Dangote Cement Plc

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Dangote Cement Posts ₦278 Billion PAT in 9-Month of 2021; Exceeds FY-2020 PAT

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INVESTMENT SUMMARY

The recently released unaudited report of nine-month to September 2021 showed significant improvement in the top-line as revenue increased by 34.24% to ₦1.02 trillion (vs. ₦761.44 billion in nine-month to September 2020), driven by higher volumes and improved average net realised prices across Africa. Total cement volume sold across Africa increased by 15.40% to 22.60 million tonnes in 9M'21 (vs. 19.21 million tonnes in 9M'20), driven by strong cement demand in Nigeria, Tanzania, Ethiopia, South Africa, and Congo. In addition, the net revenue per tonne in Nigeria grew by 14.77% to ₦51,582 in 9M'21. However, the overall manufacturing costs rose by 27.04% to ₦403.39 billion in 9M'21 (vs. ₦317.54 billion in 9M'20), mainly as a result of inflationary pressures on the costs and higher cement volume sold in Nigeria and Pan-African operations (i.e. other African nations except Nigeria). Also, the total selling & administrative expense rose by 16.34% to ₦185.46 billion in 9M'21 (vs. ₦159.41 billion in 9M'20), driven by higher haulage expenses, and weak naira during the period. Notwithstanding the higher manufacturing costs and other operating expenses, the group's EBITDA improved significantly by 44.92% to ₦514.49 billion in 9M'21 (vs. ₦355.02 billion in 9M'20).

With the newly issued corporate bonds in 2021 and exchange losses, the Group's net finance loss increased significantly by 118.17% to ₦34.39 billion in 9M'21 (vs. ₦15.97 billion net finance loss in 9M'20). The impressive operating performance outweighed the decline recorded in non-operating activities as profit before tax grew significantly by 49.10% to ₦405.49 billion in 9M'21 (vs. ₦271.96 billion in 9M'20). The company made higher provision of ₦127.24 billion for tax in 9M'21 (vs. ₦63.28 billion in 9M'20). Nevertheless, profit after tax grew by 33.33% to ₦278.25 billion in 9M'21 (vs. ₦208.69 billion in 9M'20). With this impressive performance, we upgrade the target price per share to ₦312.66 (Previous Target Price: ₦274.83) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

	3Q2021	2Q2021	3Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	331,641	357,894	284,592	-7.34%	+16.53%
Op. Profit (₦'mn)	138,127	150,453	114,449	-8.19%	+20.69%
Net profit (₦'mn)	86,620	101,920	82,542	-15.01%	+4.94%

Source: NSE, Bloomberg, PAC Research

Price:	
- Current	**₦280.00**
- Target	**₦312.66**
Recommendation:	**BUY**

** As at Tuesday November 2, 2021*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+14.33%/+75.00%
52-week range	₦168.00- ₦280.40
30-day Average vol.	357,473
Shares Outstanding ('mn)	17,040.51
Market Cap. (₦bn)	4,771.34
EPS (₦) - 12months trailing	20.28
DPS (₦) - FY2020	16.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	9M'21	9M'20
Gross profit margin	60.54%	58.30%
Net profit margin	27.22%	27.41%
Equity multiplier	2.49x	2.26x
Asset turnover	0.45x	0.41x

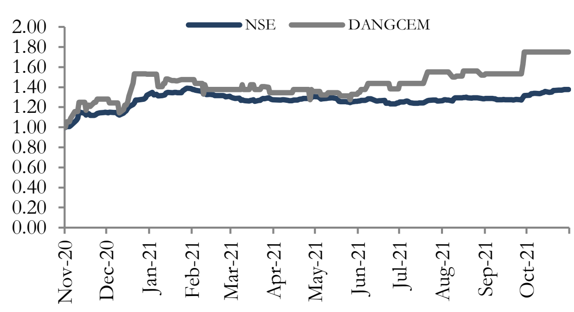
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021F	FY2022F
P/E	23.79x	17.28x	13.47x	12.49x
P/B	5.31x	5.36x	5.09x	4.78x
Div Yield (%)	5.71	5.71	6.07	6.43
Pay-out Ratio	135.97%	98.76%	81.78%	80.28%
EV/EBITDA	12.69x	10.75x	7.71x	7.19x
Ev/Revenue	5.62	4.95	3.89	3.62
Sales Per Share	52.33	60.69	77.68	83.90
P/S Ratio	5.35	4.61	3.60	3.34

Source: NSE, PAC Research

Fig. 5: DANGCEM vs NSE, 52-wk Movement (Rebased)



Source: Bloomberg, PAC Research

Please read the Important Disclosures at the end of this report.

