



Event

In Q3 2023, Dangote Sugar Refinery ('the Group') reported a tempered year-on-year revenue growth of 4% to N106.93 billion from N102.86 billion in Q3 2022. In our view, the moderate revenue growth in Q3 2023 suggests that the Group struggled with volume sales.

Gross profit experienced a pronounced 65% contraction, plummeting to N6.47 billion in Q3 2023 from N18.62 billion in Q3 2022, due to the year-on-year escalation in the cost of goods sold which surpassed the revenue growth. The cost of goods increased by 19% to N100.46 billion in Q3 2023 from N84.25 billion in Q3 2022, fueled by a 21% rise in the cost of raw materials, as price of raw sugar remained elevated. Consequently, the gross margin weakened by 1200 basis points to 6% in Q3 2023 from 18% in Q2 2022.

Operating expenses grew by 18%, reaching N3.45 billion in Q3 2023, from N2.92 billion in Q3 2022. This growth stemmed from a 20% ascent in administrative expenses, which overshadowed the simultaneous 17% decrease in selling and distribution expenses. Accordingly, operating profit declined by 75% to N3.89 billion in Q3 2023 from N15.76 billion in Q3 2022.

Buoyed by the high interest rate in the operating environment, the Group's net finance cost soared to N7.77 billion in Q3 2023 from N526.51 million in Q3 2022, due to a significant 349% upswing in finance cost, despite a corresponding 38% growth in finance income. Notably, FX loss incurred in Q3 2023 declined by 16% to N7.90 billion from N9.41 billion in Q3 2022.

The Group incurred a loss before tax of N9.96 billion in Q3 2023, reflecting a 252% decrease from Q3 2022 profit before tax of N6.54 billion. However, a tax credit of N10.92 billion in Q3 2023, enabled the Group to report a profit after tax of N960.00 million. This, nevertheless, reflects a 79% downturn from N4.59 billion in Q3 2022.

HOLD

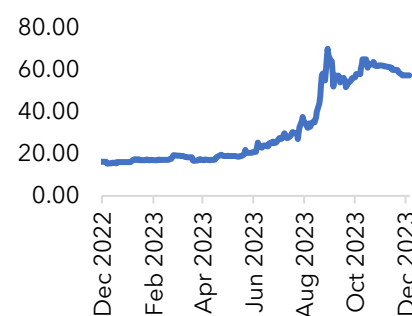
Fair Value Estimate:
N52.87

Total return: **-6%**

Stock Data

Current price (N)	56.50
Shares Outstanding (mn)	12,147
Market Cap (N'mn)	686,299
52-week high (N)	71.50
52-week low (N)	15.50
Trailing EPS (N)	4.51
Forward EPS (N)	(2.11)
Forward PE (X)	N/A
Justified PE Multiple (X)	N/A

Price Movement



Stock Data	FY 2021	FY 2022	FY 2023F
P/E	9.64x	3.59x	N/A
P/BV	1.65x	1.15x	18.97x
PBT Margin	12%	20%	-9%
PAT Margin	8%	14%	-6%
RoE	17%	37%	-17%
Dividend Yield	6%	9%	0%

Analysts

Isaac Osaro

i.osaro@wstc.com.ng

Oluwadamilola Pase

o.pase@wstc.com.ng

Q3 2023 Financial Performance

Income Statement (N'mn)	Q3 2023	Q3 2022	Growth (%)
Revenue	106,930	102,863	4%
Cost of sales	(100,462)	(84,246)	19%
Gross profit	6,468	18,617	-65%
Other income	867	62	1306%
Operating income	7,335	18,679	-61%
Selling expenses	(156)	(189)	-17%
Admin expense	(3,293)	(2,735)	20%
Operating expense	(3,450)	(2,924)	18%
Operating profit	3,885	15,755	-75%
Non-operating income/(expense)	(13,846)	(9,219)	50%
Finance cost	(10,162)	(2,262)	349%
Finance income	2,397	1,737	38%
FX loss	(7,902)	(9,406)	-16%
Impairment gains/(losses)	59	0	100%
Fair value adjustment	1,762	713	147%
Profit before tax	(9,961)	6,537	-252%
Income tax	10,921	(1,946)	-661%
Profit after tax	960	4,590	-79%

Source: Company Accounts, WSTC Research

Outlook

Given the Group's leadership status in its industry and the anticipated improvement in its margin due to the efficiencies expected after the proposed merger between Dangote Sugar Refinery Plc, Nascon Allied Industries Plc and Dangote Rice Limited, we maintain our optimism for the Group in the medium to long term.

However, the Group currently grapples with volume challenges amid elevated input costs, leading us to temper our optimism for a substantial uptick in the final quarter of the 2023 fiscal year. Consequently, we have adjusted our FY 2023 revenue forecast downward to 7% (previous: 11%), while upholding our **HOLD** recommendation for the stock, we also adjusted our fair value downward to N52.87 (previous: N57.33).

