

## Retained Profitability Despite Lackluster Nigerian Operations

August 17, 2023

### Resilience from Leading Operations Amidst Expanding Sub-Operations

In H1:2023, Dangote Cement Plc (**DANGCEM**) reported a +17.67% growth in revenue to NGN950.83bn. Still recovering from the general contractions of the cement sector following the negative effect of the Naira redesign in Q1:2023, the group's largest topline contributor (c. 65%), its Nigerian operations recorded a **13.21%** decline in its volume sold to 8,108 kilotons (vs 9,342 kilotons in H1:2022). Revenue in Q2:2023 standalone was higher (37.80% Q-o-Q) than that of Q1:2023, driven by higher sales volumes. This was despite the decline in capacity utilization to 23.00% (vs 26.49% in H1:2022). In contrast, **DANGCEM's** Pan-African operations recorded an impressive performance in both sales volume and revenue rising by +11.59% and +81.78% respectively. The segment contributed +34.95% to the overall revenue, a remarkable performance buoyed by improved capacity utilization (15.40% vs 13.80% in H1:2022) in its Pan-African plants (Congo, Cameroon, Ethiopia, Senegal, and Zambia). It is worth noting that in Q2:2023, the group commenced clinker exportation from Congo to Cameroon and the 0.4MT grinding plant in Ghana became operational, consequently, the firm's product distribution and retail sales improved. However, the Tanzanian operations was the only Pan-African plant with lower volumes (**1.20%**) in H1:2023, owing to high amount of rainfall which affected construction activities and product delivery in the country. **The outlook for revenue drivers is optimistic, premised on rising infrastructural activities and developmental projects in Pan-African region, which are expected to bolster cement demand for the rest of the year. Furthermore, we anticipate higher sales volumes for the domestic operations as the constraining factors (electioneering activities and cash shortages) dissipate.**

### FX Challenges and Interest Cost Dampens Bottom Line Growth

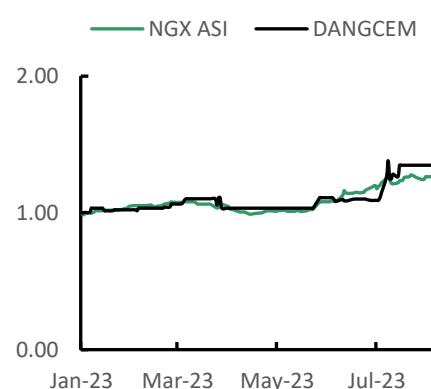
Despite improved energy supply and the firm's initiatives as regards alternative energy sources in H1:2023, **DANGCEM's** cost of sales rose by +18.80% to NGN383.09bn. In addition, the firm's energy cost which remains the major contributor to its cost of sales grew +20.82% which resulted from the inflationary pressures on energy prices in H1:2023. Notwithstanding increases in cost of sales and operating expenses, (including a +22.45% rise in OPEX driven by a 13.27% increase in SG&A), **DANGCEM** recorded an +18.78% improvement in EBITDA in H1:2023. This improvement can be attributed to the growth in revenue despite the upward trend in costs. Noteworthy was the group's initiatives to improving its alternative energy which was evinced by the spike +7.90% vs 3.30% in H1:2022 in thermal substitution rate (proportion of renewable fuel used to replace fossil fuel). Also, a total of six alternative fuel projects were completed, and higher co-processed biomass used in the firm's kilns. Furthermore, the company's progressive shift from AGO to liquified natural gas (LNG) for its trucks signifies a strategic move that could lower operational expenses and its environmental footprint, offering a cleaner fuel alternative with potential cost efficiencies and emissions cut.

Also, due to the devaluation of the Naira during the review period, **DANGCEM** recorded a +179.47% jump in FX losses totaling NGN113.63bn from third-party loans and payables in its Nigerian operations. The firm's FX losses, coupled with a 42.95% rise in finance costs following a series of commercial papers (CPs) issued in H1:2023, negatively impacted its before-tax profitability. Thus, profit before tax declined by **9.45%**. However, changes in deferred tax assets led to lower recognized tax which resulted in a +3.78% increase in the group's earnings after tax to NGN178.60bn. We also note marginal improvement in the firm's earnings per share, EPS (NGN10.39 vs NGN10.10 in H1:2022) following its share buy-back programme in H1:2023. **We expect to see an improvement in EPS upon completion of target share buyback (9% of its shares outstanding) at the end of year.**

### Increased Liabilities Drags Liquidity

**DANGCEM's** liquidity ratios declined to 0.82x, 0.24x and 0.55x (vs 1.00x, 0.28x and 0.77x in H1:2022) for current, cash and quick ratios respectively. We attribute the lags to a rise of +47.19% in payables and +18.95% in financial liabilities for the firm. We also note a marginal decline in DANGCEM's debt-to-equity ratio (0.65x vs 0.68x in H1:2022), suggesting a potential improvement in the company's financial leverage.

