Dangote Cement Plc

Nigeria | Equities | Industrial Goods | May 17, 2022 PAC RESEARCH

Revenue Grows by 24% in Q1-2022, Despite the Supply Chain Challenges

Oluwole Adeyeye
oluwole.adeyeye@panafricancapitalholdings.com

INVESTMENT SUMMARY

Dangote Cement started the year 2022 with impressive performance as the Group revenue improved by 24.21% to ₦413.18 billion in the first quarter of 2022 (vs. ₦332.65 billion in the first quarter of 2021), despite the reduction in cement volumes across Africa. The increase in the revenue of the company was mainly driven by the full year benefit of 2021 price increases in various countries. Out of the company's cement capacity of 51.6 million tonnes per annum across Africa, a total of 7.25 million tonnes was produced in Q1'21, which is 3.63% lower than the 7.52 million tonnes achieved in the corresponding quarter of the previous year. Meanwhile, inflationary pressure bit hard on the manufacturing cost as it increased by 20.40% to ₦154.11 billion in Q1'22 (vs. ₦128.00 billion in Q1'21), despite the lower cement volumes during the period. In addition, the total selling and administrative expenses grew by 36.60% to ₦77.62 billion in Q1'22 (vs. ₦56.82 billion in Q1'21), due to inflationary pressure and foreign currencies conversion to naira. Even with higher operating costs, the group's EBITDA grew by 18.57% to ₦211.02 billion in Q1'22 (vs. ₦177.97 billion in Q1'21).

The net finance cost of the company increased by 22.00% to ₦26.41 billion in Q1'22 (vs. ₦21.64 billion in Q1'21), mainly driven by exchange losses from intercompany balances in Nigeria (which did not eliminate fully on consolidation) during the period. Notwithstanding the setback in the non-operating activities of the Group, the profit before tax improved by 20.21% to ₦156.40 billion in Q1'22 (vs. ₦130.10 billion in Q1'21). The Group made a higher provision of ₦50.55 billion for tax in Q1'22 (Q1'21: ₦40.39 billion). Despite the higher tax provision, the profit after tax grew by 17.99% to ₦105.85 billion in Q1'22 (vs. ₦89.71 billion in Q1'21), which resulted in 12-month trailing earnings per share of ₦22.33. With the impressive performance and positive outlook, we upgrade the target price per share to ₦324.66 (previous target price per share: ₦315.12) but downgrade to a **HOLD** recommendation.

Fig. 1: Quarterly results highlights

	1Q2022	4Q2021	1Q2021	Q/q Δ	Y/y Δ
Revenue (₦'mn)	413,181	361,451	332,651	+14.31%	+24.21%
Op. Profit (₦'mn)	182,803	141,941	151,744	+28.79%	+20.47%
Net profit (₦'mn)	105,851	85,963	89,710	+23.14%	+17.99%

Source: NGX, Bloomberg, PAC Research

Price:	
- Current	**₦300.00**
- Target	**₦324.66**
Recommendation:	**HOLD**

** As at Monday May 16, 2022*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+16.73%/+39.53%
52-week range	₦204.00- ₦300.00
30-day Average vol.	414,791
Shares Outstanding ('mn)	17,040.51
Market Cap. (₦bn)	5,112.15
EPS (₦) – 12 months trailing	22.33
DPS (₦) - FY2021	20.00

Source: NGX, Bloomberg, PAC Research

Fig. 3: Key ratios

	Q1'22	Q1'21
Gross profit margin	62.70%	61.52%
Net profit margin	25.62%	26.97%
Equity multiplier	2.33x	2.18x
Asset turnover	0.17x	0.16x

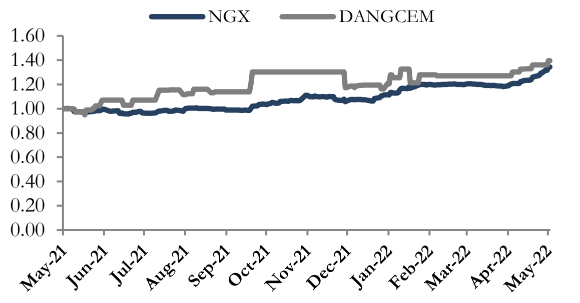
Source: NGX, PAC Research

Fig. 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E	18.52x	14.03x	12.70x	11.71x
P/B	5.74x	5.20x	4.88x	4.44x
Div Yield (%)	5.33	6.67	7.33	8.00
Pay-out Ratio	98.76%	93.52%	93.15%	93.67%
EV/EBITDA	11.45x	7.82x	6.64x	6.13x
Ev/Revenue	5.28	3.87	3.31	3.02
Sales Per Share	60.69	81.20	95.81	105.39
P/S Ratio	4.94	3.69	3.13	2.85

