Dangote Cement Plc

Nigeria | Equities | Industrial Goods | April 1, 2021 — PAC RESEARCH

Resilient Performance Driven by Robust Cement Demand across Africa

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INVESTMENT SUMMARY

Despite the effect of COVID-19 on businesses in 2020, Dangote Cement recorded improved cement demand across Africa, especially in the second half of 2020, due to the gradual easing or total lifting of the lockdown in various countries. With the improved cement demand by the governments, businesses and households across Africa, the Group revenue increased by 15.98% to ₦1.03 trillion in full year 2020 (vs. ₦891.67 billion in FY'19). Of the company's cement capacity of 45.55 million tonnes per annum across Africa, a total of 25.72 million tonnes was produced in FY'20 (vs. 23.68 million tonnes in FY'19), driven by strong performance in Nigeria, Ethiopia, and Senegal. Overall, production cost of sales rose by 15.26% to ₦437.97 billion in FY'20 (vs. ₦379.99 billion in FY'19), as a result of higher cement volumes in Nigeria and Pan-Africa (i.e. other African nations except Nigeria). With effective cost control measures, the total selling and administrative expense was relatively flat at ₦214.25 billion in FY'20 (vs. ₦214.77 billion in FY'19). Consequently, the group's EBITDA increased by 20.47% to ₦476.27 billion in FY'20 (vs. ₦395.36 billion in FY'19).

The net finance loss of the Group improved by 71.69% to ₦14.17 billion in FY'20 (vs. ₦50.06 billion net financial loss in FY'19), due to higher interest earning cash balances, exchange gain in Nigeria and lower average effective interest rate on borrowing. With the impressive performance across the board, profit before tax increased significantly by 49.04% to ₦373.31 billion in FY'20 (vs. ₦250.48 billion in FY'19). The company made a higher provision of ₦97.24 billion for tax in FY'20, when compared with ₦49.96 billion in FY'19. Consequently, profit after tax improved significantly by 37.68% to ₦276.07 billion in FY'20 (vs. ₦200.52 billion in FY'19). The company rewarded the shareholders with final dividend of ₦16.00 per share (vs. ₦16.00 DPS in FY'19). With this impressive performance, we upgrade the target price per share to ₦256.84 (Previous Target Price: ₦242.49) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

	4Q2020	3Q2020	4Q2019	Q/q Δ	Y/y Δ
Revenue (₦'mn)	272,752	284,592	211,880	-4.16%	+28.73%
Op. Profit (₦'mn)	98,806	114,449	68,411	-13.678%	+44.43%
Net profit (₦'mn)	67,383	82,542	46,171	-18.37%	+45.94%

Source: NSE, Bloomberg, PAC Research

Price:	
- Current	**₦215.00**
- Target	**₦256.84**
Recommendation:	**BUY**

** As at Thursday April 1, 2021*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-12.21%/+65.77%
52-week range	₦116.00- ₦253.40
30-day Average vol.	949,170
Shares Outstanding ('mn)	17,040.51
Market Cap. (₦bn)	3,663.71
EPS (₦) - 12months trailing	16.14
DPS (₦) - FY2020	16.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	FY'20	FY'19
Gross profit margin	57.56%	57.38%
Net profit margin	26.69%	22.49%
Equity multiplier	2.27x	1.94x
Asset turnover	0.51x	0.51x

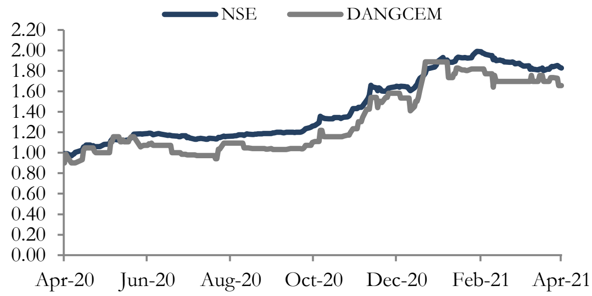
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021F	FY2022F
P/E	18.27x	13.27x	12.33x	11.71x
P/B	4.08x	4.11x	4.09x	3.89x
Div Yield (%)	7.44	7.44	7.67	8.37
Pay-out Ratio	135.97%	98.76%	94.60%	98.02%
EV/EBITDA	9.88x	8.42x	7.63x	7.18x
Ev/Revenue	4.38	3.88	3.57	3.33
Sales Per Share	52.33	60.69	66.76	72.10
P/S Ratio	4.11	3.54	3.22	2.98

