Dangote Cement Plc

Improved Cement Demand across Africa as Revenue increases by 45% in H1'21

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INVESTMENT SUMMARY

Dangote Cement Plc continued with impressive performance in the first half of 2021 as revenue increased by 44.81% to ₦690.55 billion, when compared with ₦476.85 billion achieved in the first half of 2020. Although, the increase in the revenue could be attributed to the strong cement demand across Africa and average net realised prices, the strong volume growth was magnified by the lower volume in the first half of 2020, due to impact of COVID-19. In the first half of 2021, a total of 15.28 million tonnes was produced (vs. 12.11 million tonnes in first half of 2020), mainly driven by strong cement demand in Nigeria, Congo, Tanzania, Senegal, Ethiopia and Cameroon. However, the overall manufacturing costs increased by 36.41% to ₦276.12 billion in H1'21 (vs. ₦202.42 billion in H1'20), mainly as a result of higher cement volume in Nigeria and Pan-African operations (i.e. other African nations except Nigeria). In addition, the total selling & administrative expense rose by 14.07% to ₦118.28 billion in H1'21 (vs. ₦103.69 billion in H1'20), driven by higher haulage expenses, inflation and the foreign exchange volatility. Despite the higher operating expenses, the group's EBITDA improved significantly by 60.99% to ₦351.07 billion in H1'21 (vs. ₦218.07 billion in H1'20).

The aggregate net finance loss rose significantly by 97.05% to ₦20.94 billion in H1'21 (vs. ₦10.63 billion net finance loss in H1'20) as a result of higher interest expense and foreign exchange loss. Despite the setback recorded in non-operating activities, profit before tax improve significantly by 72.71% to ₦281.25 billion in H1'21 (vs. ₦162.85 billion in H1'20). The company made higher provision of ₦89.62 billion for tax in H1'21 (vs. ₦36.71 billion in H1'20). Notwithstanding the higher tax provision, profit after tax increased by 51.91% to ₦191.63 billion in H1'21 (vs. ₦126.14 billion in H1'20). With this impressive performance, we upgrade the target price per share to ₦274.83 (Previous Target Price: ₦263.57) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

	2Q2021	1Q2021	2Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	357,894	332,651	227,670	+7.59%	+57.20%
Op. Profit (₦'mn)	150,453	151,744	81,700	-0.85%	+84.15%
Net profit (₦'mn)	101,920	89,710	65,551	+13.61%	+55.48%

Source: NSE, Bloomberg, PAC Research

Price:	
- Current	**₦243.00**
- Target	**₦274.83**
Recommendation:	**BUY**

** As at Wednesday May 19, 2021*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-0.78%/+81.07%
52-week range	₦134.00- ₦253.40
30-day Average vol.	288,131
Shares Outstanding ('mn)	17,040.51
Market Cap. (₦bn)	4,140.84
EPS (₦) - 12months trailing	20.04
DPS (₦) - FY2020	16.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	H1'21	H1'20
Gross profit margin	60.01%	57.55%
Net profit margin	27.75%	26.45%
Equity multiplier	2.58x	2.44x
Asset turnover	0.33x	0.26x

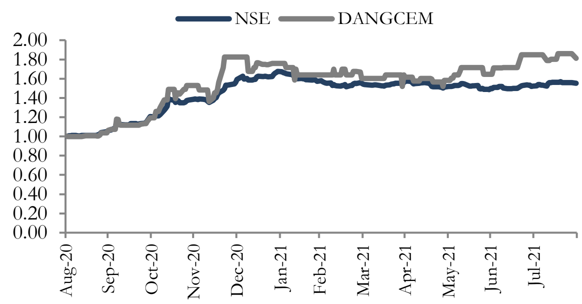
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021F	FY2022F
P/E	20.65x	15.00x	11.69x	10.84x
P/B	4.61x	4.65x	4.52x	3.90x
Div Yield (%)	6.58	6.85	7.00	7.41
Pay-out Ratio	135.97%	98.76%	81.78%	80.28%
EV/EBITDA	11.09x	9.43x	6.79x	6.33x
Ev/Revenue	4.92	4.34	3.42	3.19
Sales Per Share	52.33	60.69	77.68	83.90
P/S Ratio	4.64	4.00	3.13	2.90

