

DANGCEM Sustains Profitability Despite Weak Top-line.

Pan African Operations Reinforces as Nigeria Operations Drops

In Q1:2023, **DANGCEM** recorded a drop in revenue (-1.56% YoY to NGN406.72bn) for the first time since Q4:2019. Significant decline in revenue from its Nigeria operations being the largest contributor (c.69%) to top-line outweighed the remarkable growth witnessed in its other Pan African operations. Particularly, for its Nigerian operations, uncertainties around the elections held during the first quarter of the year, inflationary pressures, and the cash crunch which is a resultant effect of the naira redesign by the CBN impacted construction activities during the period. This culminated in a decline (24.66% YoY) in sales volume from its Nigerian business which ultimately drag the group volume (down 13.49% YoY to 6.27MT). On the flip side, the firms' Pan African business registered an impressive outing in Q1:2023 with solid growth in sales volume and revenue (8.86% YoY and 38.51% YoY) respectively. The robust performance was led by expansion in sales volumes from Congo (+388.89% YoY) Senegal (+30.60% YoY), and Zambia (+4.80% YoY). Essentially, the renaissance of its Senegal and Congo operations to full capacity after months of extended plant maintenance drove the performance. **We are optimistic that the commissioning of the grinding plant in Ghana which is slated for next month, and its Ivory Coast grinding plant slated for Q4:2023 will further strengthen its Pan African operations in 2023. For its Nigeria operations, we anticipate a recovery in volumes as the factors which impacted sales volumes as mentioned above fades. This as well as the increase in price realization to compensate for the high inflationary environment is projected to drive topline. Also, the planned construction of a 6Mt cement plant in Itori, Ogun state, which would increase DANGCEM's installed capacity in Nigeria to 41.25Mt is expected to further strengthen production.**

Pioneer Entity Tax Benefit Saves the Day

DANGCEM's EBITDA margin fell to 45.66% (vs 51.07% in Q1:2022) as a result of the increase in cost of sales (+6.21% YoY) and operating expenses (+12.59% YoY). The slight increase in cost of sales was occasioned by the moderate growth (+2.18%) in fuel and power expense which reflects the firm's improvement in its alternative energy initiatives as thermal substitution rate rose to 8.70% (vs 2.90% in Q1:2022). Moreover, the group reported a significant drop in foreign exchange losses (46.27% YoY) owing to the mild stability in exchange rates (especially naira and the CFA) during the period. However, after-tax-profit improved (+3.45% YoY to NGN109.50bn) orchestrated by the significant drop in effective tax to 25.42% (vs. 32.32% in Q1:2022). The firm's pioneer entity tax benefit from its newly constructed Okpella plant as well as Obajana line 5, supported overall bottom-line performance. **The expansion in revenue is expected to trickle down to earnings growth for the firm for the remaining part of the year while sustained innovative use of alternative fuel systems contains cost pressures.**

Improve Leverage and Liquidity Position

In Q1:2023 the firm issued a cumulative of NGN138.2bn commercial papers for working capital purposes, while reducing a significant portion of its bank loans (44.18% YoY). This resulted in a decline in net debt by 6.81% to NGN394.10bn (vs. NGN422.89bn in 2022FY). Consequently, debt-to-equity ratio and financial leverage declined to 0.55x and 2.29x respectively (vs 0.66x and 2.42x in 2022FY) higher than peers (**WAPCO** 0.008x and 1.35x, **BUACEMENT** 0.24x and 1.91x). Similarly, the firms' liquidity position improved with a current ratio and quick ratio of 1.13x and 0.86x (vs 1.00x and 0.77x in 2022FY) respectively, higher than **BUACEMENT** 0.91x and 0.52x, but slightly below **WAPCO** 1.35x and 0.92x.

Recommendations

For the rest of the year, we maintain our projections of an EBITDA per share of NGN50.75 and a target EV/EBITDA of 6.54x, which result in a target price of NGN331.93, with an upside of 22.94% as of May 24, 2023. Thus, we recommend BUY on the ticker.

