

Profitability Impacted by Substantial FX Losses

Struggles with FX Availability Limit Revenue Growth Despite Price Increases

At the end of the 2023FY, **DANGSUGAR** reported a modest revenue growth of 9.47% YoY, reaching NGN441.45bn compared to NGN403.25bn in 2022FY. Cost-reflective price propped up growth across product segments – 50kg sugar (+9.07% YoY), retail sugar (+45.35% YoY), molasses (+6.52% YoY). However, the slowdown in revenue growth (+9.47% YoY vs 3-yr average of c. 36%) was primarily attributed to a significant reduction in volumes sold, which plummeted by 20% YoY to 616.30kt. This decline in sales volume was influenced by cash scarcity in Q1:2023 and lower production volume due to foreign exchange (FX) inaccessibility especially with **DANGSUGAR's** heavy reliance on imported raw sugar (c.93%). Consequently, the slower revenue growth was particularly notable in the sale of 50kg sugar. Across regional markets, sales sustained its uptrend in Lagos (+18.20%), the North (+2.16%), and the West (+11.38%), save for the East (-6.57%). Lagos emerged as the region with the highest sales revenue, reaching NGN204.54bn, accounting for c.46% of the total revenue.

Like 2023FY, revenue in Q1:2024 expanded by 20.06% YoY to NGN122.73bn driven mainly by growth in its sale of 50kg sugar (+18.53% to NGN116.94bn), Retail sugar (+84.17% to NGN4.20bn), Molasses (+119.68% to NGN1.45bn) during the period. **Although impacted by volume constraints in the past year and continued shrunken consumer wallets, we remain optimistic that upward price reviews, increased product offerings (especially on its retail products), and strategic management efforts to ramp up volume growth will support expansions in topline for 2024. We have thus modelled a +12.82% YoY growth in revenue to NGN498.03bn in 2024FY.**

Margins Buckle Under Cost Pressures

During the period, **DANGSUGAR** reported a 14.09% YoY increase in cost of sales, reaching NGN355.15bn compared to NGN311.28bn in the previous period. The devaluation of the Naira and the global surge in sugar prices led to a spike in raw material costs (+15.49% to NGN296.03bn) and direct overhead costs (+12.99% to NGN29.78bn). In the same vein, operating expenses surged by 26.00% YoY to NGN13.93bn driven by a rise in administrative expenses (+28.81% YoY), particularly attributed to higher employee costs (+30.08%), petrol expenses (+110.23%), and travel expenses (+31.15%) during the period. In turn, operating income (EBIT) witnessed a decline to NGN72.67bn, with operating profit margin decreasing to 16.47% from 20.42% reported in the 2022FY. **DANGSUGAR's** finance income rose by 65.52% to NGN10.56bn as a result higher interest on bank deposits (an average of 5.90%pa vs 3.50%pa in 2022FY). Similarly, finance costs spiked considerably (+1957.31% YoY to NGN201.66bn) resulting from the impact of Naira depreciation on import facilities which led to a significant FX loss of **NGN172.20bn** (up 9113.78% from **NGN1.89bn** in the prior year). As a result, the interest coverage ratio shrunk to 0.37x from 8.40x in 2022FY. Overall, **DANGSUGAR's** bottom-line plummeted to a Loss before Tax and Loss after Tax of **NGN108.92bn** and **NGN73.76bn**, respectively, compared to PBT and PAT of NGN82.30bn and NGN54.74bn in 2022FY.

In its Q1:2024 financial report, production costs surged faster than the growth in revenue, jumping by 49.04% YoY to NGN113.98bn, primarily due to increases in the cost of raw sugar. Consequently, the cost-to-sales ratio worsened to 92.87% from 74.81% in Q1:2023, leading to a notable decline in EBIT margin to 4.20% compared to 22.40% previously. Alongside substantial cost pressures, the company faced a notable spike in finance costs stemming from a **NGN102.98bn** FX loss, resulting in a Loss after Tax of **NGN69.14bn**, in contrast to a Profit after Tax of NGN12.80bn in Q1:2023. **For 2024, we believe the rising inflationary environment and continued Naira depreciation is expected to further fuel cost pressures for the company. However, the management's efforts to ramp up production volumes, coupled with the heightened backward integration efforts (to increase local content supply) is expected to provide some respite to cost pressures. We thus forecast a marginal improvement in DANGSUGAR's bottom-line to a Loss after Tax of NGN27.79bn in 2024FY.**

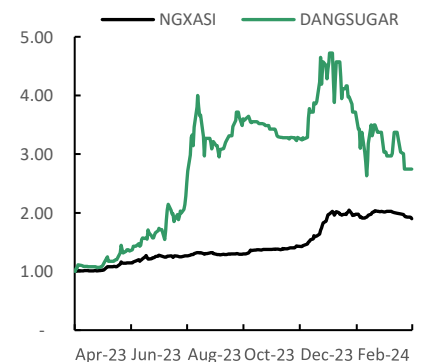
Cash Position Dwindles from Operating Hurdles

DANGSUGAR's cashflow from operations (CFO) witnessed a substantial decline from NGN105.42bn in 2022FY to NGN60.93bn (inclusive of FX revaluation loss to the tune of NGN148.33bn), feeding from the significant drag in bottom line. This shows the company's reliance on external sources of finance to fund its working capital. As a result, the cashflow ratios- CFO to CAPEX, the CFO to revenue and Earnings quality declined to 0.27x, 0.14x and **0.84x** in 2023FY from 0.51x, 0.26x and 1.28x, respectively in the previous year. Additionally, due to the company's increased financing needs, debt-to-equity ratio spiked to 6.01x in Q1:2024 from 0.01x in 2023FY. This spike stemmed from a rise in letters of credit on raw materials imports, as well as increased short-term borrowings resulting from commercial paper issuances during the period.