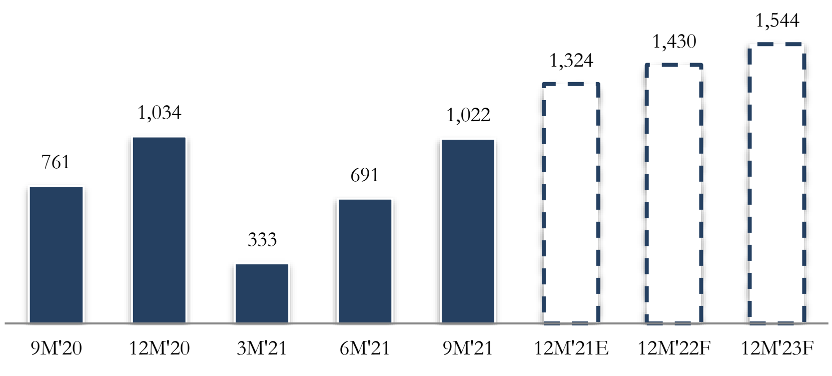
Revenue grows by 34.24% to ₦1.02 trillion, driven by strong cement demand in Africa and better average net realised prices: Dangote Cement continue to benefit from improved economic activities in most African countries as the Group revenue grew by 34.24% to ₦1.02 trillion in nine-month to September 2021 (vs. ₦761.44 billion in nine-month to September 2020). The increase in the revenue could be mainly ascribed to higher cement volume and improved average net realised prices across Africa. Despite the heavy rains experienced in the third quarter of 2021, total cement volume sold by the Nigerian operations increased by 18.71% to 14.14 million tonnes in nine-month to September 2021 (vs. 11.92 million tonnes in nine-month to September 2020), supported by increase in housing and commercial construction. Also, the cement volumes in Pan-African increased by 9.35% to 8.16 million tonnes in nine-month to September 2021 (vs. 7.47 million tonnes in nine-month to September 2020), supported by higher cement demand in Tanzania, Ethiopia, South Africa and Congo.

Despite the heavy rains experienced in the third quarter of 2021, total cement volume sold by the Nigerian operations increased by 18.71% to 14.14 million tonnes…

The improved cement demand in Tanzania was driven by its robust economy which led to growth in infrastructure, housing and major government projects such as roads, railways and airports. Despite a complex security, social and economic environment in Ethiopia, the country experienced high demand for infrastructure projects, housing, and industrial parks development which was driven by private investments and Public Private Partnerships (PPP). Theses contributed to the high cement demand in Ethiopia. Also, the residential building sector in South Africa continue to grow due to increasing demand for residential housing which impacted demand for cement in the country. Government's revewed interest in infrastructure development in Congo supported demand for cement in the country. This also has a positive impact on Dangote Cement performance in nine-month to September 2021.

With improved economic activities in many African countries and renewed interest in infrastructure across the continent, we expect demand for cement to continue to grow, hence improved revenue growth across Africa in the coming quarters.

Fig. 6: Revenue – 9M'20-12M'23F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

High volume growth and inflationary pressure raises Group manufacturing costs by 27% year-on-year: The manufacturing costs of Dangote Cement rose by 27.04% to ₦403.39 billion in nine-month to September 2021 (vs. ₦317.54 billion in nine-month to September 2020), driven by inflationary pressure and improved cement volumes in most African countries. Specifically, the materials consumed and fuel/power consumed cost, which constitute the largest parts of manufacturing costs, rose by 36.98% and 35.61% to ₦134.17 billion (vs. ₦97.95 billion in 9M'20) and ₦141.75 billion in 9M'21 (vs. ₦104.53 billion in 9M'20) respectively. Despite the increase in the manufacturing costs, Dangote cement continue to uphold its cost-minimisation strategy as cost-to-sales ratio decline to 39.46% in 9M'21 (9M'20: 41.70%).

