

December 21, 2023



Earnings Note

Event

In Q3 2023, Dangote Cement ("the Group") reported an impressive revenue growth of 53% year-on-year to N563.77bn from N369.22bn in Q3 2022. The Nigerian region contributed 56% to revenue (Q1 2023: 69%, Q2 2023: 62%), while the Pan-African region contributed 44% ((Q1 2023: 31%, Q2 2023: 38%).

The Nigerian operation recorded another volume decline - this is the third consecutive quarterly decline in 2023. Historically, the third quarter is usually characterised by heavy rainfall, hence, the Group experience lower patronage. Consequently, volume sales declined by 6% year-on-year to 3.91million metric tons (MMT) from 4.41 million metric tons (MMT). Nevertheless, the group took prices increases to offset the decline, thereby driving revenue higher by 18% year-on-year to N314.54bn from N267.67bn in Q3 2022.

The Pan-African operations sustained its positive performance as predicted in our [last earnings report](#), which was chiefly supported by operations in the newly commissioned Ghana plant and capacity optimisation in Senegal, Ethiopia, and Cameroon. As a result, volume increased by 22% year-on-year to 3.07 million metric tons (MMT) with revenue increasing significantly by 143% year-on-year to N251.85bn.

Elsewhere, cost pressures continued in line with the prevalent FX challenges and rising energy cost, driving cost of sales higher by 61% year-on-year to N259.66bn in Q3 2023. Most of the pressure came from power (+44% year-on-year), raw materials (+40% year-on-year), and plant maintenance (+74% year-on-year). Nevertheless, gross profit grew by 48%, but gross margin came in weaker at 54% (Q3 2022: 56%).

Operating expenses grew by 37% year-on-year to N128.35bn from N93.87bn in Q3 2022, due to rising haulage expenses. Despite the harsh effect of diesel prices, operating profit rose by 57% year-on-year to N180.97bn from N115.50bn in Q3 2022. Furthermore, Net finance cost declined by 49% year-on-year to N22.59bn from N44.49bn in Q3 2022, which was supported by FX gains of N14.05bn.

The cumulative impact was a 132% year-on-year surge in profit before tax, primarily reflecting the translation gains from the Pan-African operations. That said, profit after tax grew by 141% year-on-year to N98.95bn from N41.00bn in Q3 2022 despite a 120% year-on-year surge in tax expenses.

HOLD

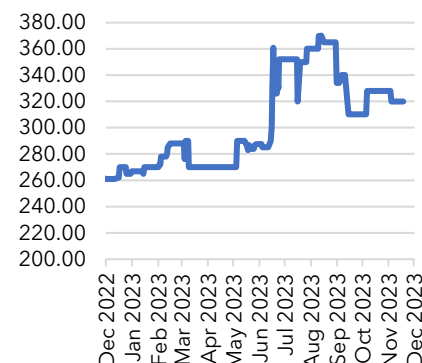
Fair Value Estimate:
N351.73

Total Return: +17%

Stock Data

Current price (N)	320.00
Shares Outstanding (mn)	17,000
Market Cap (N'mn)	5,440,000
52-week high (N)	380.00
52-week low (N)	260.00
Trailing EPS (N)	22.49
Forward EPS (N)	25.30
Forward PE (X)	12.65
Justified PE Multiple (X)	13.90

Price Movement



Stock Data

	FY 2021	FY 2022	FY 2023F
P/E	14.93x	14.23x	12.65x
P/BV	5.53x	5.04x	4.65x
PBT Margin	39%	32%	28%
PAT Margin	26%	24%	20%
RoE	39%	37%	40%
Dividend Yield	6%	6%	7%

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Q3 2023 Financial Performance

Income Statement (N'mn)	Q3 2023	Q3 2022	Growth (%)
Revenue	563,769	369,219	53%
Cost of sales	(259,655)	(161,370)	61%
Gross profit	304,114	207,849	46%
Other income	5,578	1,514	268%
Operating income	309,692	209,363	48%
General and administrative expense	(28,939)	(16,281)	78%
Selling and distribution expense	(99,415)	(77,590)	28%
Operating expense	(128,354)	(93,871)	37%
Operating profit	181,338	115,492	57%
Non-operating profit	(16,311)	(44,482)	-63%
Finance income	4,460	6,833	-35%
Finance cost	(41,657)	(19,592)	113%
FX (loss)/gain	14,610	(31,733)	146%
Other gains/(losses)	6,642	0	100%
Impairment of financial assets	(366)	10	-99%
Profit before tax	165,027	71,010	132%
Taxation	(66,082)	(30,013)	120%
Profit/Loss for the year	98,945	40,997	141%

Source: Company Accounts, WSTC Research

Outlook

Following improved performance in Q3 2023, we revised our revenue projection yet again to N2.17 trillion (previously N1.90 trillion). We expect revenue growth to be delivered through a combination of elevated cement prices and increased volumes as promotional campaigns have commenced across the country. Conversely, the Group is taking proactive steps to improve its cost-efficiency initiatives by gradually transitioning the Okpella plant to run on Compressed Natural Gas (CNG) and expanding the deployment of CNG trucks for distribution.