Source: NSE, PAC Research

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



Source: Bloomberg, PAC Research

Revenue improves by 15.98% (year on year), supported by strong cement demand across Africa: The first half of 2020 witnessed lower cement demand across Africa, due to the lockdown of economic activities and restriction of movements in most African countries. However, the demand for cement increased significantly in the second half of 2020 as most African countries either lifted or gradually eased the lockdown of economic activities. With improved private and public spending in real estate investments and infrastructural development, cement volume across Africa increased by 8.60% to 25.72 million tonnes in FY'20 (vs. 23.68 million tonnes in FY'19). Specifically, the total cement volumes in Nigeria improved by 12.90% to 15.94 million tonnes in FY'20 (FY'19: 14.12 million tonnes), driven by promotion activities, increased real estate demand and lower rains. Also, cement volumes in Pan-African operations increased by 4.40% to 9.98 million tonnes in FY'20 (FY'19: 9.56 million tonnes), driven by improved cement demand in Ethiopia, Senegal, Cameroon, Sierra Leone, South Africa and Congo. In addition, the net revenue per tonnes in Nigeria increased by 4.50% to ₦45,179 in FY'20 (vs. ₦43,222 in FY'19). The increase in the cement volume across board and higher prices, especially in Nigeria, reflected on the Group revenue as it increased by 15.98% to ₦1.03 trillion in full year 2020 (vs. ₦891.67 billion in full year 2019). Nigeria remains a major market for Dangote Cement as it contributed 69.61% to total revenue in FY'20 (vs. 68.44% contribution to revenue in FY'19).

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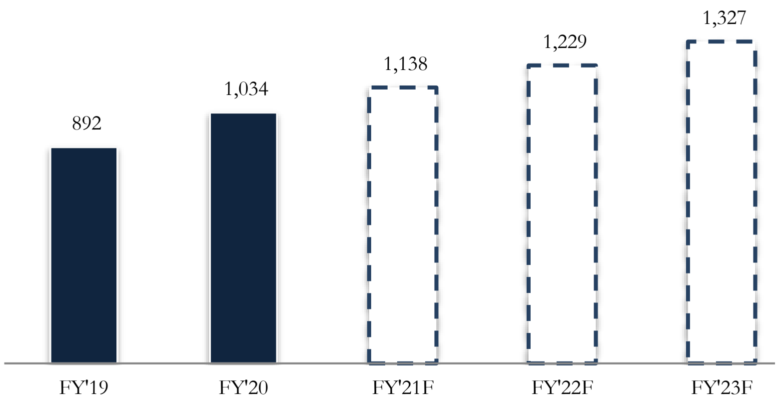
Fig. 6: Revenue – FY'19-12M'23F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

As a result of higher cement volumes in Nigeria and Pan-Africa, Group manufacturing costs increase by 15.26% year-on-year: The manufacturing costs of the Group increased by 15.26% to ₦437.97 billion in full year 2020 (vs. ₦379.99 billion in full year 2019), mainly driven by higher cement volumes in Nigeria and Pan-Africa. Specifically, the manufacturing cost in Nigeria increased by 24.70% to ₦225.70 billion in FY'20 (vs ₦181.00 billion in FY'19), due to higher cement volumes, high inflation rate and foreign exchange impacts on USD denominated expenses during the period. The manufacturing cost of Pan-African operations increased by 6.70% to ₦212.20 billion in FY'20 (vs ₦199.00 billion in FY'19), due to strong volume increase in Ethiopia, Congo and Cameroon.

Although, the Group's manufacturing costs increased by 15.26%, the cost-to-sales ratio fell slightly to 42.35% in FY'20, from 42.62% recorded in FY'19.

