Dangote Cement Plc

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High Cement Demand across Africa Boosts Revenue in Q1'21

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INVESTMENT SUMMARY

Dangote Cement Plc started the year 2021 on a positive note as revenue increased by 33.50% to ₦332.65 billion in the first quarter of 2021, when compared with ₦249.18 billion achieved in the first quarter of 2020. The increase in the revenue of the Group could be attributed to higher demand for cement across Africa and average net realised prices in some countries. In the first quarter of 2021, a total of 7.52 million tonnes was produced (vs. 6.33 million tonnes in first quarter of 2020), driven by strong performance in Nigeria, Senegal, Cameroon, Ethiopia, Zambia and Tanzania. As a result of higher cement volumes in Nigeria and Pan-Africa operations (i.e. other African nations except Nigeria), the overall production cost of sales increased by 22.69% to ₦128.00 billion in Q1'21 (vs. ₦104.33 billion in Q1'20). In addition, the total selling & administrative expense rose by 4.84% to ₦56.82 billion in Q1'21 (vs. ₦54.20 billion in Q1'20), due to higher salaries and related staff costs and increased haulage expenses. Consequently, the group's EBITDA improved significantly by 55.81% to ₦177.97 billion in Q1'21 (vs. ₦114.22 billion in Q1'20).

With a huge exchange loss of ₦10.62 billion and higher interest expense, the aggregate net finance loss increased by 481.49% to ₦21.64 billion in Q1'21 (vs. ₦3.72 billion net finance loss in Q1'20). Notwithstanding the exchange loss, profit before tax improve significantly by 45.75% to ₦130.10 billion in Q1'21 (vs. ₦88.06 billion in Q1'20) as a result of impressive operating performance. The Pioneer tax exemption for Ibese lines and Obajana line 4 ended in 2020 and this translated to higher provision of ₦40.39 billion for tax in Q1'21 (vs. ₦27.47 billion in Q1'20). Consequently, profit after tax rose by 48.06% to ₦89.71 billion in Q1'21 (vs. ₦60.59 billion in Q1'20). This raised 12-month trailing EPS to ₦17.91 (from ₦11.79 in corresponding previous period). With this impressive performance, we upgrade the target price per share to ₦263.57 (Previous Target Price: ₦256.84) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

	1Q2021	4Q2020	1Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	332,651	272,752	249,182	+21.96%	+33.50%
Op. Profit (₦'mn)	151,744	98,806	91,779	+53.58%	+65.34%
Net profit (₦'mn)	89,710	67,383	60,592	+33.13%	+48.06%

Source: NSE, Bloomberg, PAC Research

Price:	
- Current	₦214.00
- Target	₦263.57
Recommendation:	BUY

** As at Wednesday May 19, 2021*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-12.62%/+49.13%
52-week range	₦122.00- ₦253.40
30-day Average vol.	378,869
Shares Outstanding ('mn)	17,040.51
Market Cap. (₦bn)	3,646.67
EPS (₦) - 12months trailing	17.91
DPS (₦) - FY2020	16.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	Q1'21	Q1'20
Gross profit margin	61.52%	58.13%
Net profit margin	26.97%	24.32%
Equity multiplier	2.18x	1.90x
Asset turnover	0.16x	0.14x

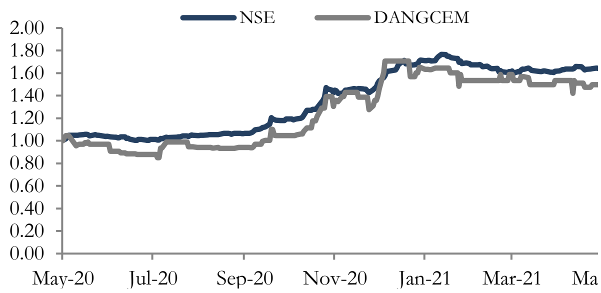
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2019	FY2020	FY2021F	FY2022F
P/E	18.19x	13.21x	11.41x	10.80x
P/B	4.06x	4.09x	3.92x	3.63x
Div Yield (%)	7.48	7.48	7.71	8.41
Pay-out Ratio	135.97%	98.76%	87.95%	90.81%
EV/EBITDA	9.84x	8.39x	6.26x	5.93x
Ev/Revenue	4.36	3.86	3.23	3.01
Sales Per Share	52.33	60.69	72.83	78.65
P/S Ratio	4.09	3.34	2.94	2.72

