

DANGOTE CEMENT PLC



...Volume Rebound in the Nigeria Market Drives Performance

July 03, 2024



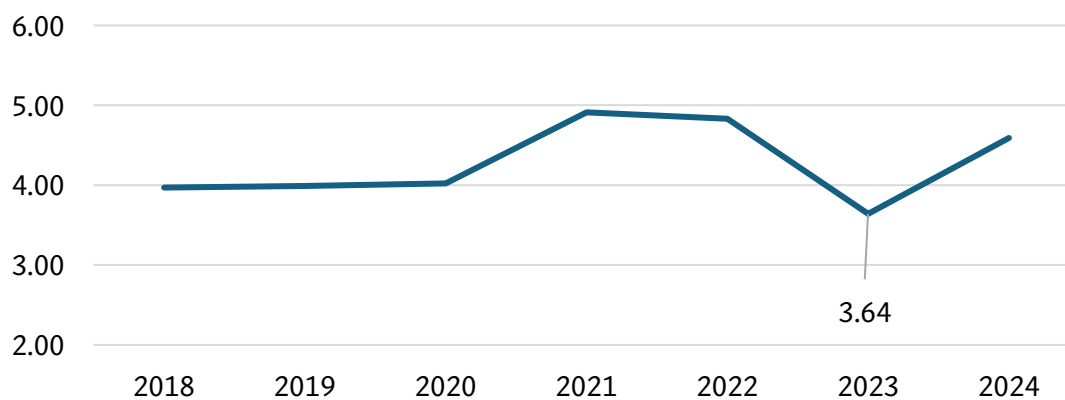
Earnings Note

Event

Dangote Cement Plc (“The Group”) reported an impressive revenue growth of 101% year-on-year to N817.35bn from N406.72bn in Q1 2023. The improved topline was driven by the combination of higher pricing to match the accelerating inflationary environment and improved volume sales from both markets.

Revenue from the Nigerian market grew by 62% year-on-year (Q1 2024: N452.92bn vs Q1 2023: N280.32bn). This was driven by a strong rebound in volumes sales due to improved economic activities and resumption of construction activities compared to Q1 2023 where there was a slowdown in projects due to uncertainties associated with the 2023 general elections. Furthermore, the management also attributed the growth to price increases to offset rising cost. Overall, volume grew by 26% to 4.59mta (Q1 2023: 3.64mta), while average realised price rose by 28% to N98,590/MT from N76,967/MT in Q1 2023.

Nigerian Market Q1 Volume Sales Trend



Source: Company’s Account, WSTC Research

The Pan-Africa maintained growth trajectory as revenue doubled to N381.27bn vs Q1 2023: N126.41bn. Pricing benefit in selected countries and improved volume sales drove the performance. Volume grew by 3% year-on-year to 2.71Mta (Q1 2023: 2.63Mta), driven by healthy growth in Congo and Zambia operations. Average realised price also rose by 192% to N140,690/MT from N48,100/MT in Q1 2023.

Cost pressures continued in line with the prevalent FX challenges and rising energy cost, driving cost of sales higher by 143% year-on-year to N398.16bn (Q1 2023: N163.67bn). Most of the pressure came from fuel and power (+221% year-on-year), raw materials (+104% year-on-year), and plant maintenance (+138% year-on-year). Nevertheless, gross profit grew by 72%, but gross margin came in weaker at 51% (Q1 2023: 60%).

HOLD

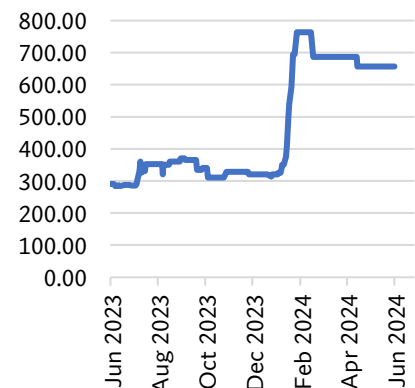
Fair Value Estimate:
N577.71

Total Return: -7%

Stock Data

Current price (N)	656.70
Shares Outstanding (mn)	17,000
Market Cap (N'mn)	11,163,900
52-week high (N)	763.00
52-week low (N)	290.00
Trailing EPS (N)	26.80
Forward EPS (N)	33.36
Forward PE (X)	19.69
Justified PE Multiple (X)	17.32

Price Movement



Stock Data

Stock Data	FY 2022	FY 2023	FY 2024F
P/E	29.20x	24.56x	19.69x
P/BV	10.35x	6.48x	6.28x
PBT Margin	32%	25%	21%
PAT Margin	24%	21%	17%
RoE	37%	32%	32%
Dividend Yield	3%	5%	5%

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Given the high inflationary environment which negatively impacted operating costs, we saw operating expenses climbed higher by 118% year-on-year to N190.79bn from N87.39bn in Q1 2023. This growth reflects the 111% and 144% year-on-year rise in marketing and distribution expenses and general administrative expenses, respectively. Although, operating profit rose by 63% year-on-year to N255.30bn from N156.87bn in Q1 2023, the margin contracted by 733 basis point to 31% from 39% in Q1 2023.

Net finance cost worsened by 407% year-on-year to N111.83bn from N22.05bn in Q1 2023, which was on the back of a N63.77bn FX loss. Nevertheless, profit before tax grew by 13% year-on-year to N148.21bn, while profit after tax grew mildly by 3% due higher effective tax rate (Q1 2024: 32%, Q1 2023: 25%). Notably, the pioneer tax incentive of Obajana Line (V) expired in December 2023, hence the higher tax rate.