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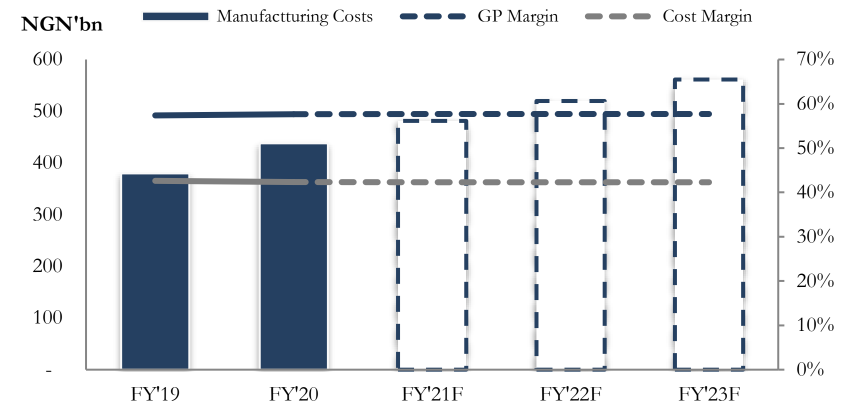
With effective cost control measures, the total selling and administration expenses was relatively flat at ₦214.25 billion in FY'20, when compared with ₦214.77 billion in FY'19. Although the total volumes sold in Nigeria increased, improvement in efficiency and turnaround time led to a slight decrease in haulage costs to ₦69.80 billion (vs. ₦70.70 billion in FY'19). The Pan-African operation also experienced similar trend as haulage costs fell by 19.9% to ₦29.20 billion in FY'20 (vs. ₦36.5 billion in FY'19), due to reduction in the use of third-party trucks.

Fig. 7: Manufacturing Costs – FY'19-FY'23F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

With impressive performance across the board, profit before tax rises significantly by 49.04% year-on-year: Impressively, the Group benefited from the lower yield environment in Nigeria, interest earning cash balances and devaluation, which impacted on non-operating activities positively. The average effective interest rate on borrowings was 9.67% in FY'20, compared to 10.87% in FY'19. Also, there was higher interest earning cash balances which translated to higher interest income for Dangote Cement. In addition, the Nigerian Naira depreciated to ₦400/1$ in FY'20 (FY'19: ₦365/1$) and this resulted in net exchange gains of ₦16.63 billion (vs. loss of ₦13.48 billion in FY'19). The improvement in effective interest rate, exchange gain and increased interest earning cash balances translated to lower net finance costs of ₦14.17 billion in FY'20 (vs. ₦50.06 billon in FY'19).

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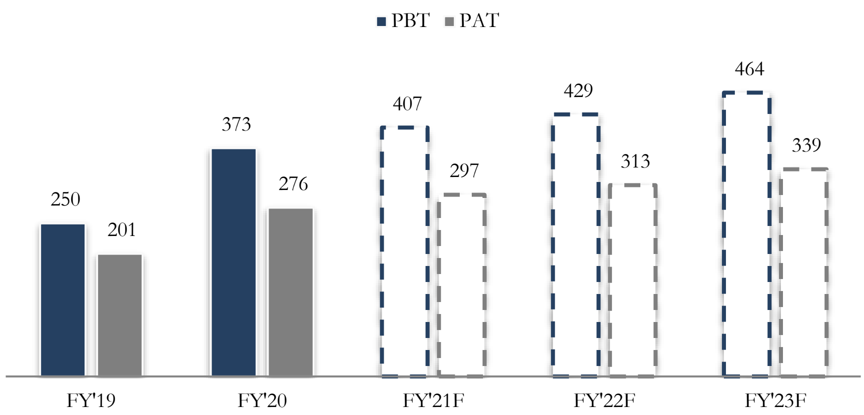
As a result of impressive operating and non-operating performance of the Group, the profit before tax increased significantly by 49.04% to ₦373.31 billion in full year 2020 (vs. ₦250.48 billion reported in full year 2019). However, the company made a higher provision of ₦97.24 billion for tax in FY'20 (vs. ₦49.96 billion in FY'19). The effective tax rate of Nigerian operations was 18.10%, representing a mix of non-taxable income (for production lines still under the pioneer tax holiday) and taxable income (for production lines out of pioneer tax exemption).

However, the Group's effective tax rate was higher at 26.00% in FY'20, due to Pan-African subsidiaries that made losses, which reduced the Group's profit without direct tax benefits for those losses. Even with higher provision for tax during the period, profit after tax increased by 37.68% to ₦276.07 billion in FY'20 (vs. ₦200.52 billion reported in FY'19) and this translated to earning per share (EPS) of ₦16.14 in FY'20 (FY'19: ₦11.79).

