

## Sustained Earnings Growth Despite Macroeconomic Set-Backs

### Expansion in Topline Spurred by Pricing Strategies

*Dangote Cement Plc (DANGCEM) delivered a commendable financial performance for the 9M:2023, despite the challenges posed by adverse macroeconomic conditions that resulted in increased operating and financing expenses. The company's revenue growth translated into a substantial +29.57% growth in earnings per share (EPS) – NGN16.08 (vs. NGN12.41 at 9M:2022).*

DANGCEM's revenue grew strongly to NGN1.51trn in 9M:2023, topping last year's corresponding period by 28.66%YoY. The impressive group outing was supported by price increases in the Nigerian market despite the general contractions experienced in Q1:2023. However, sales volume at home (Nigeria) declined by 10.86% to 12.02MT. The relatively lower sales volume reflects reduced construction sector demand due to the heavy rainfall during the period and the adverse impact of the Naira devaluation on customers' purchasing power. However, sales volumes grew by 15.49% to 8.49MT in the Pan-Africa operations. This was due to the increasing infrastructural projects in regions like Senegal, Congo, and Ethiopia. Specifically, in Q3:2023, revenue grew by 52.69% YoY to NGN563.77bn, driven majorly by the +55.79% contributed by the Nigerian operations despite lower volumes reported. Additionally, the group's Pan-African operations saw significant improvement following increased capacity utilization, leading to more volumes sold (+60.50% in Congo and +66.90% in Senegal). Consequently, revenue from the Pan-African segment grew +143.45% YoY to NGN251.85bn. *Our outlook for 2023FY remains optimistic, and as such, we forecast a total revenue of NGN2.08trn for the group's operations. This expectation is based on increased volumes driven by ongoing construction activities across operational countries and strong domestic real estate demand, particularly in Q4 (dry season), when peak volumes are traditionally observed.*

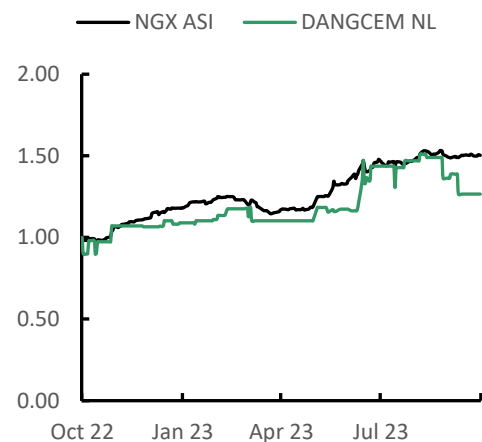
### High Haulage and Energy Expenses Remain Cost Drivers

Reflecting the current macroeconomic challenges, especially on the home front, the group's production cost for 9M:2023 rose by 32.85% YoY to NGN642.74bn. Consequently, the cost-to-sales ratio for the period increased slightly to 42.44% (vs 41.10% in 9M:2022) – majorly driven by material cost (+17.26%), depreciation charge (+32.88%) and fuel consumed (+28.91%). Similarly, haulage expenses (+20.85%), which constitute c.80% of total selling and distribution expenses, remained the single significant driver of OPEX despite marginal increases in other operating expenses. The underlying factors include the rising Automotive Gas Oil (AGO) prices and the impact of inflation and currency devaluation in Nigeria. Additionally, total finance costs and net foreign exchange loss jumped significantly by 68.15% YoY and 36.78% YoY, respectively. Notwithstanding, the group's profit before tax rose by 20.54% YoY. Similarly, profit after tax increased by 30.24% YoY, as the group reported a 511bps decline in its effective tax rate to 31.45% owing to higher non-taxed exchange gains. *Despite the cost challenges, we remain optimistic about the firm's earnings growth in 2023FY. This hinged on our expectation of revenue expansion, the management strategies to address FX challenges, and the commissioning of multiple alternative fuel systems across business operations, including the expected commissioning at the Okpella plant in December.*

### 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 an upside potential of 1.19% from its closing price of NGN328.00 on Tuesday, 31st October 2023. We, therefore, retain our "HOLD" recommendation on the ticker.

