Dangote Cement Plc

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Nigeria | Equities | Industrial Goods | March 18, 2022 — PAC RESEARCH

Strong Demand from Housing and Commercial Constructions Raises Revenue by 34%

INVESTMENT SUMMARY

Dangote Cement continued with impressive performance across Africa in 2021 as Group revenue elevated by 33.79% to ₦1.38 trillion (vs. ₦1.03 trillion in 2020), driven by improved economic activities in most African countries which resulted in increased spending for housing and commercial constructions during the period. Of the company's cement capacity of 51.6 million tonnes per annum across Africa, a total of 29.27 million tonnes was produced in FY'21 (vs. 25.72 million tonnes in FY'20), driven by strong cement demand in Nigeria, Tanzania, Ethiopia and Congo. Meanwhile, the production cost of sales increased by 25.81% to ₦551.02 billion in FY'21 (vs. ₦437.97 billion in FY'20), driven by higher cement volumes and inflationary pressures in Nigeria and other African countries. In addition, the total selling and administrative expense grew by 19.60% to ₦256.01 billion in FY'21 (vs. ₦214.06 billion in FY'20), due to higher haulage costs, inflationary pressure and foreign currencies conversion to Naira. Despite the higher operating costs, the group's EBITDA rose significantly by 43.41% to ₦684.07 billion in FY'21 (vs. ₦477.02 billion in FY'20).

Mainly because of higher average effective interest rate on borrowing and exchange losses from liabilities in the subsidiaries, the net finance loss of the group rose significantly by 217.07% to ₦44.94 billion in FY'21 (vs. ₦14.17 billion in FY'20). Notwithstanding the setback in non-operating income, the profit before tax rose by 44.21% to ₦538.37 billion in FY'21 (vs. ₦373.31 billion in FY'20). The company made a higher provision of ₦173.93 billion for tax in FY'21 (FY'20: ₦97.24 billion). Despite the higher tax provision, the profit after tax improved significantly by 32.01% to ₦364.44 billion in FY'21 (vs. ₦276.07 billion in FY'20). Impressively, the company rewarded the shareholders with final dividend of ₦20.00 per share in FY'21 (vs. ₦16.00 DPS in FY'20). With the impressive performance, we upgrade the target price per share to ₦315.12 (Previous Target Price: ₦312.66) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

	4Q2021	3Q2021	4Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	361,451	331,641	272,752	+8.99%	+32.52%
Op. Profit (₦'mn)	141,941	138,353	98,806	+2.59%	+43.66%
Net profit (₦'mn)	85,963	86,846	67,383	-1.02%	+27.57%

Source: NGX, Bloomberg, PAC Research

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Price:

- Current	**₦273.5**
- Target	**₦315.12**
Recommendation:	**BUY**

** As at Thursday March 17, 2022*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+6.42%/+20.06%
52-week range	₦204.00- ₦248.90
30-day Average vol.	204,419
Shares Outstanding ('mn)	17,040.51
Market Cap. (₦bn)	4,660.58
EPS (₦) - 12months trailing	16.14
DPS (₦) - FY2020	16.00

Source: NGX, Bloomberg, PAC Research

Fig. 3: Key ratios

	FY'21	FY'20
Gross profit margin	60.18%	57.56%
Net profit margin	26.34%	26.69%
Equity multiplier	2.43x	2.27x
Asset turnover	0.58x	0.51x

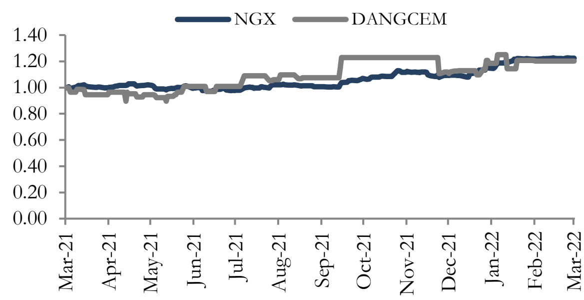
Source: NGX, PAC Research

Fig. 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	16.88x	12.79x	11.44x	10.61x
P/B	5.23x	4.74x	4.31x	3.99x
Div Yield (%)	5.85	7.31	8.04	8.78
Pay-out Ratio	98.76%	93.52%	92.05%	93.10%
EV/EBITDA	10.50x	7.16x	6.43x	5.98x
Ev/Revenue	4.84	3.54	3.24	3.01
Sales Per Share	60.69	81.20	89.32	96.46
P/S Ratio	4.51	3.37	3.06	2.84