Source: NGX, PAC Research

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



Source: Bloomberg, PAC Research

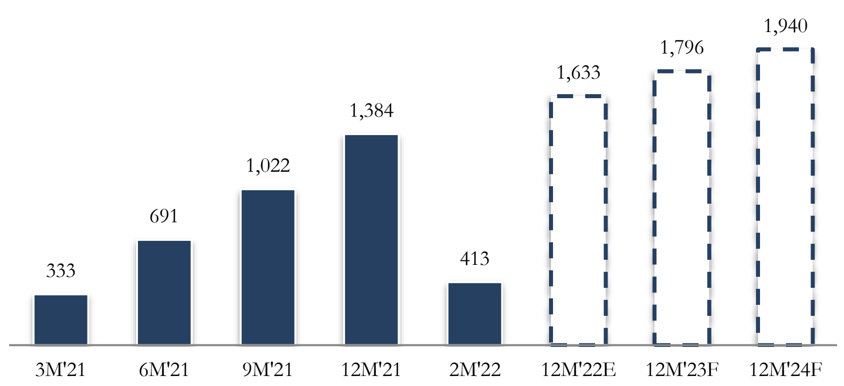
Group revenue rises by 24.21%, driven by higher prices: Dangote Cement witnessed supply chain challenges in the first quarter of 2022 as the Group production volume fell by 3.63% to 7.25 million tonnes during the period (vs. 7.52 million tonnes in the first quarter of 2021). Specifically, cement volume in Nigerian operation declined by 1.51% to 4.83 million tonnes in Q1'22 (Q1'21: 4.91 million tonnes), due to gas supply disruptions which affected cement production during the period. In addition, the price of AGO (diesel) increased significantly in Nigeria in the first quarter of 2022 and this impacted the logistics required to deliver cement across the country. Cement volume in Pan-African operations fell by 7.62% to 2.41 million tonnes in Q1'22 (Q1'21: 2.61 million tonnes), mainly because of the extended plant maintenance in Senegal and Congo. In addition, the volatility in cement/clinker landing costs in Cameroon, Ghana and Sierra-Leone also contributed to the setback recorded in Pan-African cement volume during the period.

… cement volume in Nigerian operation declined by 1.51% to 4.83 million tonnes in Q1'22 (Q1'21: 4.91 million tonnes), due to gas supply disruptions...

Meanwhile the full year benefit of 2021 price increases spilled over to the first quarter of 2022, and this offset the lower production volumes in various countries during the period. Hence, the revenue of the group increased by 24.21% to ₦413.18 billion in Q1'22 (vs. ₦332.65 billion in Q1'21). Revenue from Nigerian operations increased by 34.31% to ₦91.26 billion in Q1'22 (Q1'21: ₦239.68 billion), while revenue from Pan-African operations fell by 1.83% to ₦91.26 billion in Q1'22 (Q1'21: ₦92.97 billion). This shows that Nigeria contributed about 78% to overall revenue while Pan-African operations contributed about 22% to overall revenue during the period.

In the coming quarters, we may witness improvement in the cement production volumes across Africa due the availability of gas, AGO, improved economic activities in Nigeria, anticipation of deployment of grinding plants in Ghana and Cote d'Ivoire and expectation of production from 3Mta Okpella plants in the coming months.

Fig. 6: Revenue – 3M'21 - 12M'24F (Billion NGN)



Source: NGX, Bloomberg, PAC Research

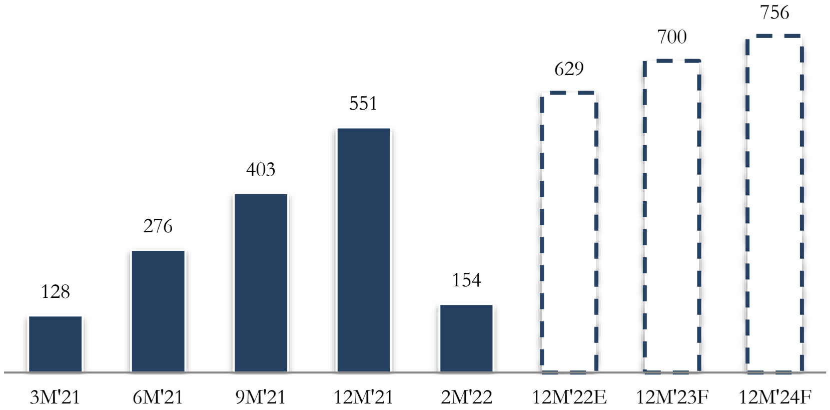
Despite the lower production volume, Group manufacturing costs rises by 20.40% year-on-year: In the first quarter of 2022, the manufacturing costs of the group increased by 20.40% to ₦154.11 billion (vs. ₦128.00 billion in the first quarter of 2021), mainly driven by inflationary pressure, which reflected in plant maintenance cost and rising energy costs. In addition, the Nigerian Naira depreciated by ₦8.00 to ₦416/1US$ at the end of Q1'22 (vs. ₦408/1US$ at the end of Q1'21), which resulted in an increase in price of gas that is pegged to the US dollars.