Fig. 8: Profit before Tax and Profit after Tax – FY'19-FY'23F (Billion NGN)



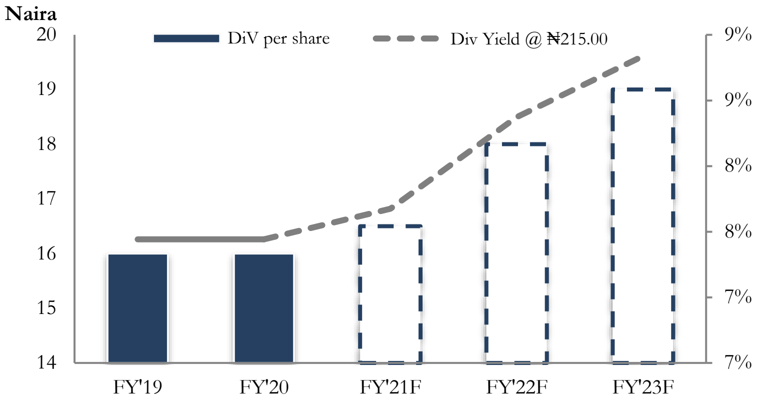
Source: NSE, Bloomberg, PAC Research

Balance sheet remains strong and solid; Directors recommend dividend of ₦16.00 per share: In the period under review, the company increased total non-current assets by 10.32% to ₦1.47 trillion, from ₦1.33 trillion reported in 2019. This was mainly driven by more investment in property, plant and equipment. The Group invested additional ₦183.94 billion in property, plant and equipment in Nigeria and Pan-African operations in twelve-month to December 2020. As a result, total assets of the Group increased by 16.07% to ₦2.02 trillion in 2020 (vs. ₦1.74 trillion recorded in 2019). However, total liabilities of the Group increased significantly by 33.98% to ₦1.13 trillion in FY'20 (vs. ₦844.51 billion in FY'19) as a result of higher trade & other payables, higher financial liabilities and current tax liabilities. Consequently, the net assets of the company declined marginally by 0.78% to ₦890.97 billion in full year 2020, from ₦897.94 billion recorded in full year 2020 and this translated to a net asset per share of ₦52.29 (vs. ₦52.69 in FY'19).

The Group invested additional ₦183.94 billion in property, plant and equipment in Nigeria and Pan-African operations in twelve-month to December 2020.

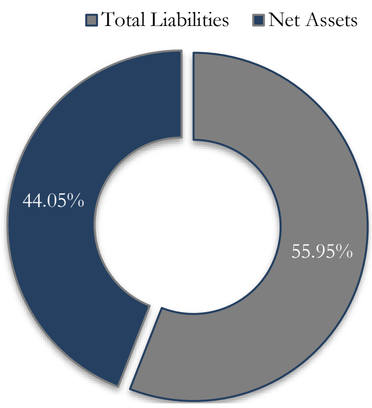
With the robust balance sheet, the company paid almost all the profit recorded during the period as dividend in order to match the dividend paid last year. The directors recommended a dividend payment of ₦16.00 per share in 2020 (2019: ₦16.00 dividend per share).

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



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in FY'20



Source: NSE, Bloomberg, PAC Research

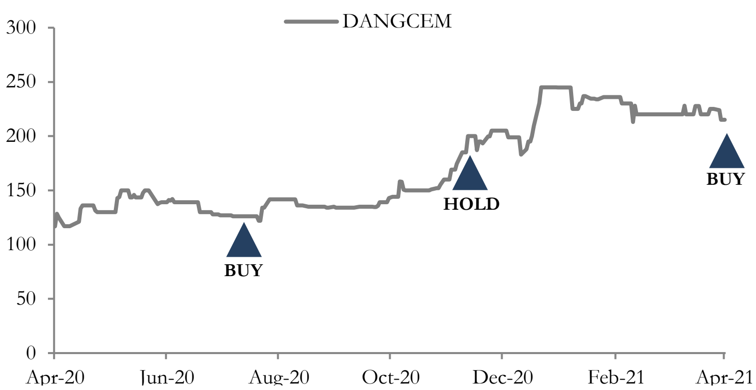
Valuation

Our valuation puts the target price of the stock at ₦256.84, representing an increase of 19.46%, from the current price of ₦215.00. In arriving at the target price, we employed Discounted Cash flow Valuation methodology. Consequently, we maintain a **BUY** recommendation on the stock 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 N256.84, representing an increase of 19.46%, from the current price of N215.00.