Company	DANGCEM
<b>Valuation</b>	
EPS	22.82
BVPS	77.02
P/E	15.43x
P/BV	4.57x
Target EV/EBITDA	6.54
Dec-2023 EBITDA per share	50.75
Dec 2023 Target price	<b>331.91</b>
Current Price	352.00
Up/Downside Potential	<b>-5.70%</b>
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics-</b>	
ROE	30.00%
ROA	12.00%
Net margin	22.30%
Asset Turnover	0.55X
Leverage	2.43x
<b>Stock Highlights</b>	
Yr. Hi	360.70
Yr. Lo	261.00
YTD return	+34.87%
Beta	0.85
Adjusted Beta	0.89
Shares outstanding	16.87bn
Market cap [NGN]	4.55trn
Financial year end	December
Most Recent Period	H1:2023



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## Recommendation

Based on our projections of an EBITDA per share of NGN50.75 and a target EV/EBITDA of 6.54x, we arrived at our target price of NGN331.91. This reflects a downside potential of **-5.70%** from its closing price of NGN352.00 on Thursday, 17th August 2023. We, therefore, retain our **“HOLD”** recommendation on the ticker.

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	303.51
EBITDA per share						Max	360.80
		50.25	50.50	50.75	51.00	51.25	
Target EV/EBITDA	6.04	303.51	305.02	306.53	308.04	309.55	
	6.29	316.07	317.65	319.22	320.79	322.36	
	6.54	328.64	330.27	<b>331.91</b>	333.54	335.18	
	6.79	341.20	342.90	344.59	346.29	347.99	
	7.04	353.76	355.52	357.28	359.04	360.80	

## Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2022	H1:2023	2023F	2024F	2025F	2026F
Revenue	808.04	950.83	2,079.17	2,133.14	2,322.12	2,586.29
Cost of sales	(322.46)	(383.09)	(774.54)	(781.87)	(865.11)	(953.85)
<b>Gross Profit</b>	<b>485.58</b>	<b>567.74</b>	<b>1,304.63</b>	<b>1,351.29</b>	<b>1,457.00</b>	<b>1,632.44</b>
OPEX	169.41	198.77	428.41	409.43	468.21	515.08
Other Income	1.60	11.06	9.90	11.33	11.39	13.13
<b>EBITDA</b>	<b>318.12</b>	<b>380.04</b>	<b>886.13</b>	<b>953.19</b>	<b>1,000.19</b>	<b>1,130.48</b>
Net Finance Cost	(12.57)	(33.22)	(88.42)	(46.56)	(54.43)	(60.56)
<b>PBT</b>	<b>264.89</b>	<b>239.86</b>	<b>624.42</b>	<b>707.77</b>	<b>718.95</b>	<b>811.99</b>
<b>PAT</b>	<b>172.10</b>	<b>178.60</b>	<b>437.10</b>	<b>495.44</b>	<b>503.27</b>	<b>568.40</b>

Balance Sheet	2022FY	H1:2023	2023F	2024F	2025F	2026F
Property, Plant and Equipment	1,527.29	2,016.42	1,802.02	2,044.12	2,298.54	2,577.50
Total Debt	706.73	854.38	482.07	552.82	627.67	732.37
<b>Total Assets</b>	<b>2,615.66</b>	<b>3,188.07</b>	<b>2,637.29</b>	<b>2,881.27</b>	<b>3,230.80</b>	<b>3,695.50</b>
<b>Total Equity</b>	<b>1,078.95</b>	<b>1,312.38</b>	<b>1,042.25</b>	<b>1,196.88</b>	<b>1,359.34</b>	<b>1,586.92</b>
<b>Total Current Liabilities</b>	<b>1,021.69</b>	<b>1,315.29</b>	<b>1,169.05</b>	<b>1,224.86</b>	<b>1,363.25</b>	<b>1,530.55</b>
<b>Non-Current Liabilities</b>	<b>515.02</b>	<b>560.41</b>	<b>425.99</b>	<b>459.53</b>	<b>508.21</b>	<b>578.03</b>
<b>Total Liabilities</b>	<b>1,536.71</b>	<b>1,875.70</b>	<b>1,595.04</b>	<b>1,684.39</b>	<b>1,871.46</b>	<b>2,108.58</b>

Financial Ratios	2022FY	H1:2023	2023F	2024F	2025F	2026F
Gross Margin	60.09%	59.71%	62.75%	63.35%	62.74%	63.12%
EBITDA Margin	39.37%	39.97%	42.62%	44.69%	43.07%	43.71%
Net Margin	21.29%	18.78%	21.02%	23.23%	21.67%	21.98%
Return on Asset	14.62%	11.92%	16.57%	17.20%	15.58%	15.38%
Return on Equity	35.43%	13.58%	41.94%	41.39%	37.02%	35.82%
Earnings Per Share	22.27	10.39	25.65	29.07	29.53	33.36
Asset Turnover	1.62x	0.30x	1.27x	1.35x	1.39x	1.43x
Financial Leverage	2.42x	2.43x	2.53x	2.41x	2.38x	2.33x
Debt to Asset Ratio	28.12%	26.79%	18.28%	19.19%	19.43%	19.82%
Current Ratio	0.55x	0.82x	0.55x	0.52x	0.52x	0.57x
Quick Ratio	0.77x	0.55x	0.31x	0.31x	0.33x	0.38x

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### Target Price Estimate

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**Company Name:** Dangote Cement Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
17-August-2023	352.00	331.91	-	BUY	HOLD
13-March-2023	270.00	331.91	-	BUY	BUY

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Company	Disclosure
Dangote Cement Plc.	

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