Source: NGX, PAC Research

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



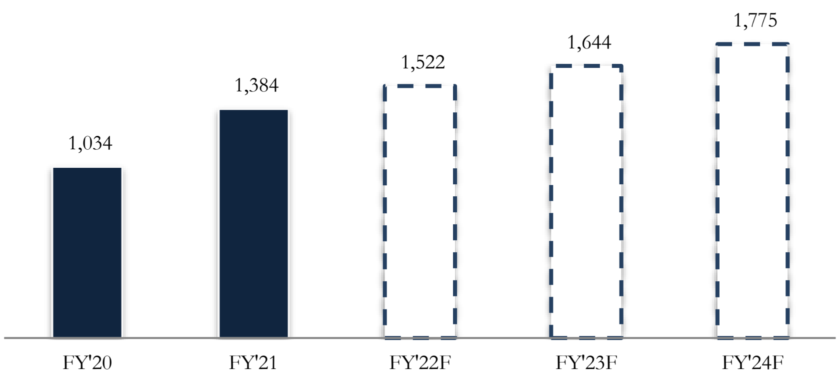
Source: Bloomberg, PAC Research

…cement volumes in Pan-African operations grew by 8.76% to 10.86 million tonnes in FY'21 (FY'20: 9.98 million tonnes), driven by strong volume growth in Ethiopia and Congo.

Strong volume growth in Nigeria, Tanzania, Ethiopia and Congo raises group revenue by 33.79%: The improved economic activities in constructions, housing demand and governments' infrastructural spending in various countries reflected on the cement volumes of Dangote Cement as it increased significantly by 13.81% to 29.27 million tonnes in FY'21 (vs. 25.72 million tonnes in FY'20). Specifically, the notable increases were recorded in Nigeria and Pan-African operations. The total cement volumes in Nigeria grew by 16.79% to 18.61 million tonnes in FY'21 (FY'20: 15.94 million tonnes), driven by strong growth in housing infrastructure and commercial construction. Despite the volatility in landing cost of cement and clinker, the total cement volumes in Pan-African operations grew by 8.76% to 10.86 million tonnes in FY'21 (FY'20: 9.98 million tonnes), driven by strong volume growth in Ethiopia and Congo. In addition, the completion and ramp-up of the two gas turbines in Tanzania also supported strong Pan-African cement volume growth.

With impressive cement volume growth across Africa, the revenue of the group increased by 33.79% to ₦1.38 trillion in FY'21 (vs. ₦1.03 trillion in FY'20). The revenue from Nigeria increased by 37.98% to ₦993.40 billion in FY'21 (FY'20: ₦719.95 billion), while revenue from Pan-African operations rose by 24.68% to ₦397.32 billion in FY'21 (FY'20: ₦318.68 billion). This indicates that Nigeria contributed about 72% to overall revenue while Pan-African operations contributed about 28% to overall revenue in FY'21. With the improved economic activities in various African countries, we may continue to see improvement in the revenue of the group in the coming quarters.

Fig. 6: Revenue – FY'20 - 12M'24F (Billion NGN)



Source: NGX, Bloomberg, PAC Research

Group manufacturing costs rises by 25.81% year-on-year, driven by volume growth and inflationary pressures: In twelve-month to December 2021, the manufacturing costs of the group increased by 25.81% to ₦551.02 billion (vs. ₦437.97 billion in 2020), mainly driven by inflationary pressure and higher cement volumes in Nigeria and Pan-African operations.

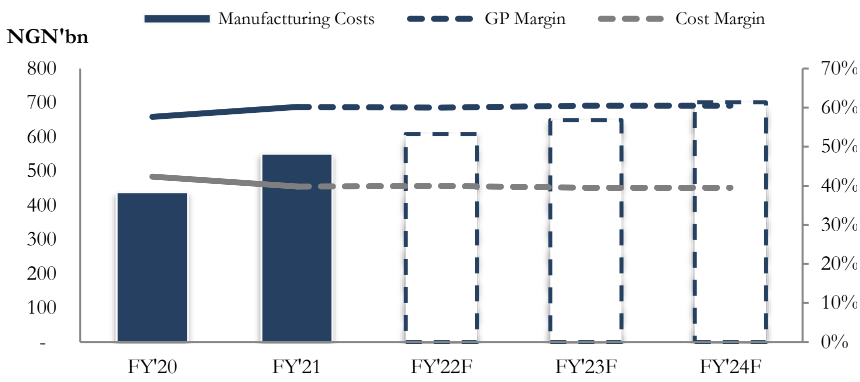
The significant impact of inflationary pressure and higher cement volumes on the group manufacturing cost was noticeable in materials consumed cost and fuel & power consumed cost, which constituted about 32% and 37% of the overall manufacturing cost, respectively. The cost of materials consumed and cost of fuel & power consumed grew by 29.99% and 34.37% to ₦175.37 billion (FY'20: ₦134.91 billion) and ₦196.63 billion in FY'21 (FY'20: ₦146.34 billion). Specifically, the increase in Nigeria's manufacturing costs was mainly driven by energy costs, resulting from increased production volumes and increased gas price which is pegged to the US dollars. The Nigerian Naira depreciated to ₦424/1US$ at the end of 2021, from ₦401/1US$ at the end of 2020. In addition, the group witnessed cost pressure on countries importing clinker (Cameroon) and cement (Ghana, Sierra-Leone) due to freight costs and overall scarcity during the period.