Specifically, fuel & power consumed cost and materials consumed cost constituted about 36% and 33% of the overall manufacturing cost, respectively. The cost of fuel & power consumed and the cost of materials consumed grew by 36.29% and 2.64% to ₦55.47 billion (Q1'21: ₦40.70 billion) and ₦50.62 billion in Q1'22 (Q1'21: ₦49.32 billion), respectively.

…manufacturing costs of the group increased by 20.40% to ₦154.11 billion (vs. ₦128.00 billion in the first quarter of 2021), mainly driven by inflationary pressure...

In addition, the total selling and administration expenses increased by 36.60% to ₦77.62 billion in Q1'22 (vs. ₦56.82 billion in Q1'21), mainly driven by higher haulage expenses, AGO (diesel) costs and other general administrative expenses. Inflationary pressure and foreign currency conversion to Naira also drove part of the costs during the period. With the anticipation of improved production volumes and higher inflation in coming months, we may continue to see increase in manufacturing costs and other operating costs in the second quarter of 2022.

Fig. 7: Manufacturing Costs – 3M'21 – 12M'24F (Billion NGN)



Source: NGX, Bloomberg, PAC Research

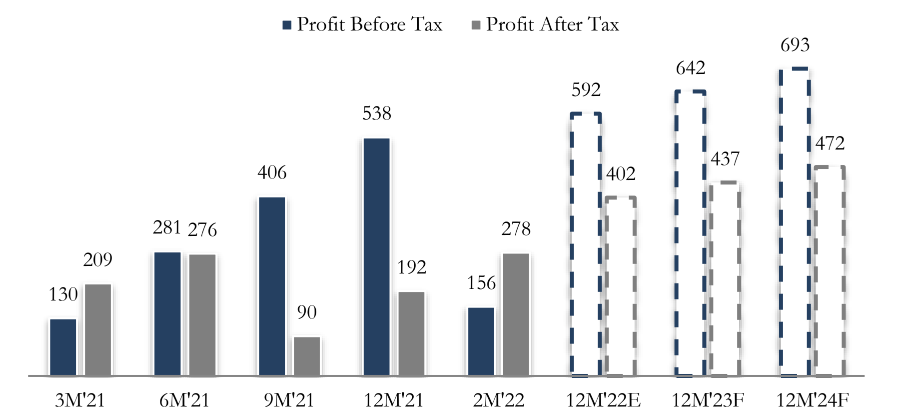
Impressive operating performance outweighs the setback in non-operating activities as profit before tax grows by 20.21% year-on-year: The net finance cost of the company increased by 22.00% to ₦26.41 billion in Q1'22 (vs. ₦21.64 billion in Q1'21), mainly driven by exchange losses from intercompany balances in Nigeria (which did not eliminate fully on consolidation) during the period. The exchange loss increased by 71.63% to ₦18.22 billion in Q1'22 (Q1'21: ₦10.62 billion).

Notwithstanding the setback in the non-operating activities of the company during the period, the improved operating activities lifted the profit before tax by 20.21% as it increased to ₦156.40 billion Q1'22 (vs. ₦130.10 billion recorded in Q1'21).

Meanwhile, the company made a higher provision of ₦50.55 billion for tax in Q1'22 (Q1'21: ₦40.39 billion), driven by higher tax provision in Nigeria. Despite the higher tax provision during the period, profit after tax grew by 17.99% to ₦105.85 billion in Q1'22 (vs. ₦89.71 billion reported in Q1'21). This resulted in basic earnings per share (EPS) of ₦6.18 in Q1'22 (Q1'21: ₦5.29).