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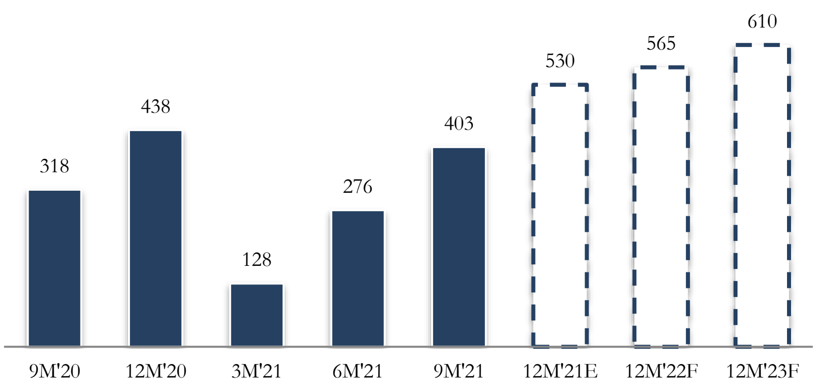
In addition, the total selling and administration expenses increased by 16.34% to ₦185.46 billion in 9M'21 (vs. ₦159.41 billion in 9M'20), mainly driven by higher haulage expenses and other general administrative expenses. Inflationary pressure and weak Naira also contributed to the part of increase recorded during the period. Impressively, the increase in total selling and administrative expenses is 29 bps lower than the inflation rate of 16.63% recorded in Nigeria in September 2021.

Although the manufacturing cost may continue to increase in the coming quarters due to improved production volume, we expect the company to maintain low cost-to-sales ratio as it continues to enjoy economies of scale. In addition, we maintain that the company may likely witness high selling and administrative costs in the coming quarters due to the expectation of increased production volume, wider distribution coverage, depreciation of Naira and relatively high inflation rate.

Fig. 7: Manufacturing Costs – 9M'20-12M'23F (Billion NGN)



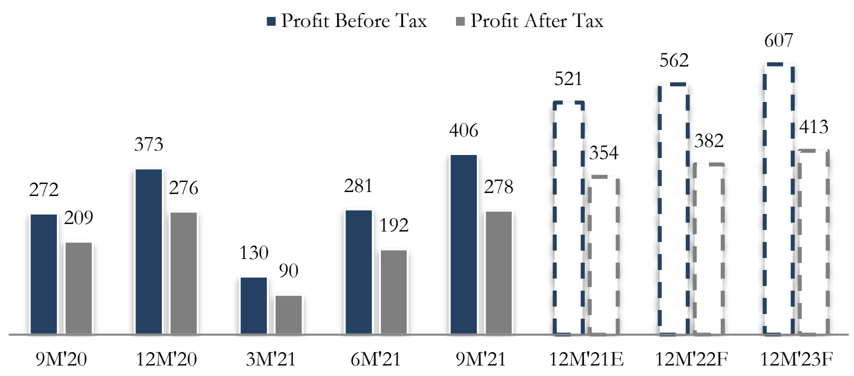
Source: NSE, Bloomberg, PAC Research

Profit after tax rises significantly by 33.33% year-on-year, despite the higher tax provision and setback in non-operating activities: In nine-month to September 2021, the net finance cost of the Group rose significantly by 118.17% to ₦34.84 billion (vs. net finance cost of ₦15.97 billion in nine-month to September 2020), mainly due to higher interest expense and exchange loss of ₦8.32 billion recorded during period.

However, the impressive operating performance recorded outweighed the setback recorded in non-operating activities in 9M'21. As a result, profit before tax improved significantly by 49.10% to ₦405.49 billion in 9M'21 (vs. ₦271.96 billion reported in 9M'20). However, the pioneer tax exemption for the Ibese lines and Obajana line 4 ended in 2020 and this resulted in an increased effective tax rate of 26.9% for Nigerian operation (vs. effective tax rate of 18.8% for 9M'20). The higher effective tax rate translated to a higher tax provision of ₦127.24 billion in 9M'21 (vs. ₦63.28 billion in 9M'20). Despite the higher tax provision, Dangote Cement recorded a profit after tax of ₦278.25 billion in 9M'21, which is 33.33% higher than the ₦208.69 billion reported in 9M'20). Consequently, the 12-month trailing earnings per share (EPS) grew to ₦20.28 (from ₦14.96 in the corresponding previous period).

…the pioneer tax exemption for the Ibese lines and Obajana line 4 ended in 2020 and this resulted in an increased effective tax rate of 26.9% for Nigerian operation…

Fig. 8: Profit before Tax and Profit after Tax – 9M'20-12M'23F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

Balance sheet remains healthy and strong; expectation of improved dividend payment in 2021: Dangote Cement maintained a healthy and strong financial position in the third quarter of 2021 as the total assets of the Group improved significantly by 21.71% to ₦2.25 trillion from ₦1.85 trillion reported in the third quarter of 2020. The increase in the total asset of the Group was driven by higher non-current assets, which grew by 11.38% to ₦1.51 trillion in Q3'21 (vs. ₦1.36 trillion in Q3'20). The additional investment of ₦206.00 billion in property, plant and equipment across Africa contributed to the impressive growth recorded in the non-assets during the period. However, as a result of higher trade & other payables, higher financial liabilities and deferred tax liabilities, the total liabilities of the Group increased by 30.51% to ₦1.35 trillion in Q3'21 (vs. ₦1.03 trillion in Q3'20).