Overall, our fair value estimate for the stock is N351.73. At the current market price, the stock trades at 12.65x to our estimated EPS - versus a 13.90x justified P/E. By implication, we see a +10% price return. In addition to an estimated 7% dividend yield, the stock's total return stands at +17%. We retain our **HOLD** recommendation.

9M 2023 Financial Performance

Income Statement (N'mn)	9M 2023	9M 2022	Growth (%)
Revenue	1,514,601	1,177,256	29%
Cost of sales	(642,743)	(483,831)	33%
Gross profit	871,858	693,425	26%
Other income	16,635	3,115	434%
Operating income	888,493	696,540	28%
General and administrative expense	(74,421)	(50,415)	48%
Selling and distribution expense	(252,640)	(212,862)	19%
Operating expense	(327,061)	(263,277)	24%
Operating profit	561,432	433,263	30%
Non-operating profit	(156,542)	(97,363)	61%
Finance income	20,667	28,834	-28%
Finance cost	(91,081)	(54,167)	68%
FX (loss)/gain	(99,016)	(72,390)	37%
Other gains/(losses)	13,312	0	-125%
Impairment of financial assets	(424)	360	-99%
Profit before tax	404,890	335,900	21%
Taxation	(127,342)	(122,799)	4%
Profit/Loss for the year	277,548	213,101	30%
Balance Sheet (N'mn)	9M 2023	9M 2022	Growth (%)
Assets			
PP & E	2,019,007	1,378,109	47%
Inventory	367,351	237,824	54%
Receivables	67,536	41,873	61%
Prepayments	369,507	417,664	-12%
Cash	385,262	216,834	78%
Others	136,070	41,434	228%
Total Assets	3,344,733	2,333,738	43%
Liabilities			
Loans & Borrowings	1,085,492	718,653	51%
Payables	499,110	301,979	65%
Others	394,121	474,888	-17%
Total Liabilities	1,978,723	1,495,520	32%
Net Assets	1,366,010	838,218	63%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	1,383,637	1,618,323	2,165,167	2,506,150	3,009,966	3,221,427	3,495,743	3,760,739
EBITDA	683,598	706,043	938,411	1,113,702	1,353,518	1,459,120	1,586,815	1,703,604
EBIT	582,832	585,653	786,849	923,363	1,124,914	1,221,304	1,328,051	1,425,501
Profit before taxation (PBT)	538,366	524,002	597,412	838,108	1,060,153	1,175,747	1,291,171	1,390,886
Net profit (PAT)	364,439	382,311	430,137	603,437	773,912	858,295	942,555	1,015,347
EPS (₦)	21.44	22.49	25.30	35.50	45.52	50.49	55.44	59.73
DPS (₦)	20.00	20.00	22.00	25.00	25.00	30.00	35.00	35.00
Balance sheet (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Other current assets	533,199	739,618	813,655	864,966	1,050,261	1,040,817	1,115,656	1,166,637
Non-current assets	1,518,977	1,592,194	1,981,924	2,048,465	2,290,017	2,213,272	2,129,295	2,039,230
Total assets	2,392,019	2,615,655	3,118,928	3,152,760	3,552,638	4,079,075	4,590,351	5,063,793
Current liabilities	1,076,483	1,021,685	1,378,589	1,243,907	1,367,833	1,475,216	1,561,329	1,622,995
Non-current liabilities	331,867	515,023	571,255	510,332	437,372	423,132	415,740	407,169
Total liabilities	1,408,350	1,536,708	1,949,844	1,754,239	1,805,205	1,898,348	1,977,069	2,030,164
Shareholders' equity	983,669	1,078,947	1,169,084	1,398,521	1,747,433	2,180,728	2,613,282	3,033,629
Cash flow statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Cash from operating activities	596,709	387,835	771,507	772,296	1,085,362	1,335,231	1,346,893	1,395,898
Cash from investing activities	(126,869)	(126,822)	(503,668)	(211,582)	(423,250)	(102,156)	(108,130)	(118,163)
Cash from financing activities	(332,222)	(373,779)	(228,333)	(644,733)	(689,083)	(620,448)	(718,350)	(765,209)
Net increase/ (decrease) in cash	137,618	(112,766)	39,505	(84,019)	(26,970)	612,627	520,413	512,526
Free cash flow	410,895	321,890	230,215	515,416	615,206	1,174,160	1,172,106	1,207,861
Ratio analysis	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
EBITDA margin	49%	44%	43%	44%	45%	45%	45%	45%
Operating margin	42%	36%	36%	37%	37%	38%	38%	38%
RoE	39%	37%	38%	47%	49%	44%	39%	36%
RoA	17%	15%	15%	19%	23%	22%	22%	21%
Dividend payout ratio	93%	89%	87%	70%	55%	59%	63%	59%

Source: Company Accounts, WSTC Research



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- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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