	278	299.20	331.91	BUY	BUY
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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Company	Disclosure
Dangote Cement Plc.	

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