Outlook

We forecast Nigeria volume to grow by 8% year-on-year to 17.63MT for FY 2024. This is expected to be driven by an uptick in business activities as the broader macroeconomic environment stabilises from the impact of policy reforms. Elsewhere, management aim to improve its export earnings to match its FX-linked expenses. Given the jump in Nigerian exports of clinker and cement to Cameroon and Ghana in Q1 2024, we also expect the recent reopening of the border with Niger Republic to support cement export volumes further.

We expect sustained stellar performance in Pan-African operations, as seen in Q1 2024 earnings. We forecast 14% year-on-year growth in volumes to 12.88MT for FY 2024, as the company is already operating at full capacity in Senegal, Ethiopia and Cameroon. We also expect robust demand, especially in Congo and Zambia, while Ethiopia's contributions to the overall performance continue to improve.

Raw material and energy costs remain the key drivers of the company's cost, and we expect these challenges to likely persist in the medium term until there is a sizable moderation in inflation and stability in the FX market.

Overall, following the improved performance, we revised our fair value upwards to N577.71 from N426.09. We also upgraded our recommendation to a **HOLD** from a SELL as we believe the stock is fairly valued at current levels.

Q1 2024 Financial Performance

Income Statement (N'mn)	3M 2024	3M 2023	Growth (%)
Revenue	817,350	406,722	101%
Cost of sales	(398,162)	(163,671)	143%
Gross profit	419,188	243,051	72%
Other income	27,549	1,477	1765%
Operating income	446,737	244,528	83%
General and administrative expense	(45,533)	(18,675)	144%
Selling and distribution expense	(145,261)	(68,717)	111%
Operating expense	(190,794)	(87,392)	118%
Operating profit	255,943	157,136	63%
Non-operating profit	(89,539)	(10,312)	768%
Finance income	11,395	10,466	9%
Finance cost	(59,460)	(22,723)	162%
FX loss	(63,765)	(9,789)	551%
Other gains/(losses)	22,939	12,003	91%
Impairment of financial assets	(648)	(269)	141%
Profit before tax	166,404	146,824	13%
Taxation	(53,730)	(37,323)	44%
Profit/Loss for the year	112,674	109,501	3%
Balance Sheet (N'mn)	3M 2024	3M 2023	Growth (%)
Assets			
PP & E	3,011,833	1,517,187	99%
Inventory	496,283	265,457	87%
Receivables	75,552	43,739	73%
Prepayments	725,056	546,453	33%
Cash	625,190	255,194	145%
Others	195,731	70,640	177%
Total Assets	5,129,645	2,698,670	90%
Liabilities			
Loans & Borrowings	1,286,771	690,952	86%
Payables	867,008	330,042	163%
Others	714,384	498,964	43%
Total Liabilities	2,868,163	1,519,958	89%
Net Assets	2,261,482.00	1,178,712.00	92%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Revenue	1,618,323	2,208,090	3,329,724	4,239,854	5,014,545	5,842,816	6,802,736	8,064,445
EBITDA	706,043	886,287	1,243,300	1,584,542	1,890,294	2,237,321	2,597,242	3,650,132
EBIT	585,653	735,127	991,695	1,264,164	1,522,424	1,808,065	2,098,722	3,051,368
Profit before taxation (PBT)	524,002	553,104	690,081	940,977	1,077,059	1,257,867	1,341,962	2,127,952
Net profit (PAT)	382,311	455,583	568,409	686,913	786,253	918,243	979,632	1,553,405
EPS (₦)	22.49	26.80	33.36	40.31	46.14	53.89	57.49	91.16
DPS (₦)	20.00	30.00	32.00	38.00	40.00	43.00	45.00	50.00
Balance sheet (NGN mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Other current assets	739,618	961,917	1,427,498	1,836,816	2,024,159	2,332,365	2,646,266	2,643,958
Non-current assets	1,592,194	2,529,711	3,443,509	3,504,718	3,387,576	3,250,461	3,092,077	2,896,535
Total assets	2,615,655	3,938,725	4,906,321	5,735,777	6,594,473	7,573,434	8,648,794	10,100,350
Current liabilities	1,021,685	1,612,632	2,340,351	2,872,102	3,459,225	4,059,516	4,723,358	5,171,949
Non-current liabilities	515,023	600,253	782,937	939,024	1,071,883	1,213,932	1,378,558	1,594,941
Total liabilities	1,536,708	2,212,885	3,123,288	3,811,126	4,531,109	5,273,447	6,101,916	6,766,890
Shareholders' equity	1,078,947	1,725,840	1,783,034	1,924,650	2,063,364	2,299,987	2,546,877	3,333,459
Cash flow statement (NGN mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Cash from operating activities	387,835	678,789	970,812	1,133,113	1,743,583	1,950,781	2,261,349	3,127,406
Cash from investing activities	(126,822)	(25,919)	(1,125,485)	(334,534)	(188,270)	(210,770)	(254,418)	(302,421)
Cash from financing activities	(373,779)	(352,016)	(257,110)	(439,650)	(766,818)	(932,140)	(1,087,089)	(1,175,579)
Net increase/ (decrease) in cash	(112,766)	300,854	(411,783)	358,929	788,495	807,871	919,843	1,649,406
Free cash flow	321,890	576,613	(194,591)	751,526	1,492,856	1,658,640	1,921,212	2,724,184
Ratio analysis	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
EBITDA margin	44%	40%	37%	37%	38%	38%	38%	45%
Operating margin	36%	33%	30%	30%	30%	31%	31%	38%
RoE	37%	32%	32%	37%	39%	42%	40%	53%
RoA	15%	14%	13%	13%	13%	13%	12%	17%
Dividend payout ratio	89%	112%	96%	94%	87%	80%	78%	55%

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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