Company	DANGCEM
<b>Valuation</b>	
Trailing EPS	26.22
BVPS	80.16
P/E	11.83x
P/BV	3.87x
Target EV/EBITDA	6.54x
Dec-2023 EBITDA Per Share	50.75
Dec 2023 Target price	<b>331.91</b>
Current Price	328.00
Up/Downside Potential	+1.19%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	32.71%
ROA	13.36%
Net margin	22.84%
Asset Turnover	0.58x
Leverage	2.45x
<b>Share Price Data</b>	
Year High	370.00
Year Low	261.00
YTD return	+18.81%
Beta	0.75
Adjusted Beta	0.83
Shares outstanding	17.04bn
Market cap [NGN]	5.59trn
Financial year end	December
Most Recent Period (MRP)	9M:2023



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**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	303.51
EBITDA per share						Max	360.80
Target EV/EBITDA		50.25	50.50	50.75	51.00	51.25	
	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	9M:2022	9M:2023	2023F	2024F	2025F	2026F
Revenue	1177.26	1514.60	2079.17	2,133.14	2,322.12	2,586.29
Cost of sales	(483.83)	(642.74)	(774.54)	(781.86)	(865.11)	(953.85)
<b>Gross Profit</b>	<b>693.43</b>	<b>871.86</b>	<b>1,304.63</b>	<b>1,351.29</b>	<b>1,457.00</b>	<b>1,632.44</b>
OPEX	263.28	327.06	428.41	409.43	468.21	515.08
Other Income	3.12	16.64	9.90	11.33	11.39	13.13
<b>EBITDA</b>	<b>433.62</b>	<b>561.00</b>	<b>886.13</b>	<b>953.19</b>	<b>1,000.19</b>	<b>1,130.48</b>
Net Finance Cost	(75.29)	(65.59)	(88.42)	(46.56)	(54.43)	(60.56)
<b>PBT</b>	<b>335.90</b>	<b>404.89</b>	<b>624.42</b>	<b>707.77</b>	<b>718.95</b>	<b>811.99</b>
<b>PAT</b>	<b>213.10</b>	<b>277.55</b>	<b>437.10</b>	<b>495.44</b>	<b>503.27</b>	<b>568.40</b>

Balance Sheet	9M:2022	9M:2023	2023F	2024F	2025F	2026F
Property, Plant and Equipment	1,378.11	2,019.01	1,802.02	2,044.12	2,298.54	2,577.50
Total Debt	718.65	958.14	482.07	552.82	627.67	732.37
<b>Total Assets</b>	<b>2,333.74</b>	<b>3,344.73</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>838.22</b>	<b>1,366.01</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>1,044.26</b>	<b>1,397.09</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>451.26</b>	<b>581.63</b>	<b>425.99</b>	<b>459.53</b>	<b>508.21</b>	<b>578.03</b>
<b>Total Liabilities</b>	<b>1,495.52</b>	<b>1,978.72</b>	<b>1,595.04</b>	<b>1,684.39</b>	<b>1,871.46</b>	<b>2,108.58</b>

Financial Ratios	9M:2022	9M:2023	2023F	2024F	2025F	2026F
Gross Margin	58.90%	57.56%	62.75%	63.35%	62.74%	63.12%
EBITDA Margin	36.83%	37.04%	42.62%	44.69%	43.07%	43.71%
Net Margin	18.10%	18.32%	21.02%	23.23%	21.67%	21.98%
Return on Asset	9.13%	8.30%	16.57%	17.20%	15.58%	15.38%
Return on Equity	25.42%	20.32%	41.94%	41.39%	37.02%	35.82%
Earnings Per Share	12.41	16.29	25.65	29.07	29.53	33.36
Asset Turnover	0.50x	0.45x	1.27x	1.35x	1.39x	1.43x
Financial Leverage	2.78x	2.45x	2.53x	2.41x	2.38x	2.33x
Debt to Asset Ratio	30.79%	26.65%	18.28%	19.19%	19.43%	19.82%
Current Ratio	0.87x	0.86x	0.55x	0.52x	0.52x	0.57x
Quick Ratio	0.64x	0.60x	0.31x	0.31x	0.33x	0.38x

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### Fair Value Estimate

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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
17-August-2023	352.00	331.91	-	BUY	HOLD
13-March-2023	270.00	331.91	331.91	BUY	BUY

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Company	Disclosure
Dangote Cement Plc.	

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