Recommendation

We project an EBITDA per share of NGN7.22 and a target EV/EBITDA of 5.02x. This yields a target price of NGN36.22 and an implied downside potential of **-23.83%** on the closing price as of 8th May 2024. Thus, the rating on the ticker is a **SELL**.

Company	DANGSUGAR
Valuation	
Trailing Revenue	NGN461.96
BVPS	NGN6.52
P/E	-3.73x
P/BV	7.29x
Target EV/EBITDA	5.02x
Dec-2024 Exp. EBITDA per share	NGN7.22
Dec 2024 Target Price	NGN36.22
Current Price	NGN47.55
Downside Potential	-23.83%
Ratings	SELL
Key metrics	
ROE	-91.91%
ROA	-12.12%
Net margin	-16.50%
Asset Turnover	0.73x
Leverage	7.58x
Yr Hi	NGN82.65
Yr Low	NGN38.90
YTD return	-16.58%
Beta	1.10
Adjusted Beta	1.07
Shares outstanding	12.15bn
Market cap [NGN]	577.58bn
Financial year-end	December
Most Recent Period	Q1:2024



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2024 Target Price to key model inputs						Min	36.22
EBITDA per share						Max	37.83
		₦7.38	₦7.30	₦7.22	₦7.29	₦7.36	
Target EV/EBITDA	5.12	37.76	37.35	36.94	37.31	37.68	
	5.07	37.39	36.98	36.58	36.95	37.31	
	5.02	37.02	36.62	36.22	36.58	36.94	
	5.07	37.42	37.02	36.62	36.98	37.35	
	5.13	37.83	37.42	37.02	37.39	37.76	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	Q1:2023	Q1:2024	2024F	2025F	2026F	2027F	2028F
Revenue	102.22	122.73	498.03	562.83	636.08	718.88	812.49
Cost of sales	76.47	113.98	397.41	441.88	506.02	575.83	647.41
Gross Profit	25.75	8.75	100.61	120.95	130.06	143.05	165.08
Operating expense	2.92	3.65	15.19	16.66	20.10	22.72	25.67
Operating Profit	22.90	5.15	87.66	106.82	112.82	123.57	143.06
Finance cost	8.06	122.52	140.73	119.13	101.35	93.52	89.04
PBT	18.53	-107.00	-40.87	1.48	27.06	47.66	73.93
PAT	12.80	-69.14	-27.79	1.01	18.40	32.41	50.27

Balance Sheet	2023FY	Q1:2024	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	167.08	169.52	190.04	217.77	251.16	293.64	344.76
Total Debt	0.73	61.66	0.82	0.92	1.01	1.11	1.22
Total Assets	600.79	617.85	592.84	612.45	744.20	905.21	1034.95
Total Equity	79.25	10.25	66.56	67.12	77.24	95.07	122.71
Total Current Liabilities	521.21	607.29	518.44	537.60	658.24	800.30	901.13
Non-Current Liabilities	0.33	0.31	7.84	7.73	8.72	9.85	11.11
Total Liabilities	521.54	607.60	526.27	545.33	666.96	810.14	912.24

Financial Ratios	2023FY	Q1:2024	2024F	2025F	2026F	2027F	2028F
Gross Margin	19.55%	7.13%	20.20%	21.49%	20.45%	19.90%	20.32%
Operating Margin	16.67%	4.20%	17.60%	18.98%	17.74%	17.19%	17.61%
Net Margin	-16.50%	-56.34%	-5.58%	0.18%	2.89%	4.51%	6.19%
Return on Asset	12.25%	0.83%	14.79%	17.44%	15.16%	13.65%	13.82%
Return on Equity	-67.35%	-674.37%	-22.28%	0.78%	10.75%	40.90%	75.52%
Return on Invested Capital	45.65%	47.67%	30.25%	-1.85%	-16.74%	-19.60%	-31.59%
Asset Turnover	0.73x	0.20x	0.84x	0.92x	0.85x	0.79x	0.79x
Financial Leverage	7.58x	60.26x	8.91x	9.12x	9.64x	9.52x	8.43x
Debt to Asset Ratio	0.00x	0.10x	0.00x	0.00x	0.00x	0.00x	0.00x
Current Ratio	1.29x	0.62x	1.24x	0.98x	1.09x	0.77x	0.73x
Quick Ratio	0.79x	0.41x	0.80x	0.73x	0.94x	0.68x	0.59x

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HOLD: Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.

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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 Sugar Refinery Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
27-May-2021	17.15	20.00	20.05	BUY	BUY
10-Mar-2022	15.80	20.05	23.90	BUY	BUY
17-Aug-2022	16.00	23.90	23.90	BUY	BUY
29-Dec-2023	57.00	30.14	67.11	BUY	BUY
26-Mar-2024	53.10	67.11	67.11	BUY	BUY
08-May-2024	47.55	67.11	36.22	BUY	SELL

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