9M 2023 Financial Performance

Income Statement (N'mn)	9M 2023	9M 2022	Growth (%)
Revenue	309,713	288,321	7%
Cost of sales	(245,057)	(230,885)	6%
Gross profit	64,657	57,436	13%
Other income	1,012	363	179%
Operating income	65,668	57,799	14%
Selling expenses	(460)	(558)	-18%
Admin expense	(9,125)	(7,370)	24%
Operating expense	(9,585)	(7,927)	21%
Operating profit	56,084	49,872	12%
Non-operating profit/(loss)	(97,409)	(13,600)	616%
Finance cost	(17,724)	(4,643)	282%
Finance income	7,245	3,684	97%
FX loss	(90,998)	(14,331)	535%
Impairment gains/(losses)	59	0	100%
Fair value adjustment	4,009	1,690	137%
Profit before tax	(41,325)	36,272	-214%
Income tax	14,298	(11,439)	-225%
Profit after tax	(27,027)	24,832	-209%
Balance Sheet (N'mn)	9M 2023	9M 2022	Growth (%)
Assets			
PPE	163,172	151,019	8%
Inventory	107,443	61,126	76%
Receivables	173,567	82,175	111%
Cash	159,215	169,753	-6%
Others	13,150	9,973	32%
Total Assets	616,548	474,045	30%
Liabilities			
Borrowings	1,683	3,309	-49%
Payables	470,428	293,195	60%
Others	18,463	36,224	-49%
Total Liabilities	490,574	332,729	47%
Net Assets	125,974	141,317	-11%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	276,055	403,246	431,534	939,152	1,082,009	1,252,368	1,441,169	1,657,980
EBITDA	48,292	92,142	80,611	299,751	343,694	435,915	544,355	709,579
EBIT	39,020	82,410	66,333	269,006	343,694	435,915	544,355	709,579
Profit before taxation (PBT)	34,021	82,303	(39,260)	257,730	335,447	426,272	534,773	699,684
Net profit (PAT)	22,052	54,742	(25,623)	168,206	218,927	278,204	349,017	456,645
EPS (₹)	1.82	4.51	(2.11)	13.85	18.02	22.90	198.90	198.90
DPS (₹)	1.00	1.50	0.00	4.15	5.41	6.87	0.37	0.42
Balance sheet (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Current assets	214,828	334,673	415,195	514,045	616,220	757,820	956,980	1,242,963
Non-current assets	144,678	157,762	169,376	204,372	240,193	282,663	332,258	387,172
Total assets	359,506	492,434	584,570	718,417	856,413	1,040,484	1,289,238	1,630,135
Current liabilities	218,543	307,438	443,237	406,819	376,631	347,377	330,314	318,603
Non-current liabilities	12,331	13,770	13,950	16,009	15,727	16,526	16,787	17,456
Long-term debt	764	532	324	2,348	1,758	2,583	2,657	3,238
Shareholders' equity	128,631	171,226	127,383	295,590	464,055	676,581	942,137	1,294,076
Book value per share (₹)	10.59	14.10	10.49	24.33	38.20	55.70	77.56	106.54
Cash flow statement (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Cash from operating activities	129,247	105,387	108,987	56,379	186,558	189,054	313,904	454,308
Cash from investing activities	(51,292)	(19,569)	(16,235)	(53,815)	(49,678)	(57,698)	(66,786)	(77,500)
Cash from financing activities	(19,806)	(13,969)	(138,687)	(19,872)	(78,595)	(97,900)	(119,067)	(143,506)
Net increase/ (decrease) in cash	58,149	71,848	(45,936)	(17,308)	58,285	33,456	128,051	233,301
Free Cash Flow to Equity	76,281	77,577	(37,372)	(29,234)	88,094	75,428	184,622	307,738
Ratio analysis (%)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
EBITDA margin	17.49	22.85	18.68	31.92	31.76	34.81	37.77	42.80
Operating margin	14.13	20.44	15.37	28.64	31.76	34.81	37.77	42.80
ROE	17.41	36.51	-17.16	79.54	57.64	48.78	446.71	308.26
ROA	6.92	12.85	-4.76	25.82	27.80	29.33	29.96	31.28
Dividend payout ratio (%)	55.08	33.28	40.00	30.00	30.00	30.00	30.00	30.00

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

The value of any investment is subject to fluctuations, i.e. may rise and fall. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of an investment to increase or decrease. Hence investors may not get back the full value of their original investment.

Investment Recommendation

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

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- 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.

This document is not an offer to buy or sell any security. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

This document is based on information WSTC Securities Limited (WSTC Securities) received from publicly available reports and industry sources. WSTC Securities may not have verified all of this information with third parties. Neither WSTC Securities nor its shareholders, directors, employees or advisors can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication; and neither WSTC Securities nor its shareholders, directors, employees or advisers accept any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not to be relied upon and should not be a substitute for the exercise of independent judgment.

This document includes certain statements, estimates and projections concerning the anticipated future performance of securities listed on the Nigerian Exchange and as to the market for these shares. Such statements, estimates and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates and projections or as to their appropriateness for the purpose intended and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and may change without notice. Other third parties may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

This document is for information purposes only and private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of WSTC Securities.

Additional information on recommended securities/instruments is available on request.

WSTC Securities Limited is a Trading License Holder of the Nigerian Exchange Limited (NGX) and is registered with the Securities & Exchange Commission (SEC) as a Broker/Dealer to conduct Securities Brokerage & Dealing in Nigeria. Therefore, we may deal in any securities listed on the NGX.

WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

© WSTC Securities Limited 2023.