Source: NSE, PAC Research

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



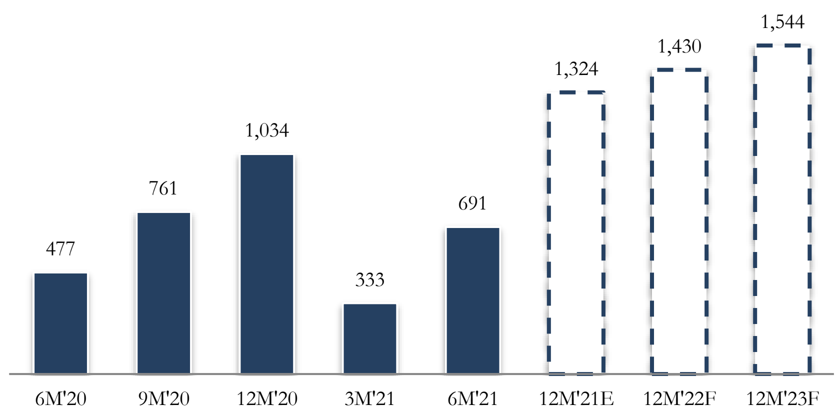
Source: Bloomberg, PAC Research

The increased in cement demand across Africa can be attributed to improved activities in housing infrastructure, commercial construction, and government projects (including major highways, roads and railways).

Revenue rises by 44.81% year-on-year, driven by strong cement demand and better average net realised prices: In line with our projection, Dangote Cement benefited from improved cement demand and high prices as revenue increased by 44.81% to ₦690.55 billion in the first half of 2021 (vs. ₦476.85 billion in first half of 2020). The increased in cement demand across Africa can be attributed to improved activities in housing infrastructure, commercial construction, and government projects (including major highways, roads and railways). The distribution of the revenue shows that Nigeria accounted for about 71% (₦494.14 billion) of the total revenue while other Pan-African operations accounted about 29% (₦198.50 billion) of the total revenue. This is magnified by the production volumes which increased by 26.11% to 15.28 million tonnes in H1'21 (vs. 12.11 million tonnes in H1'20). Specifically, the total volumes sold by the Nigerian operations improved by 33.20% to 9.87 million tonnes in H1'21 (vs. 7.41 million tonnes recorded in H1'20), supported by improvement in housing and commercial construction. Sales to domestic customers in Nigeria grew by 28.3% to 9.47 million tonnes (vs. 7.40 million tonnes in H1'20), with the remaining 0.40 million tonnes being exported cement and clinker. Pan-African volumes increased by 15.50% to 5.47 million tonnes in H1'21, from 4.73 million tonnes reported H1'20, driven by 70% volume growth in Congo and 50% volume growth in Tanzania.

We may likely see improved revenue growth in Nigeria and Pan-African operations as we expect improved economic activities to drive cement demand for housing infrastructure and commercial construction in the second half of 2021. We also expect Nigerian government to use more cement for road construction as infrastructure development tops its mandate. This is expected to drive domestic demand and positively impact the revenue in H2, 2021.