Despite the higher tax provision during the period, profit after tax grew by 17.99% …

Fig. 8: Profit before Tax and Profit after Tax – 3M'21 -12M'24F (Billion NGN)



Source: NGX, Bloomberg, PAC Research

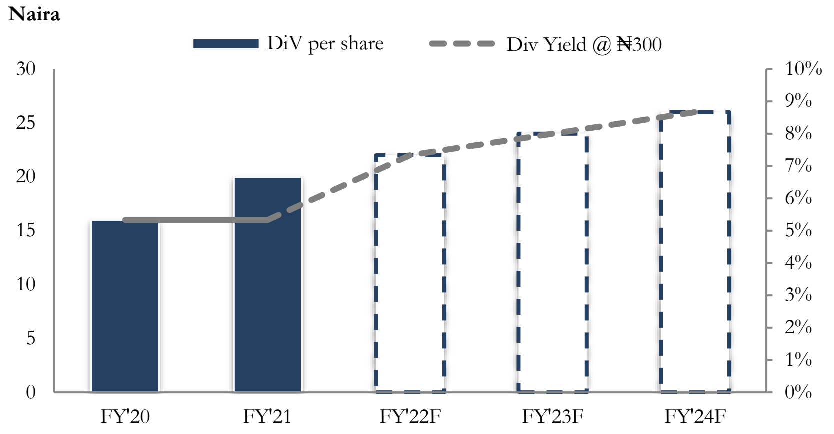
Dangote Cement maintains strong balance sheet in Q1'22; Expectation of impressive dividend payment in FY'22: The total assets of the Group improved by 15.99% to ₦2.46 trillion in the first quarter of 2022 (vs. ₦2.12 trillion recorded in the first quarter of 2021), driven by improvement recorded in current and non-current assets. The non-current assets rose by 1.93% to ₦1.48 trillion in Q1'22 (vs. ₦1.46 trillion reported in Q1'21) mainly due to additional investment of about ₦50.69 billion in property, plant and equipment in Nigeria and Pan-African operations. Also, the current assets of the group grew by 46.72% to ₦976.83 billion in Q1'22 (vs. ₦665.77 billion reported in Q1'21), driven by 33.69% growth in inventories, 11.97% rise in prepayments and other current assets and 47.63% increase in bank and cash balances.

…Dangote Cement may likely reward the shareholders with impressive dividend payment in the full year of 2022.

However, total liabilities of the group increased significantly by 22.17% to ₦1.41 trillion in Q1'22 (vs. ₦1.15 trillion in Q1'21) as a result of higher current tax payables, financial liabilities, deferred tax liabilities, among others. Meanwhile, 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 8.67% to ₦1.06 trillion in Q1'22 (vs. ₦0.97 trillion reported in Q1'21), which translated to a net asset per share of ₦61.93 (vs. ₦56.99 in Q1'21).

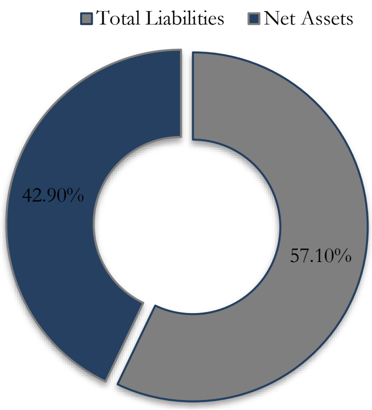
With the impressive operating performance in the first quarter of 2022 and expectation of improved production volume across the group in coming quarters, Dangote Cement may likely reward the shareholders with impressive dividend payment in the full year of 2022.

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



Source: NGX, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in Q1'22



Source: NGX, Bloomberg, PAC Research

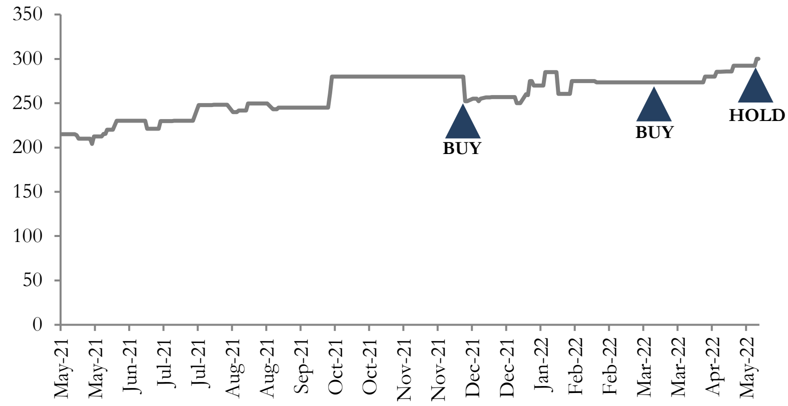
Valuation

Our valuation puts the target price of the stock at ₦324.66, representing an increase of 8.22%, from the current price of ₦300.00. In arriving at the target price, we employed Discounted Cash Flow (DCF) valuation methodology. Consequently, we downgrade to a **HOLD** 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 ₦324.66, representing an increase of 8.22%, from the current price of ₦300.00.