Fig. 11: Share Price History (Naira)



Source: NSE, PAC Research

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

	2019	2020	2021F	2022F
Revenue	891,671	1,034,196	1,137,616	1,228,625
Change		*15.98%*	*10.00%*	*8.00%*
Cost of Sales	(379,989)	(437,970)	(481,211)	(519,708)
Change		*15.26%*	*9.87%*	*8.00%*
Gross Profit	511,682	596,226	656,404	708,917
Change		*16.52%*	*10.09%*	*8.00%*
SG&A	(214,959)	(214,058)	(227,523)	(250,639)
Change		*-0.42%*	*6.29%*	*10.16%*
Other Income	2,980	4,754	5,688	6,143
Change		*59.53%*	*19.65%*	*8.00%*
Operating profit	299,893	386,734	434,797	464,666
Change		*28.96%*	*12.43%*	*6.87%*
Finance Income	7,610	29,814	28,440	30,716
Change		*291.77%*	*-4.61%*	*8.00%*
Finance Cost	(57,673)	(43,988)	(56,881)	(67,574)
Change		*-23.73%*	*29.31%*	*18.80%*
Profit Before Taxation	250,479	373,310	407,153	428,667
Change		*49.04%*	*9.07%*	*5.28%*
Taxation	(49,958)	(97,242)	(109,931)	(115,740)
Change		*94.65%*	*13.05%*	*5.28%*
Profit After Taxation	200,521	276,068	297,221	312,927
Change		*37.68%*	*7.66%*	*5.28%*

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

	2019	2020	2021F	2022F
Fixed Assets	1,206,749	1,390,687	1,478,900	1,572,640
Intangible assets	3,663	4,554	5,119	5,529
Deffered tax assets	44,768	11,708	13,651	14,743
Inventories	114,806	108,270	119,450	129,006
Trade and other recievables	31,093	35,194	39,817	43,002
Bank and Cash Balances	123,903	145,835	162,679	175,693
Total current assets	407,828	550,138	563,461	608,538
Total Assets	1,742,443	2,022,451	2,139,286	2,285,857
Trade and other payables	285,831	349,388	389,065	420,190
Current tax payable	49,932	59,781	65,982	71,260
Financial debt	260,631	335,011	386,789	417,732
Other current liabilities	34,083	83,460	68,257	73,717
Total current liabilities	631,886	829,817	912,481	985,480
Deferred tax liabilities	93,841	122,980	142,202	153,578
Net Assets	897,937	890,970	895,872	942,970

Fig. 14: Profitability Ratio

	2019	2020	2021F	2022F
Return on Equity	22.33%	30.99%	33.18%	33.19%
Return on Assets	11.51%	13.65%	13.89%	13.69%
Gross margin	57.38%	57.65%	57.70%	57.70%
EBITDA margin	44.34%	46.05%	46.75%	46.35%
PBT margin	28.09%	36.10%	35.79%	34.89%
Net Profit Margin	22.49%	26.69%	26.13%	25.47%

Fig. 15: Asset Utilization

	2019	2020	2021F	2022F
cash/sales	0.14	0.14	0.14	0.14
Sales to inventory (x)	7.77	9.55	9.52	9.52
Sales to total assets (x)	0.51	0.51	0.53	0.54
Sales to total fixed assets	0.74	0.74	0.77	0.78
Equity multiplier	1.94	2.27	2.39	2.42
fixed asset turnover	1.35	1.34	1.30	1.28

Fig. 16: Liquidity Ratios

	2019	2020	2021F	2022F
Quick ratio	0.46	0.53	0.49	0.49
Current ratio	0.65	0.66	0.62	0.62
Cash ratio	0.20	0.18	0.18	0.18
Interest Coverage	4.34	8.49	7.16	6.34
Operating Cash Flow Ratio	1.45	1.09	1.00	0.92
Debt/net income	1.77	1.66	1.78	1.83
Debt/operating cashflow	0.39	0.51	0.58	0.63
Debt to asset	0.48	0.56	0.58	0.59
Total liabilities/equities	0.94	1.27	1.39	1.42
Inventory turnover	7.94	9.45	10.07	9.89
Inventory turnover days	45.33	38.11	35.76	36.40
Account payable days	270.80	287.19	291.06	291.06

Fig. 17: Shareholders' Investment Ratios

	2019	2020	2021F	2022F
EPS (₦)	11.77	16.20	17.44	18.36
DPS (₦)	16.00	16.00	16.50	18.00
NAVPS (₦)	52.69	52.29	52.57	55.34
Earnings yield (%)	5.47	7.54	8.11	8.54

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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