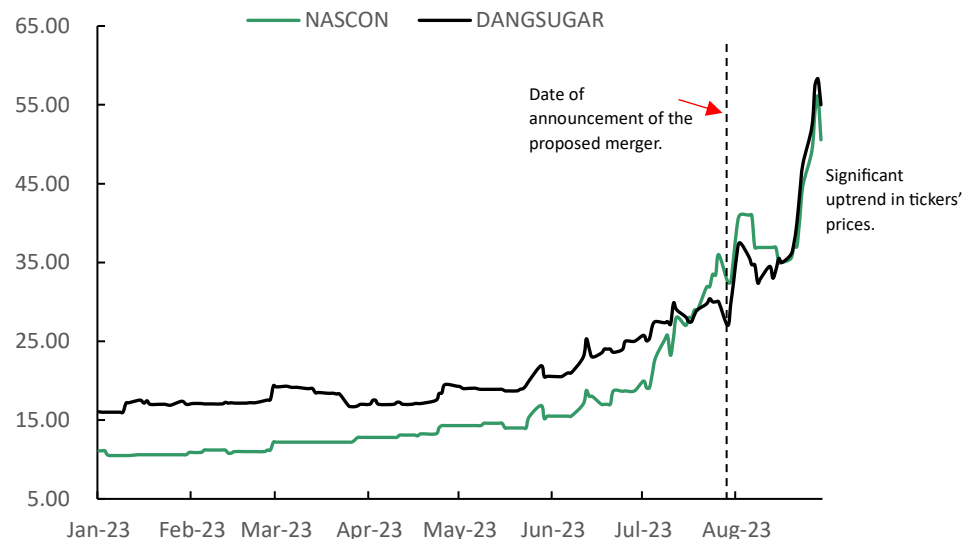


Proposed Merger between **DANGSUGAR**, **NASCON** and Dangote Rice Limited

On July 31, 2023, Dangote Sugar Refinery Plc (**DANGSUGAR**) unveiled its proposed merger plan with NASCON Allied Industries Plc (**NASCON**) and Dangote Rice Limited (**DRL**). In the weeks following this merger announcement, **DANGSUGAR** presented the intended consideration to be extended to **NASCON** and **DRL** shareholders as part of the scheme.

Within this scheme framework, each shareholder of **NASCON** will receive eleven (11) fully paid-up ordinary shares, valued at 50 Kobo each, in **DANGSUGAR** for every twelve (12) **NASCON** shares with the same value. This arrangement translates into the issuance of an aggregate of 2,428,651,847 new ordinary shares in **DANGSUGAR**. Similarly, for one (1) ordinary share worth NGN 1.00 Kobo held in **DRL**, shareholders will receive fourteen (14) fully paid-up ordinary shares, each valued at 50 Kobo, in **DANGSUGAR**. This allocation results in the issuance of a total of 2,775,792,508 new ordinary shares in **DANGSUGAR**. Put simply, if someone owns 10,000 units of **NASCON** before the merger, they will hold approximately 9,167 units after the merger. This calculation is based on a conversion ratio of 11/12. Similarly, an individual who possesses 10,000 units of **DRL** will see their holdings increase to 140,000 units (based on a conversion ratio of 14/1) following the merger. Since the announcement date (31st July 2023) of the proposed merger, the prices for **DANGSUGAR** and **NASCON** have rallied significantly by 103.70% and 71.08%, respectively.

Chart 1: Price Chart of **NASCON and **DANGSUGAR****



Source: NGX, Meristem Research

A significant competitor in the industry, **BUAFOODS**, presently holds an outstanding share count of 18.00bn, a mere 3.74% larger than that of the proposed new entity (most likely to be named **DANGFOODS**). With this context in mind, to achieve parity with this close competitor, it is imaginable

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that an issuance of about 650.00mn additional shares could be raised. It is important to note that the merger, if successful, may lead to a dilution effect for **DANGSUGAR**'s shareholders. The additional issue could potentially serve as a compensation for the existing shareholders of **DANGSUGAR**.

Considering that the merger terms directly appear not to be beneficial to **NASCON** shareholders especially looking at the stocks' prices as at the announcement date, the price at which **DANGFOODS** will be listed becomes an important variable to check the offer's attractiveness. Our analysis shows that a price of **NGN61.15** for **DANGSUGAR** will put **NASCON**'s shareholders indifferent between the two stocks. However, we emphasize that substantial compensation for both **DANGSUGAR** and **NASCON** shareholders will largely hinge on a higher listing price. **Thus, our thought is that the listing price would fall within the range of NGN60.00 to NGN70.00. Our thought is guided by the need to strike a balance between making the listing price of DANGFOODS (upon listing) attractive to new investors and providing adequate compensation for potential dilution faced by current DANGSUGAR's shareholders.**

For the next steps, the entities will apply to SEC for approval and subsequently the Federal High Court to proceed with the consolidation of the merger agreement. We anticipate that this process will likely take till Q2:2024 to be concluded, in alignment with the timeline outlined by the SEC for the pre-approval procedure of mergers and acquisitions.

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