Source: NSE, PAC Research

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



Source: Bloomberg, PAC Research

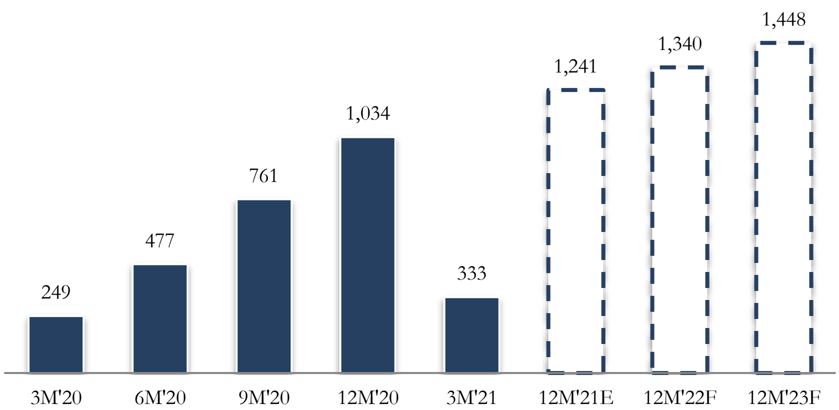
Revenue improves by 33.50% year-on-year, driven by new production line, strong cement demand and better average net realised prices: Dangote Cement reacted to the increased cement demand in the first quarter of 2021 by introducing new efficient production line – Obajana Line 5 – which has the capacity to produce three (3) million tonnes per annum. The new production line increased the overall capacity of the Group to 48.55 million tonnes per annum. With increased cement demand for housing, infrastructure, commercial construction, and government projects across Africa, the total cement volumes sold by Dangote Cement increased by 18.74% to 7.52 million tonnes in first quarter of 2021 (vs. 6.33 million tonnes recorded in first quarter of 2020). Specifically, the volumes of cement sold by the Nigerian operations improved by 22.15% to 4.91 million tonnes in Q1'21 (Q1'20: 4.02 million tonnes) while the Pan-African volume sold increased by 12.82% to 2.61 million tonnes in Q1'21 (Q1'20: 2.32 million tonnes). Out of the 4.91 million tonnes of cement produced in Nigeria, about 137,000 tonnes were land exported volumes.

Dangote Cement reacted to the increased cement demand in the first quarter of 2021 by introducing new efficient production line – Obajana Line 5 – which has capacity to 3 million tonnes per annum.

With the new efficient production line in Nigeria (Obajana Line 5), higher cement volumes and improved average net realised prices, Dangote Cement improved its revenue significantly by 33.50% to ₦332.65 billion in first quarter of 2021 (vs. ₦249.18 billion in first quarter of 2020). The distribution of the Group's revenue shows that Nigerian accounted for 72.05% (₦239.68 billion) of the revenue while Pan-African Operations accounted for 27.95% (₦92.97 billion) of the total revenue in first quarter of 2021.

We may likely see significant improvement in the revenue of the Dangote Cement in the coming quarters of 2021 due to the new efficient production lines, partial shifting from the usage of bitumen to cement in road construction (especially by the Nigerian Government), increased government housing estate projects in various African countries and higher prices.

Fig. 6: Revenue – 3M'20-12M'23F (Billion NGN)