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



Source: NSE, Bloomberg, PAC Research

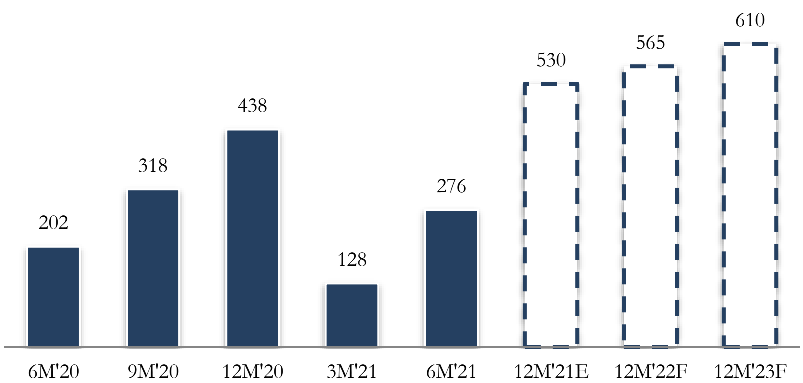
The Group manufacturing costs increases by 36.41% year-on-year, driven by higher cement volumes across Africa: In the first half of 2021, the manufacturing costs of Dangote Cement increased by 36.41% to ₦276.12 billion (vs. ₦202.42 billion in first half of 2020), due to improved cement volumes in Nigeria and Pan-Africa. Specifically, materials consumed and fuel/power consumed cost, which constitute the largest parts of manufacturing costs, improved by 46.70% and 53.46% to ₦93.97 billion (vs. ₦64.06 billion in H1'20) and ₦98.98 billion in H1'21 (vs. ₦64.50 billion in H1'20) respectively. Although, the Group's manufacturing costs increased by 36.41% during the period, the cost-to-sales ratio improved by 246 bps to 39.99% in H1'21 (H1'20: 42.45%).

In addition, the total selling and administration expenses increased by 14.07% to ₦118.28 billion in H1'21 (vs. ₦103.69 billion in H1'20), mainly driven by inflationary pressure, foreign currencies conversion to Naira, higher haulage expenses, among others. Impressively, the increase in total selling and administrative expensive is 368 bps lower than the inflation rate of June 2021. This shows the resilient effort of the management to continue to improve the cost-minimisation strategy of the company.

… we may also see high total selling and administrative costs in the second half of 2021 due to the expectation of increased production volume, wider distribution coverage, depreciation of Naira and relatively high inflation rate.

We may continue to see high manufacturing cost across Africa in the second half of 2021 due to improved production volume. However, we expect continuous improvement in the cost-to-sales ratio as we expect the company to continue to enjoy economic of scale. In addition, we may also see high selling and administrative costs in the second half of 2021 due to the expectation of increased production volume, wider distribution coverage, depreciation of Naira and relatively high inflation rate.

Fig. 7: Manufacturing Costs – 6M'20-12M'23F (Billion NGN)



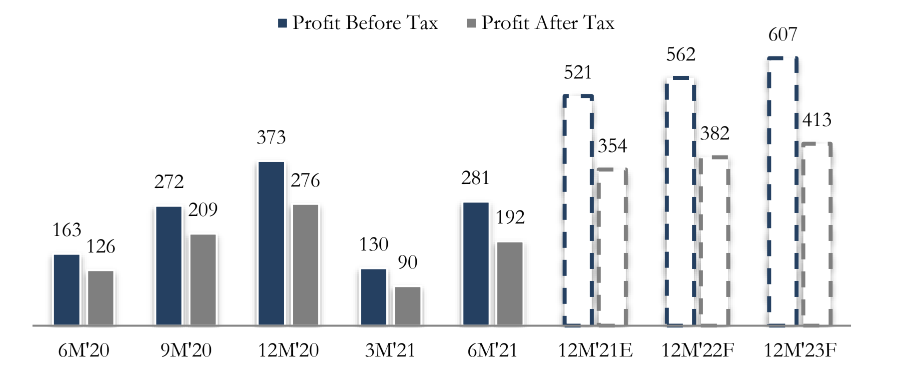
Source: NSE, Bloomberg, PAC Research

Despite the setback in non-operating activities, Profit before tax rises significantly by 72.71% year-on-year: In the first half of 2021, the net finance cost of the company increased significantly by 97.05% to ₦20.94 billion in H1'21 (vs. net finance cost of ₦10.63 billion in the first half of 2020), mainly due higher interest expense and exchange loss of ₦4.94 billion during period.

