



Event

Dangote Sugar Refinery Plc had an impressive financial performance in Q2 2022 as revenue grew by 41% YoY to N91.01bn compared to N64.56bn in the corresponding Q2 of 2021, and bottom line recorded a solid growth of 164% YoY to N11.37bn from N4.30bn. The management attributed the revenue performance to volume growth. We also believe that higher pricing contributed to the revenue growth.

Higher Pricing Offsets Higher Cost of Raw Materials.

Owing to the challenges of high cost of key raw materials which was driven by global inflationary pressures, the Group recorded a 33% YoY cost of sales increase to N71.65bn from N54.01bn in Q2 2021 with raw materials costs accounting for 81% of the cost of sales.

The increase in prices and high-volume outturn yielded positive result as the 84% increase in gross profit shows that the revenue growth was effective enough to offset the increased cost of sales.

The Group was efficient in its operations as operating expense declined by 16% to N2.50bn from N2.98bn in Q2 2021 as the Company recorded an improved figure in both administrative and selling expenses.

Across its geographical footprint, the Group recorded a YoY increase across its Lagos (35% to N42.55bn) and Northern (52% to N39.41bn) region, and a decline across its Eastern and Western (excluding Lagos) region where it recorded a YoY loss of 36% to N5.12bn and 486% to N3.93bn respectively.

Dangote Sugar (N'mn)	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	91,008	64,558	94,449	67,394
Revenue growth	41%		40%	
Gross profit	19,356	10,547	19,463	18,044
Gross margin	21%	16%	21%	27%
Operating profit	17,089	7,597	17,027	15,884
Operating margin	19%	12%	18%	24%
Net profit	11,372	4,304	8,870	8,302
Net margin	12%	7%	9%	12%
Earnings per share	N0.94	N0.35	N0.73	N0.68

Source: Company Accounts, WSTC Research

BUY

Fair Value Estimate:
N21.08

Total return: +36%

Stock Data

Current price (N)	16.55
Shares Outstanding (mn)	12,147
Market Cap (N'mn)	201,031
52-week high (N)	18.40
52-week low (N)	15.00
Trailing EPS (N)	1.82
Forward EPS (N)	2.70
Forward PE (X)	6.13
Justified PE Multiple (X)	7.79



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	6.75x	9.12x	6.12x
P/BV	1.61x	1.56x	1.35x
PBT Margin	21%	12%	13%
PAT Margin	14%	8%	9%
RoE	26%	17%	24%
Dividend Yield	9%	6%	7%

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H1 2022 Financial Performance Summary

Income Statement (N'mn)	H1 2022	H1 2021	YoY Change (%)
Revenue	185,457	131,952	41%
Cost of sales	(146,639)	(103,361)	42%
Gross profit	38,818	28,591	36%
Other income	301	129	134%
Operating income	39,120	28,720	36%
<i>Selling expenses</i>	(369)	(289)	28%
<i>Admin expense</i>	(4,635)	(4,950)	-6%
Operating expense	(5,004)	(5,239)	-4%
Operating profit	34,116	23,481	45%
Non-operating profit/(loss)	(4,381)	(4,726)	-7%
<i>Finance cost</i>	(7,306)	(4,799)	52%
<i>Finance income</i>	1,948	504	286%
<i>Fair value adjustment</i>	977	(432)	326%
Profit before tax	29,735	18,755	59%
Income tax	(9,493)	(6,150)	54%
Profit after tax	20,242	12,605	61%
Balance Sheet Information (N'mn):	H1 2022	H1 2021	YoY Change (%)
Assets			
Non-current assets			
Property, plant and equipment	150,435	116,260	29%
Inventories	63,769	61,601	4%
Trade and other receivables	47,981	48,643	-1%
Assets held for sale	869	869	0%
Cash and cash equivalents	130,042	50,809	156%
Others	6,358	5,691	12%
Total Assets	399,454	283,872	40%
Liabilities			
Trade and other payables	229,522	145,908	57%
Loans and borrowings	877	1,084	-19%
Others	32,328	17,783	82%
Total Liabilities	262,728	164,776	59%
Net Assets	136,726	119,097	15%

Outlook

We expect DSR to sustain its growth trajectory into H2 2022. We believe that an industry-wide price hike and the Company's market leadership status are the catalysts to earnings growth. Therefore, as input costs keep rising, we expect the Group to pass the burden to consumers.

We maintain our BUY recommendation for DSR, with a N21.08 fair value. The total return estimate is 36% (inclusive of a 7% estimated dividend yield), relative to the current share price of N16.40.

Financial Projections

Income statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Revenue	276,055	377,211	471,514	565,817	650,690	715,759	787,335
EBITDA	48,292	70,057	84,283	105,903	128,976	141,889	156,000
EBIT	39,020	57,543	67,830	86,153	128,976	141,889	156,000
Profit before taxation (PBT)	34,021	48,313	60,377	78,482	119,636	132,043	144,907
Net profit (PAT)	22,052	32,853	41,057	53,368	81,352	89,789	98,537
EPS (₹)	1.82	2.70	3.38	4.39	6.70	7.39	8.11
DPS (₹)	1.00	1.20	1.35	1.76	2.68	2.96	3.24
Balance sheet (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Current assets	214,828	274,045	341,574	417,698	495,093	567,163	631,921
Non-current assets	144,678	184,974	201,527	210,067	220,154	231,454	243,786
Total assets	359,506	459,019	543,101	627,764	715,247	798,617	875,707
Current liabilities	218,543	294,428	351,100	397,503	424,015	449,282	462,891
Non-current liabilities	12,331	15,254	16,183	17,499	18,464	19,319	20,179
Long-term debt	764	2,829	3,536	4,244	4,880	5,368	5,905
Shareholders' equity	128,631	149,337	175,818	212,763	272,768	330,016	392,637
Book value per share (₹)	10.59	12.29	14.47	17.52	22.46	27.17	32.32
Cash flow statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Cash from operating activities	129,247	64,494	80,834	87,276	111,786	121,660	119,802
Cash from investing activities	(51,292)	(51,893)	(32,524)	(27,330)	(31,534)	(34,585)	(38,144)
Cash from financing activities	(19,806)	(13,719)	(21,336)	(23,530)	(30,452)	(42,526)	(47,143)
Net increase/ (decrease) in cash	58,149	(1,118)	26,973	36,415	49,800	44,549	34,515
Free Cash Flow to Equity	76,281	10,113	41,068	51,878	70,147	75,887	69,207
Ratio analysis (%)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
EBITDA margin	17.49	18.57	17.88	18.72	19.82	19.82	19.81
Operating margin	14.13	15.25	14.39	15.23	19.82	19.82	19.81
ROE	17.41	23.64	25.25	27.47	33.51	29.79	0.00
ROA	6.92	8.03	8.19	9.12	12.11	11.86	11.77
Dividend payout ratio (%)	55.08	44.37	40.00	40.00	40.00	40.00	40.00

Source: Company Accounts, WSTC Research

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 15\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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