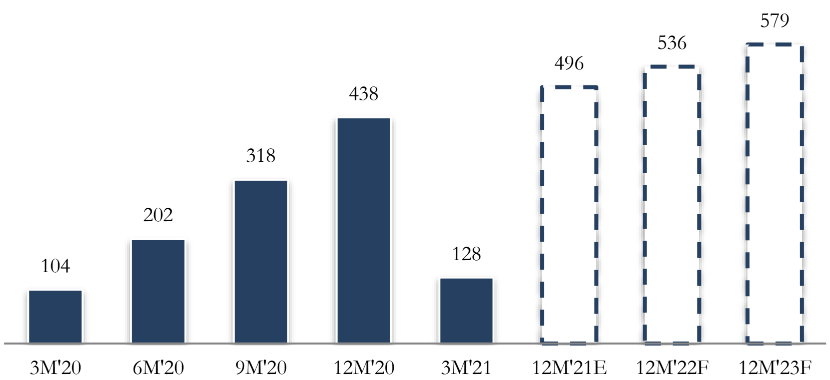
Source: NSE, Bloomberg, PAC Research

The Group manufacturing costs accelerates by 22.69% year-on-year due to higher cement volumes in Nigeria and Pan-Africa: In the first quarter of 2021, the manufacturing costs of Dangote Cement increased by 22.69% to ₦128.00 billion (vs. ₦104.33 billion in first quarter of 2020), mainly triggered by higher cement volumes in Nigeria and Pan-Africa. Specifically, the manufacturing cost in Nigerian operation increased by 21.38% to ₦67.00 billion in Q1'21 (vs. ₦55.20 billion in Q1'20), 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 rose by 24.04% to ₦61.40 billion in Q1'21 (vs ₦49.50 billion in Q1'20), due to higher cement volumes in most African countries. Although, the Group's manufacturing costs increased by 22.69% during the period, the cost-to-sales ratio improved by 339 bps to 38.48% in Q1'21 (Q1'20: 41.87%).

…manufacturing cost in Nigerian operation increased by 21.38% to ₦67.00 billion in Q1'21 (vs. ₦55.20 billion in Q1'20), due to higher cement volumes, high inflation rate and foreign exchange impacts on USD denominated expenses…

The total selling and administration expenses increased by 4.84% to ₦56.82 billion in Q1'21 (vs. ₦54.20 billion in Q1'20), mainly due to higher administrative costs in Pan-Africa. During the period, Pan-Africa sales, marketing, logistics and administration expenses rose by 15% to ₦18.80 billion (vs. ₦16.3 billion in Q1'20). In addition, the foreign currencies conversion to Naira drove part of the higher costs experienced in first quarter of 2021. Impressively, the selling and administration expense in Nigeria fell by about 2.0% in first quarter of 2021, mainly as a result of lower advertisement and promotion costs.

Fig. 7: Manufacturing Costs – 3M'20-12M'23F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

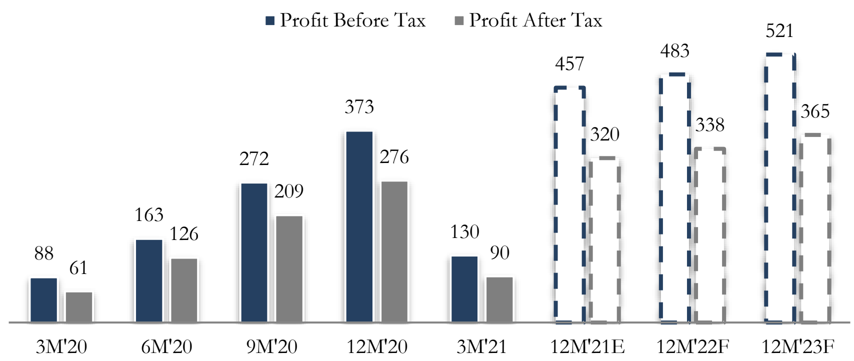
Profit before tax rises significantly by 47.75% year-on-year, due to impressive operating performance in Nigeria and Pan-Africa: The net finance cost of the company increased significantly by 481.49% to ₦21.64 billion in Q1'21 (vs. net finance cost of ₦3.72 billion in Q1'20), mainly due to exchange losses from liabilities in the subsidiaries during the period. The company recorded exchange loss of ₦10.62 billion in Q1'21 (vs. exchange gain of ₦3.75 billion in Q1'20).

However, the impressive operating performance of the company outweighed the setback recorded in non-operating performance in the first quarter of 2021.

As a result, profit before tax improved significantly by 47.75% to ₦130.10 billion in Q1'21 (vs. ₦88.06 billion reported in Q1'20). However, the company made a higher provision of ₦40.39 billion for tax in Q1'21 (vs. ₦27.47 billion in Q1'20), because the pioneer tax exemption for Ibese Lines and Obajana Line 4 has ended in 2020 and this resulted in effective tax rate of 28.30% in Q1'21 (Q1'20: 20.70%) in Nigeria. In addition to higher effective tax rate in Nigeria, some Pan-African subsidiaries made losses, which reduced Group's profit without direct tax benefits for those losses, and resulted to 31.00% effective tax rate for the Group in Q1'21. The higher tax provision had little noticeable impact on the bottom-line as profit after tax increased by 48.06% to ₦89.71 billion in Q1'21 (vs. ₦60.59 billion reported in Q1'20).