Company DANGCEM

Valuation	
EPS	31.32
BVPS	63.32
P/E	9.20x
P/BV	4.55x

Target EV/EBITDA	6.54
Dec- 2023 EBITDA per share	50.75

Dec 2023 Target price	331.91
Current Price	270.00

Up/Downside Potential	+22.93%
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Ratings	BUY
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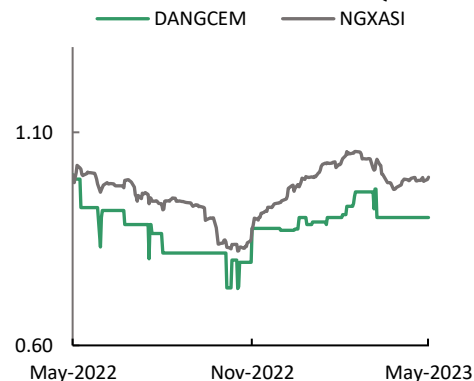
Key metrics-	
ROE	49.46%
ROA	20.40%
Net margin	23.62%
Asset Turnover	0.62x
Leverage	2.29x

Stock Highlights

Yr Hi	290.00
Yr Lo	261.00
YTD return	+3.45%

Beta	0.85
Adjusted Beta	0.78

Shares outstanding	16.87bn
Market cap [NGN]	4.55trn
Financial year end	December
Most Recent Period	Q1:2023



Analyst

Samuel Banmeke

samuelbanmeke@meristemng.com

(+234 0818 518 2859)

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	280.70
EBITDA per share						Max	339.21
Target EV/EBITDA		42.92	43.36	50.75	44.31	44.82	
	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	Q1:2023	Q1:2022	2023F	2024F	2025F	2026F	
Revenue	406.72	413.18	1,975.51	2,133.14	2,344.65	2,586.29	
Cost of sales	(163.67)	(154.11)	(719.03)	(772.85)	(859.43)	(940.76)	
Gross Profit	243.05	259.07	2,694.55	2,905.99	3,204.08	3,527.05	
OPEX	87.39	77.62	360.95	390.86	445.17	478.52	
Other Income	1.48	1.02	10.46	11.33	12.02	13.92	
EBITDA	185.71	211.02	906.00	980.77	1,052.07	1,180.93	
Net Finance Cost	(22.05)	(26.41)	(23.14)	(32.34)	(45.98)	66.59	
PBT	146.82	156.40	752.57	811.00	867.73	986.09	
PAT	109.50	105.85	526.80	567.70	607.41	690.26	
Balance Sheet	Q1:2023	FY:2022	2023F	2024F	2025F	2026F	
Property, Plant and Equipment	1,517.19	1,527.29	1,650.38	1,880.82	2,119.31	2,374.40	
Total Debt	680.88	706.73	559.42	643.11	745.21	865.18	
Total Assets	2,698.67	2,615.66	2,726.81	3,129.22	3,541.66	4,050.15	
Total Equity	1,178.71	1,078.95	1,243.15	1,429.14	1,656.03	1,922.63	
Total Current Liabilities	991.98	1,021.69	1,066.76	1,223.56	1,351.18	1,524.66	
Non-Current Liabilities	527.98	515.02	416.90	476.52	534.46	602.86	
Total Liabilities	1,519.96	1,536.71	1,483.66	1,700.08	1,885.63	2,127.52	
Financial Ratios	Q1:2023	Q1:2022	2023F	2024F	2025F	2026F	
Gross Margin	59.76%	62.70%	136.40%	136.23%	136.65%	136.37%	
EBITDA Margin	44.92%	51.07%	45.86%	45.98%	44.87%	45.66%	
Net Margin	26.92%	25.62%	26.67%	26.61%	25.91%	26.69%	
Return on Asset	4.06%	4.30%	19.32%	18.14%	17.15%	17.04%	
Return on Equity	9.29%	9.81%	42.38%	39.72%	36.68%	35.90%	
Earnings Per Share	6.44	6.18	30.91	33.31	35.65	40.51	
Asset Turnover	0.15x	0.16x	0.72x	0.68x	0.66x	0.64x	
Financial Leverage	2.29x	2.33x	2.19x	2.19x	2.14x	2.11x	
Debt to Asset Ratio	25.23%	22.25%	20.52%	20.55%	21.04%	21.36%	
Current Ratio	1.13x	0.91x	0.52x	0.52x	0.53x	0.59x	
Quick Ratio	0.86x	0.75x	0.31x	0.31x	0.33x	0.38x	

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234905690627)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.com Tel: +234 01 738 9948

Registrars

oluseyiowoturo@meristemregistrars.com (+234 802 321 0561)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
nkechinyeluokoye@meristemng.com (+234 803 526 1801)
car@meristemng.com

Investment Research

damilareajo@meristemng.com (+234 816 890 2771)
research@meristemng.com

Corporate websites: www.meristemng.com
www.meristemwealth.com www.meristemregistrars.com

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on several 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-March-2023	270.00	331.91	-	BUY	BUY
24-Aug-2022	245.00	333.38	-	BUY	BUY

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Company	Disclosure
Dangote Cement Plc.	

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