Fig. 11: Share Price History (Naira)



Source: Bloomberg, PAC Research

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

	2020	2021	2022F	2023F
Revenue	1,034,196	1,383,637	1,632,692	1,795,961
Change		*33.79%*	*57.87%*	*10.00%*
Cost of Sales	(437,970)	(551,019)	(628,586)	(700,425)
Change		*25.81%*	*43.52%*	*11.43%*
Gross Profit	596,226	832,618	1,004,105	1,095,536
Change		*39.65%*	*68.41%*	*9.11%*
SG&A	(214,058)	(256,007)	(310,211)	(341,233)
Change		*19.60%*	*44.92%*	*10.00%*
Other Income	4,754	6,221	4,082	4,490
Change		*30.86%*	*-14.14%*	*10.00%*
Operating profit	386,734	582,491	697,976	758,793
Change		*50.62%*	*80.48%*	*8.71%*
Finance Income	29,814	20,765	40,817	44,899
Change		*-30.35%*	*36.91%*	*10.00%*
Finance Cost	(43,988)	(65,707)	(146,942)	(161,636)
Change		*49.37%*	*234.05%*	*10.00%*
Profit Before Taxation	373,310	538,366	591,851	642,056
Change		*44.21%*	*58.54%*	*8.48%*
Taxation	(97,242)	(173,927)	(189,392)	(205,458)
Change		*78.86%*	*94.76%*	*8.48%*
Profit After Taxation	276,068	364,439	402,458	436,598
Change		*32.01%*	*45.78%*	*8.48%*

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

	2020	2021	2022F	2023F
Property, Plant & Equip.	1,390,687	1,472,859	1,518,403	1,670,244
Intangible assets	4,554	5,122	7,347	8,082
Deffered tax assets	11,708	5,163	6,531	7,184
Inventories	108,270	167,205	212,250	233,475
Trade and other recievables	35,194	47,469	57,144	62,859
Bank and Cash Balances	145,835	339,843	408,173	448,990
Total current assets	550,138	873,042	1,105,822	1,216,404
Total Assets	2,022,451	2,392,019	2,679,900	2,947,890
Trade and other payables	349,388	371,224	400,009	440,010
Current tax payable	59,781	153,385	179,596	197,556
Financial debt	335,011	401,393	473,481	520,829
Other current liabilities	83,460	148,294	163,269	179,596
Total current liabilities	829,817	1,076,483	1,219,784	1,341,762
Deferred tax liabilities	122,980	135,003	163,269	179,596
Net Assets	890,970	983,669	1,046,719	1,151,390

Fig. 14: Profitability Ratio

	2020	2021	2022F	2023F
Return on Equity	30.99%	37.05%	38.45%	37.92%
Return on Assets	13.65%	15.24%	15.02%	14.81%
Gross margin	57.65%	60.18%	61.50%	61.00%
EBITDA margin	46.12%	49.44%	49.78%	49.28%
PBT margin	36.10%	38.91%	36.25%	35.75%
Net Profit Margin	26.69%	26.34%	24.65%	24.31%

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	0.61	0.61
Sales to total fixed assets	0.74	0.94	1.08	1.08
Equity multiplier	2.27	2.43	2.56	2.56
fixed asset turnover	1.34	1.06	0.93	0.93

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	4.03	3.97
Operating Cash Flow Ratio	1.09	0.85	0.83	0.80
Debt/net income	1.66	1.47	1.58	1.60
Debt/operating cashflow	0.51	0.59	0.63	0.65
Debt to asset	0.56	0.59	0.61	0.61
Total liabilities/equities	1.27	1.43	1.56	1.56
Inventory turnover	9.45	8.21	11.51	8.06
Inventory turnover days	38.11	43.83	31.27	44.67
Account payable days	287.19	242.53	229.09	226.15

Fig. 17: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
EPS (₦)	11.77	16.20	23.62	25.62
DPS (₦)	16.00	16.00	22.00	24.00
NAVPS (₦)	52.69	52.29	61.43	67.57
Earnings yield (%)	3.92	5.40	7.87	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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PanAfrican Capital Holdings Ltd
8A, Elsie Femi Pearse Street
Victoria Island
Lagos, Nigeria
Tel: +234 (1) 2716899, 2718630
www.panafricancapitalholdings.com