… the company made a higher provision of ₦40.39 billion for tax in Q1'21 (vs. ₦27.47 billion in Q1'20), because the pioneer tax exemption for Ibese Lines and Obajana Line 4 has ended in 2020…

Fig. 8: Profit before Tax and Profit after Tax – 3M'20-12M'23F (Billion NGN)



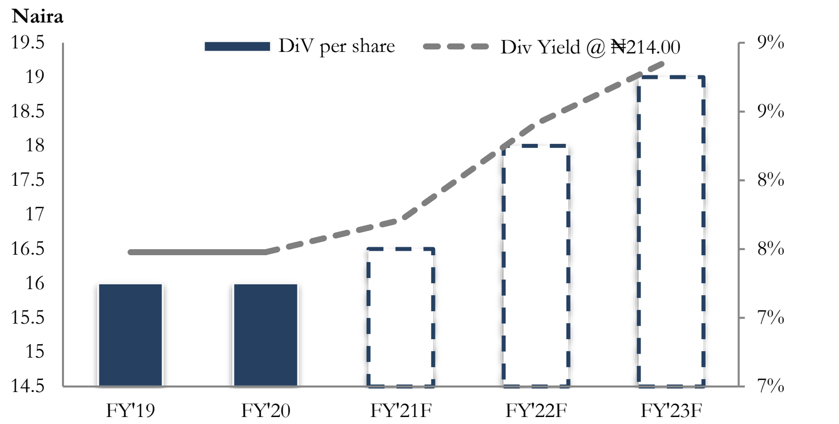
Source: NSE, Bloomberg, PAC Research

Balance sheet remains strong; expectation of improved dividend payment in 2021: The total assets of the Group improved significantly by 18.00% to ₦2.12 trillion in 2020 in first quarter of 2021 (vs. ₦1.80 trillion recorded in first quarter of 2020), due to higher non-current assets. The total non-current assets increased by 6.77% to ₦1.46 trillion in Q1'21, from ₦1.36 trillion reported in Q1'20, mainly driven by more investment in property, plant and equipment. In first quarter of 2021, the property, plant and equipment of the Group increased to ₦1.38 trillion, and this represents an additional investment of ₦137.93 billion in property, plant and equipment in Nigeria and Pan-African operations, when compared to the total property, plant and equipment of ₦1.24 trillion in first quarter of 2020.

With this robust balance sheet, impressive operating performance in Q1'21 and expectation of improved demand in the coming quarter, we anticipate impressive total dividend payment in FY'21.

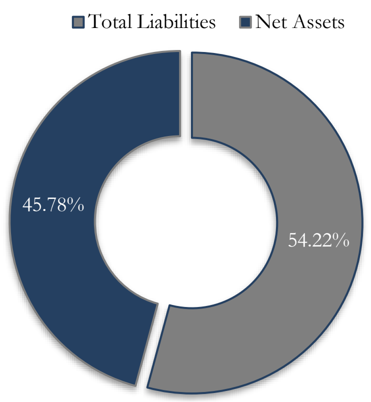
However, total liabilities of the Group increased significantly by 35.44% to ₦1.15 trillion in Q1'21 (vs. ₦0.85 trillion in Q1'20), due to higher financial liabilities, current tax liabilities, higher trade & other payables, among others. The increase in total assets outweighed the increase in total liabilities of the company as net assets improved by 2.39% to ₦0.97 trillion in first quarter of 2021 (vs. ₦0.95 trillion achieved in the corresponding quarter of previous year), and this translated to a net asset per share of ₦57.00 (vs. ₦55.66 in Q1'20). With this robust balance sheet, impressive operating performance in Q1'21 and expectation of improved demand in the coming quarter, we anticipate impressive total dividend payment in FY'21.