… the increase in Nigeria's manufacturing costs was mainly driven by energy costs, resulting from increased production volumes and increased gas price which is pegged to the US dollars.

The total selling and administration expenses increased by 19.60% to ₦256.01 billion in FY'21 (vs. ₦214.25 billion in FY'20), mainly driven by higher haulage expenses (which are driven by volumes, AGO costs and other general administrative expenses), inflationary pressure and foreign currency conversion to Naira.

We may continue to see increase in manufacturing costs and other operating costs in the coming quarters due to the expectation of improved cement demand, inflationary pressure and global supply disruption.

Fig. 7: Manufacturing Costs – FY'20 - FY'24F (Billion NGN)



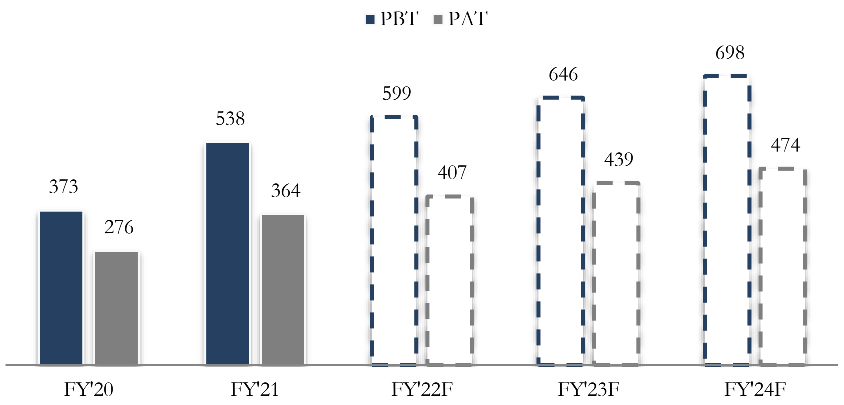
Source: NGX, Bloomberg, PAC Research

Despite the setback in non-operating activities, profit before tax grows by 44.21% year-on-year: The non-operating activities showed that the group benefited from increased earning cash balances as interest income grew by 57.51% to ₦20.77 billion in FY'21 (vs. ₦13.18 billon in FY'20). However, the group recorded an exchange loss of ₦9.38 billion in FY'21 (FY'20: exchange gain of ₦16.63 billion), driven by exchange losses from liabilities in the subsidiaries. In addition, the interest expenses of the group increased by 28.05% to ₦56.33 billion in FY'21 (FY'20: ₦43.99 billion), due to higher financial liabilities and higher average effective interest rate of 10.75% on borrowings in FY'21 (FY'20: 9.67%). Consequently, the net finance cost grew significantly by 217.07% to ₦44.94 billion in FY'21 (vs. ₦14.17 billion in FY'20).

However, the strong growth recorded in operating activities outweighed the setback reported in non-operating activities of the group. Consequently, the profit before tax increased significantly by 44.21% to ₦538.37 billion FY'21 (vs. ₦373.31 billion reported in FY'20). Meanwhile, the pioneer tax exemption for the Ibese lines and Obajana line 4 in Nigeria, which ended in 2020, resulted in a higher provision of ₦173.93 billion for tax in FY'21 (FY'20: ₦97.24 billion). Despite the higher tax provision during the period, profit after tax improved by 32.01% to ₦364.44 billion in FY'21 (vs. ₦276.07 billion reported in FY'20) and this translated to earnings per share (EPS) of ₦21.24 during the period (FY'20: ₦16.14).