The growth recorded in total assets during the period outweighed the increase reported in the total liabilities of the Group as net assets improved by 10.62% to ₦0.91 trillion in the third quarter 2021 (vs. ₦0.82 trillion achieved in the third quarter of 2020). This translated to a net asset per share of ₦53.12 in Q3'21 (vs. ₦48.02 in Q3'20).

With the impressive operating performance, robust balance sheet in the nine-month to September 2021 and expectation of increase cement demand in the fourth quarter of 2021, we may likely see improved total dividend payment in the full year of 2021.

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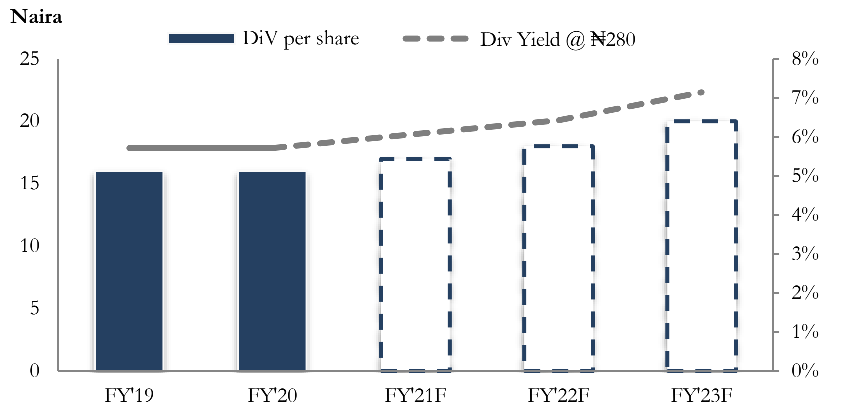
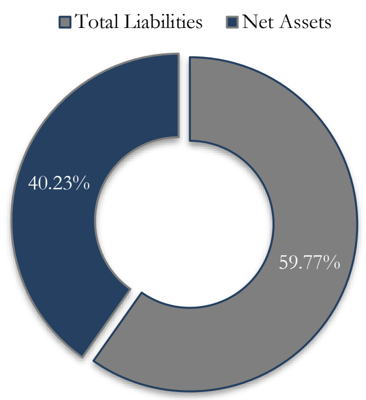
Fig. 9: Dividend Per Share and Dividend Yield (FY'19-FY'23F)



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in 9M'21



Source: NSE, Bloomberg, PAC Research

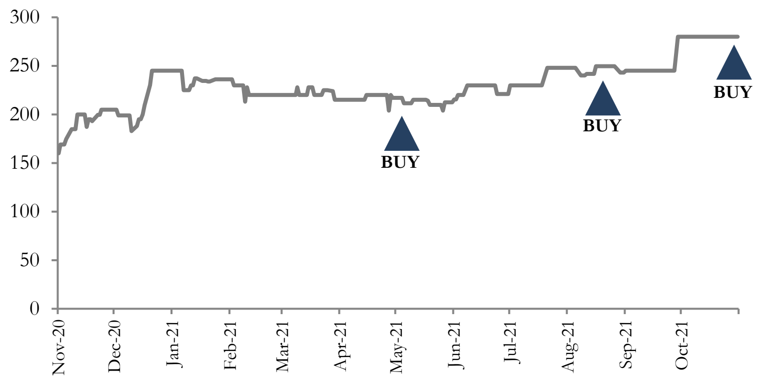
Valuation

Our valuation puts the target price of the stock at ₦312.66, representing an increase of 11.66%, from the current price of ₦280.00. In arriving at the target price, we employed Discounted Cashflow Valuation methodology. Consequently, we maintain a **BUY** recommendation for the shares of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are: the previous financial reports of the company, the current figures released by the company, the strong recovery in the cement market, and the outlook of the management.

Our valuation puts the target price of the stock at ₦312.66, representing an increase of 11.66%, from the current price of ₦280.00.