However, the impressive operating performance recorded in Nigeria and Pan-African operations outweighed the setback recorded in non-operating activities in the first half of 2021. Consequently, profit before tax improved significantly by 72.71% to ₦281.25 billion in H1'21 (vs. ₦162.85 billion reported in H1'20). However, the company made a higher provision of ₦89.62 billion for tax in H1'21 (vs. ₦36.71 billion in H1'20). The upsurge in the tax provision in the first half of 2021 is attributed to the expiration of pioneer tax exemption for the Ibese Lines and Obajana Line 4 which resulted to higher company effective tax rate of 28.7% in H1'21 (vs. effective tax rate of 16.4% in H1'20). Even with higher tax provision in the first half of 2021, profit after tax increased by 51.91% to ₦191.630 billion in H1'21 (vs. ₦126.14 billion reported in H1'20). This elevated the 12-month trailing earnings per share (EPS) to ₦20.04 (from ₦12.17 in corresponding previous period).

The upsurge in the tax provision in the first half of 2021 is attributed to the expiration of pioneer tax exemption for the Ibese Lines and Obajana Line 4 which resulted to higher company effective tax rate of 28.7%…

Fig. 8: Profit before Tax and Profit after Tax – 6M'20-12M'23F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

Balance sheet remains solid; expectation of improved dividend payment in 2021: In the first half of 2021, the financial position of Dangote Cement remains healthy and solid as the total assets of the Group improved significantly by 14.93% to ₦2.07 trillion, when compared to ₦1.81 trillion recorded in first half of 2020. The increased in the total asset of the Group was driven by improved non-current assets, which rose by 6.51% to ₦1.46 trillion in H1'21 (vs. ₦1.37 trillion in H1'20). The impressive growth recorded in the non-assets can be mainly attributed to additional investment of ₦144.68 billion in property, plant and equipment across Africa. However, the total liabilities of the Group increased by 19.12% to ₦1.27 trillion in H1'21 vs. ₦1.07 trillion in H1'20), due to higher trade & other payables, higher financial liabilities, deferred tax liabilities, among others.

The increase in total assets outweighed the increase in total liabilities of the company as net assets improved by 8.88% to ₦0.81 trillion in first half of 2021 (vs. ₦0.74 trillion achieved in the first half of 2020). This translated to a net asset per share of ₦47.24 in H1'21 (vs. ₦43.39 in H1'20). We may likely see improved total dividend payment in the full year of 2021 due to the expectation of robust balance sheet, impressive operating performance in H1'21 and expectation of improved demand in the coming quarters.

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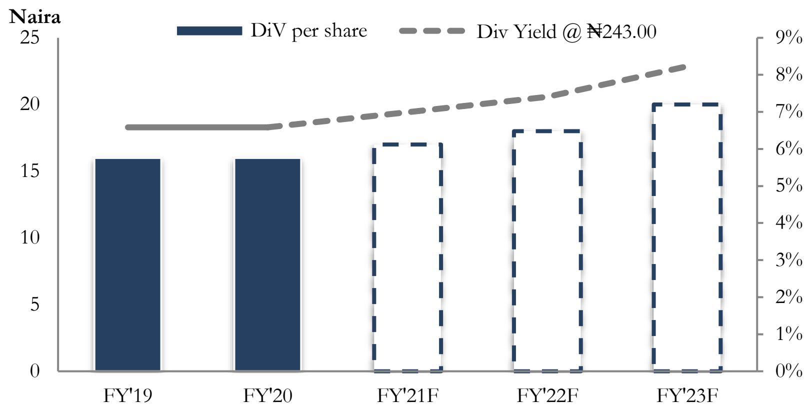
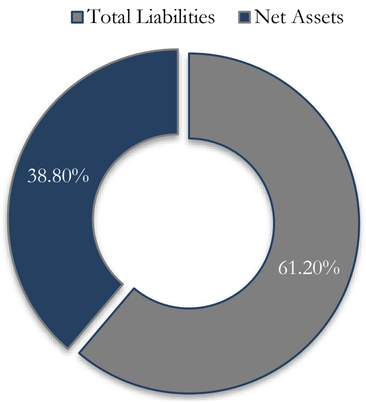
Fig. 9: Dividend Per Share and Dividend Yield (FY'19-FY'23F)