…the pioneer tax exemption for the Ibese lines and Obajana line 4 in Nigeria, which ended in 2020, resulted in a higher provision of ₦173.93 billion for tax…

Fig. 8: Profit before Tax and Profit after Tax – FY'20-FY'24F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

Balance sheet remains solid; Directors recommend dividend of ₦20.00 per share: In 2021, the total assets of the group increased by 18.27% to ₦2.39 trillion (vs. ₦2.02 trillion recorded in 2020), driven by improvement recorded in current and non-current assets. Mainly because of additional investment of about ₦82 billion in property, plant and equipment in Nigeria and Pan-African operations, the non-current assets rose by 3.17% to ₦1.52 trillion in 2021 (vs. ₦1.47 trillion reported in 2020). In addition, the current assets of the group grew by 58.70% to ₦873.04 billion in 2021 (vs. ₦550.14 billion reported in 2020), driven by 54.43% growth in inventories, 34.88% rise in trade and other receivables and 133.03% increase in bank and cash balances. However, total liabilities of the group increased significantly by 24.47% to ₦1.41 trillion in FY'21 (vs. ₦1.13 trillion in FY'20) as a result of higher trade & other payables, financial liabilities, current tax liabilities, among others. The growth in the total assets outweighed the increase recorded in total liabilities of the group during the period. Consequently, the net assets of the company improved by 10.40% to ₦983.67 billion in 2021 (vs. ₦890.97 billion reported in 2020). This resulted in a net asset per share of ₦57.73 (vs. ₦52.29 in FY'20).

With the robust balance sheet, the company recommended a dividend payment of ₦20.00 per share in 2021 (2020: ₦16.00) and this represented a pay-out ratio of about 94% during the period. With the expectation of impressive operating performance in coming quarters, we may likely see improved in dividend payment in 2022.

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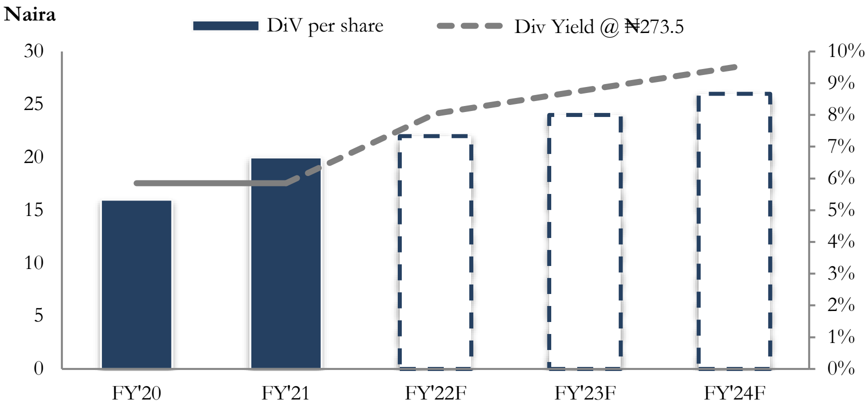
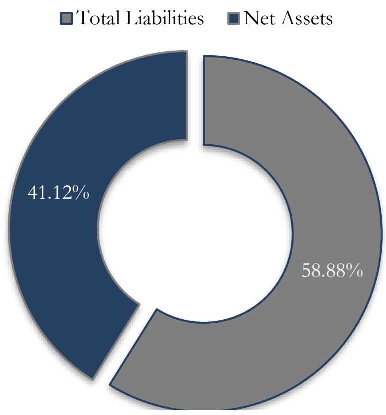
Fig. 9: Dividend Per Share and Dividend Yield (FY'20-FY'24F)



Source: NSE, PAC Research

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



Source: NSE, Bloomberg, PAC Research

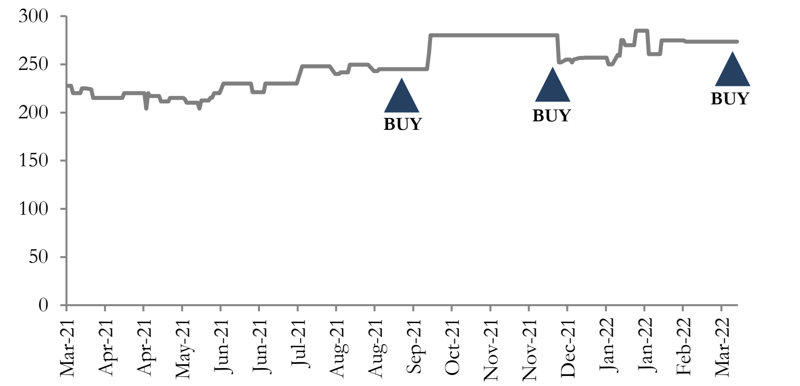
Valuation

Our valuation puts the target price of the stock at ₦315.12, representing an increase of 15.22%, from the current price of ₦273.5. In arriving at the target price, we employed Discounted Cash Flow (DCF) 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 ₦315.12, representing an increase of 15.22%, from the current price of ₦273.5.