Fig. 11: Share Price History (Naira)



Source: NSE, PAC Research

Fig. 12: Statement of Profit or Loss, N'mn

	2019	2020	2021E	2022F
Revenue	891,671	1,034,196	1,323,771	1,429,673
Change		*15.98%*	*28.00%*	*8.00%*
Cost of Sales	(379,989)	(437,970)	(529,508)	(564,721)
Change		*15.26%*	*20.90%*	*6.65%*
Gross Profit	511,682	596,226	794,263	864,952
Change		*16.52%*	*33.22%*	*8.90%*
SG&A	(214,959)	(214,058)	(238,279)	(264,489)
Change		*-0.42%*	*11.32%*	*11.00%*
Other Income	2,980	4,754	11,252	11,437
Change		*59.53%*	*136.69%*	*1.65%*
Operating profit	299,893	386,734	567,236	611,900
Change		*28.96%*	*46.67%*	*7.87%*
Finance Income	7,610	29,814	19,857	21,445
Change		*291.77%*	*-33.40%*	*8.00%*
Finance Cost	(57,673)	(43,988)	(66,189)	(71,484)
Change		*-23.73%*	*50.47%*	*8.00%*
Profit Before Taxation	250,479	373,310	520,904	561,861
Change		*49.04%*	*39.54%*	*7.86%*
Taxation	(49,958)	(97,242)	(166,689)	(179,796)
Change		*94.65%*	*71.42%*	*7.86%*
Profit After Taxation	200,521	276,068	354,215	382,066
Change		*37.68%*	*28.31%*	*7.86%*

Fig. 13: Statement of Financial Position, N'mn

	2019	2020	2021E	2022F
Fixed Assets	1,206,749	1,390,687	1,482,623	1,572,640
Intangible assets	3,663	4,554	5,957	6,434
Deffered tax assets	44,768	11,708	15,885	17,156
Inventories	114,806	108,270	165,471	178,709
Trade and other recievables	31,093	35,194	46,332	50,039
Bank and Cash Balances	123,903	145,835	189,299	204,443
Total current assets	407,828	550,138	748,328	808,194
Total Assets	1,742,443	2,022,451	2,310,642	2,481,197
Trade and other payables	285,831	349,388	397,131	428,902
Current tax payable	49,932	59,781	105,902	114,374
Financial debt	260,631	335,011	383,894	414,605
Other current liabilities	34,083	83,460	132,377	142,967
Total current liabilities	631,886	829,817	1,022,083	1,103,850
Deferred tax liabilities	93,841	122,980	152,234	164,412
Net Assets	897,937	890,970	936,568	997,197

Fig. 14: Profitability Ratio

	2019	2020	2021E	2022F
Return on Equity	22.33%	30.99%	37.82%	38.31%
Return on Assets	11.51%	13.65%	15.33%	15.40%
Gross margin	57.38%	57.65%	60.00%	60.50%
EBITDA margin	44.34%	46.05%	50.38%	50.33%
PBT margin	28.09%	36.10%	39.35%	39.30%
Net Profit Margin	22.49%	26.69%	26.76%	26.72%

Fig. 15: Asset Utilization

	2019	2020	2021E	2022F
cash/sales	0.14	0.14	0.14	0.14
Sales to inventory (x)	7.77	9.55	8.00	8.00
Sales to total assets (x)	0.51	0.51	0.57	0.58
Sales to total fixed assets	0.74	0.74	0.89	0.91
Equity multiplier	1.94	2.27	2.47	2.49
fixed asset turnover	1.35	1.34	1.12	1.10

Fig. 16: Liquidity Ratios

	2019	2020	2021E	2022F
Quick ratio	0.46	0.53	0.57	0.57
Current ratio	0.65	0.66	0.73	0.73
Cash ratio	0.20	0.18	0.19	0.19
Interest Coverage	4.34	8.49	7.87	7.86
Operating Cash Flow Ratio	1.45	1.09	0.94	0.92
Debt/net income	1.77	1.66	1.51	1.52
Debt/operating cashflow	0.39	0.51	0.56	0.57
Debt to asset	0.48	0.56	0.59	0.60
Total liabilities/equities	0.94	1.27	1.47	1.49
Inventory turnover	7.94	9.45	10.15	8.31
Inventory turnover days	45.33	38.11	35.45	43.33
Account payable days	270.80	287.19	270.00	273.42

Fig. 17: Shareholders' Investment Ratios

	2019	2020	2021E	2022F
EPS (₦)	11.77	16.20	20.79	22.42
DPS (₦)	16.00	16.00	17.00	18.00
NAVPS (₦)	52.69	52.29	54.96	58.52
Earnings yield (%)	4.20	5.79	7.42	8.01

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top-down and bottom-up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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