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in H1'21



Source: NSE, Bloomberg, PAC Research

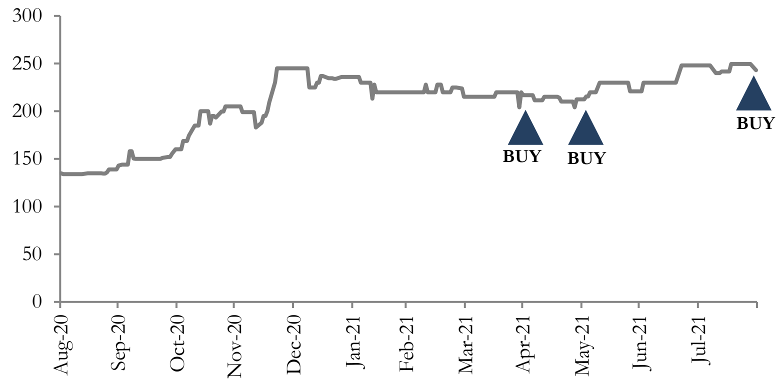
Valuation

Our valuation puts the target price of the stock at ₦274.83, representing an increase of 13.10%, from the current price of ₦243.00. In arriving at the target price, we employed Discounted Cash flow 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 ₦274.83, representing an increase of 13.10%, from the current price of ₦243.00.

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	1,323,771	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	2021F	2022F
Fixed Assets	1,206,749	1,390,687	1,389,959	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	138,996	150,116
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	721,852	779,600
Total Assets	1,742,443	2,022,451	2,224,597	2,474,048
Trade and other payables	285,831	349,388	397,131	428,902
Current tax payable	49,932	59,781	79,426	85,780
Financial debt	260,631	335,011	397,131	428,902
Other current liabilities	34,083	83,460	79,426	85,780
Total current liabilities	631,886	829,817	955,895	1,032,367
Deferred tax liabilities	93,841	122,980	152,234	164,412
Net Assets	897,937	890,970	916,711	1,061,532

Fig. 14: Profitability Ratio

	2019	2020	2021F	2022F
Return on Equity	22.33%	30.99%	38.64%	35.99%
Return on Assets	11.51%	13.65%	15.92%	15.44%
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	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	0.60	0.58
Sales to total fixed assets	0.74	0.74	0.95	0.91
Equity multiplier	1.94	2.27	2.43	2.33
fixed asset turnover	1.35	1.34	1.05	1.10

Fig. 16: Liquidity Ratios

	2019	2020	2021F	2022F
Quick ratio	0.46	0.53	0.61	0.61
Current ratio	0.65	0.66	0.76	0.76
Cash ratio	0.20	0.18	0.20	0.20
Interest Coverage	4.34	8.49	7.87	7.86
Operating Cash Flow Ratio	1.45	1.09	1.01	0.96
Debt/net income	1.77	1.66	1.55	1.55
Debt/operating cashflow	0.39	0.51	0.57	0.60
Debt to asset	0.48	0.56	0.59	0.57
Total liabilities/equities	0.94	1.27	1.43	1.33
Inventory turnover	7.94	9.45	10.84	9.89
Inventory turnover days	45.33	38.11	33.21	36.40
Account payable days	270.80	287.19	270.00	273.42

Fig. 17: Shareholders' Investment Ratios

	2019	2020	2021F	2022F
EPS (₦)	11.77	16.20	20.79	22.42
DPS (₦)	16.00	16.00	17.00	18.00
NAVPS (₦)	52.69	52.29	53.80	62.29
Earnings yield (%)	4.84	6.67	8.55	9.23

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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