Fig. 11: Share Price History (Naira)



Source: NSE, PAC Research

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

	2020	2021	2022F	2023F
Revenue	1,034,196	1,383,637	1,522,001	1,643,761
Change		*33.79%*	*47.17%*	*8.00%*
Cost of Sales	(437,970)	(551,019)	(608,800)	(649,285)
Change		*25.81%*	*39.01%*	*6.65%*
Gross Profit	596,226	832,618	913,200	994,475
Change		*39.65%*	*53.16%*	*8.90%*
SG&A	(214,058)	(256,007)	(273,960)	(304,096)
Change		*19.60%*	*27.98%*	*11.00%*
Other Income	4,754	6,221	12,937	13,150
Change		*30.86%*	*172.13%*	*1.65%*
Operating profit	386,734	582,491	652,177	703,530
Change		*50.62%*	*68.64%*	*7.87%*
Finance Income	29,814	20,765	22,830	24,656
Change		*-30.35%*	*-23.43%*	*8.00%*
Finance Cost	(43,988)	(65,707)	(76,100)	(82,188)
Change		*49.37%*	*73.00%*	*8.00%*
Profit Before Taxation	373,310	538,366	598,907	645,998
Change		*44.21%*	*60.43%*	*7.86%*
Taxation	(97,242)	(173,927)	(191,650)	(206,719)
Change		*78.86%*	*97.09%*	*7.86%*
Profit After Taxation	276,068	364,439	407,257	439,279
Change		*32.01%*	*47.52%*	*7.86%*

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

	2020	2021	2022F	2023F
Property, Plant & Equip.	1,390,687	1,472,859	1,522,001	1,643,761
Intangible assets	4,554	5,122	6,849	7,397
Deffered tax assets	11,708	5,163	6,088	6,575
Inventories	108,270	167,205	197,860	213,689
Trade and other recievables	35,194	47,469	53,270	57,532
Bank and Cash Balances	145,835	339,843	380,500	410,940
Total current assets	550,138	873,042	1,030,851	1,113,319
Total Assets	2,022,451	2,392,019	2,604,752	2,813,132
Trade and other payables	349,388	371,224	372,890	402,721
Current tax payable	59,781	153,385	167,420	180,814
Financial debt	335,011	401,393	441,380	476,691
Other current liabilities	83,460	148,294	152,200	164,376
Total current liabilities	829,817	1,076,483	1,137,087	1,228,054
Deferred tax liabilities	122,980	135,003	152,200	164,376
Net Assets	890,970	983,669	1,082,295	1,168,878

Fig. 14: Profitability Ratio

	2020	2021	2022F	2023F
Return on Equity	30.99%	37.05%	37.63%	37.58%
Return on Assets	13.65%	15.24%	15.64%	15.62%
Gross margin	57.65%	60.18%	60.00%	60.50%
EBITDA margin	46.12%	49.44%	50.38%	50.33%
PBT margin	36.10%	38.91%	39.35%	39.30%
Net Profit Margin	26.69%	26.34%	26.76%	26.72%

Fig. 15: Asset Utilization

	2020	2021	2022F	2023F
cash/sales	0.14	0.25	0.25	0.25
Sales to inventory (x)	9.55	8.28	7.69	7.69
Sales to total assets (x)	0.51	0.58	0.58	0.58
Sales to total fixed assets	0.74	0.94	1.00	1.00
Equity multiplier	2.27	2.43	2.41	2.41
fixed asset turnover	1.34	1.06	1.00	1.00

Fig. 16: Liquidity Ratios

	2020	2021	2022F	2023F
Quick ratio	0.53	0.66	0.73	0.73
Current ratio	0.66	0.81	0.91	0.91
Cash ratio	0.18	0.32	0.33	0.33
Interest Coverage	8.49	8.19	7.87	7.86
Operating Cash Flow Ratio	1.09	0.85	0.89	0.91
Debt/net income	1.66	1.47	1.46	1.46
Debt/operating cashflow	0.51	0.59	0.58	0.58
Debt to asset	0.56	0.59	0.58	0.58
Total liabilities/equities	1.27	1.43	1.41	1.41
Inventory turnover	9.45	8.21	11.09	7.99
Inventory turnover days	38.11	43.83	32.47	45.07
Account payable days	287.19	242.53	220.50	223.29

Fig. 17: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
EPS (₦)	11.77	16.20	23.90	25.78
DPS (₦)	16.00	16.00	22.00	24.00
NAVPS (₦)	52.69	52.29	63.51	68.59
Earnings yield (%)	4.30	5.92	8.74	9.43

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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