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



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in Q1'21



Source: NSE, Bloomberg, PAC Research

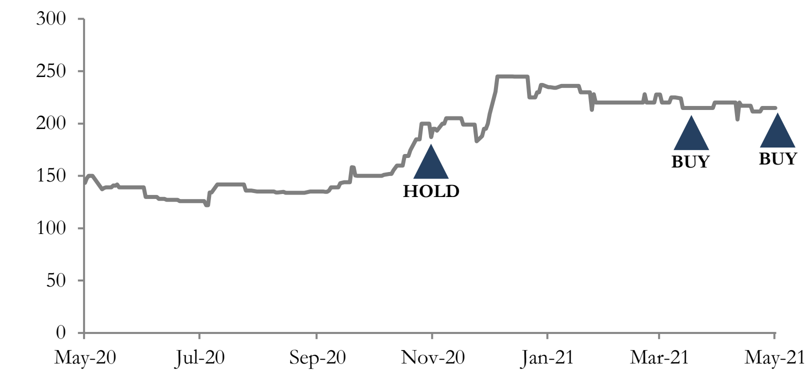
Valuation

Our valuation puts the target price of the stock at ₦263.57, representing an increase of 23.16%, from the current price of ₦214.00. 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 N263.57, representing an increase of 23.16%, 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	1,241,035	1,340,318
Change		*15.98%*	*20.00%*	*8.00%*
Cost of Sales	(379,989)	(437,970)	(496,414)	(536,127)
Change		*15.26%*	*13.34%*	*8.00%*
Gross Profit	511,682	596,226	744,621	804,191
Change		*16.52%*	*24.89%*	*8.00%*
SG&A	(214,959)	(214,058)	(223,386)	(247,959)
Change		*-0.42%*	*4.36%*	*11.00%*
Other Income	2,980	4,754	13,651	10,723
Change		*59.53%*	*187.16%*	*-21.45%*
Operating profit	299,893	386,734	534,886	566,955
Change		*28.96%*	*38.31%*	*6.00%*
Finance Income	7,610	29,814	18,616	20,105
Change		*291.77%*	*-37.56%*	*8.00%*
Finance Cost	(57,673)	(43,988)	(96,801)	(104,545)
Change		*-23.73%*	*120.06%*	*8.00%*
Profit Before Taxation	250,479	373,310	456,701	482,514
Change		*49.04%*	*22.34%*	*5.65%*
Taxation	(49,958)	(97,242)	(137,010)	(144,754)
Change		*94.65%*	*40.90%*	*5.65%*
Profit After Taxation	200,521	276,068	319,691	337,760
Change		*37.68%*	*15.80%*	*5.65%*

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

	2019	2020	2021F	2022F
Fixed Assets	1,206,749	1,390,687	1,427,190	1,541,366
Intangible assets	3,663	4,554	5,585	6,031
Deffered tax assets	44,768	11,708	14,892	16,084
Inventories	114,806	108,270	130,309	140,733
Trade and other recievables	31,093	35,194	43,436	46,911
Bank and Cash Balances	123,903	145,835	177,468	191,665
Total current assets	407,828	550,138	676,736	730,875
Total Assets	1,742,443	2,022,451	2,209,663	2,386,436
Trade and other payables	285,831	349,388	424,434	458,389
Current tax payable	49,932	59,781	74,462	80,419
Financial debt	260,631	335,011	372,311	402,095
Other current liabilities	34,083	83,460	74,462	80,419
Total current liabilities	631,886	829,817	948,275	1,024,137
Deferred tax liabilities	93,841	122,980	142,719	154,137
Net Assets	897,937	890,970	931,397	1,005,909

Fig. 14: Profitability Ratio

	2019	2020	2021F	2022F
Return on Equity	22.33%	30.99%	34.32%	33.58%
Return on Assets	11.51%	13.65%	14.47%	14.15%
Gross margin	57.38%	57.65%	60.00%	60.00%
EBITDA margin	44.34%	46.05%	51.63%	50.83%
PBT margin	28.09%	36.10%	36.80%	36.00%
Net Profit Margin	22.49%	26.69%	25.76%	25.20%

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	0.56	0.56
Sales to total fixed assets	0.74	0.74	0.87	0.87
Equity multiplier	1.94	2.27	2.37	2.37
fixed asset turnover	1.35	1.34	1.15	1.15

Fig. 16: Liquidity Ratios

	2019	2020	2021F	2022F
Quick ratio	0.46	0.53	0.58	0.58
Current ratio	0.65	0.66	0.71	0.71
Cash ratio	0.20	0.18	0.19	0.19
Interest Coverage	4.34	8.49	4.72	4.62
Operating Cash Flow Ratio	1.45	1.09	0.99	0.94
Debt/net income	1.77	1.66	1.61	1.65
Debt/operating cashflow	0.39	0.51	0.55	0.58
Debt to asset	0.48	0.56	0.58	0.58
Total liabilities/equities	0.94	1.27	1.37	1.37
Inventory turnover	7.94	9.45	10.62	9.89
Inventory turnover days	45.33	38.11	33.90	36.40
Account payable days	270.80	287.19	307.80	307.80

Fig. 17: Shareholders' Investment Ratios

	2019	2020	2021F	2022F
EPS (₦)	11.77	16.20	18.76	19.82
DPS (₦)	16.00	16.00	16.50	18.00
NAVPS (₦)	52.69	52.29	54.66	59.03
Earnings yield (%)	5.50	7.57	8.77	9.26

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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