

DANGOTE CEMENT PLC



...Higher Pricing Drove Performance Despite Weak Volume and Margins

August 22, 2024



Earnings Note

Event

Dangote cement (“the Group”) reported an impressive Q2 2024 financial performance with revenue climbing by 73% year-on-year to N942.741bn from N544.11bn in Q2 2023. The overall growth was supported by the Nigerian and the Pan-African market.

The Nigerian market revenue grew by 59% year-on-year to N538.45bn from N338.23bn in Q2 2023 despite a 1% decline in volume sales which we link to the start of wet season. We attribute the jump in revenue to higher price taken during the period. The revenue contribution of the Nigerian market improved to 57% from 55% recorded in Q1 2024.

The Pan-Africa market revenue skyrocketed by 103% year-on-year to N425.84bn from N209.98bn in Q2 2023 despite a 1% decline in volume sales. Higher pricing drove the performance.

Cost of sales grew by 98% year-on-year to N435.11bn from N219.42bn in Q2 2023. This was driven by inflationary pressures and higher energy cost as material consumed grew by 121% year-on-year to N102.59bn, while fuel and power consumed grew by 92% year-on-year to N192.96bn. Both account for 68% of the total cost. Nevertheless, gross profit grew by 56% to N507.59bn from N324.69bn, but gross margin declined by 600 basis points to 54% from 60% as the price taken wasn't fully effective to mask the rising cost.

Operating expenses climbed higher by 91% year-on-year to N212.43bn from N111.32bn in Q2 2023. This growth reflects the 88% and 99% year-on-year rise in marketing and distribution expenses and general administrative expenses, respectively. Although, operating profit rose by 33% year-on-year to N296.31bn from N223.17bn in Q2 2023, the margin contracted by 1000 basis point to 31% from 41% in Q2 2023.

Net finance cost worsened by 57% year-on-year to N195.89bn from N124.80bn in Q2 2023, which was on the back of a N137.54bn FX loss. Nevertheless, profit before tax grew by 36% year-on-year to N126.55bn, while profit after tax grew by 12% to N77.23bn from N69.10bn in Q2 2023 due to higher effective tax rate (Q2 2024: 39% vs Q2 2023: 26%).

HOLD

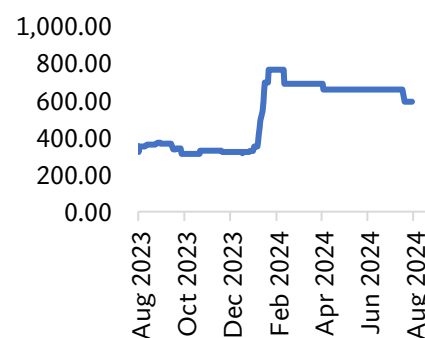
Fair Value Estimate:
N577.04

Total Return: +14%

Stock Data

Current price (N)	532.00
Shares Outstanding (mn)	17,000
Market Cap (N'mn)	9,044,000
52-week high (N)	763.00
52-week low (N)	310.10
Trailing EPS (N)	26.80
Forward EPS (N)	27.71
Forward PE (X)	19.20
Justified PE Multiple (X)	20.82

Price Movement



Stock Data

Stock Data	FY 2022	FY 2023	FY 2024F
P/E	23.66x	19.90x	19.20x
P/BV	8.38x	5.25x	5.37x
PBT Margin	32%	25%	16%
PAT Margin	24%	21%	24%
RoE	37%	32%	28%
Dividend Yield	4%	6%	6%

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Q2 2024 Financial Performance

Income Statement (N'mn)	Q2 2024	Q2 2023	Growth (%)
Revenue	942,705	544,110	73%
Cost of sales	(435,111)	(219,417)	98%
Gross profit	507,594	324,693	56%
Other income	1,408	9,580	-85%
Operating income	509,002	334,273	52%
General and administrative expense	(53,221)	(26,807)	99%
Selling and distribution expense	(159,209)	(84,508)	88%
Operating expense	(212,430)	(111,315)	91%
Operating profit	296,572	222,958	33%
Non-operating profit	(170,020)	(129,919)	31%
Finance income	13,403	5,741	133%
Finance cost	(71,761)	(26,701)	169%
FX loss	(137,536)	(103,837)	32%
Other income/ (expenses)	26,141	(5,333)	-590%
Impairment of financial assets	(267)	211	-227%
Profit before tax	126,552	93,039	36%
Taxation	(49,322)	(23,937)	106%
Profit/Loss for the year	77,230	69,102	12%

Source: Company Accounts, WSTC Research

Outlook

We adjusted our revenue forecast upward to N3.51trn from N3.33trn following an impressive second quarter performance. On the cost side, raw material and energy costs challenges will likely persist in the medium term. Consequently, we lowered our earnings per share for FY 2024 to N27.71 (previously: N33.36).

Overall, we maintain our **HOLD** recommendation as we believe the stock is fairly valued at current levels.

H1 2024 Financial Performance

Income Statement (N'mn)	H1 2024	H1 2023	Growth (%)
Revenue	1,760,055	950,832	85%
Cost of sales	(833,273)	(383,088)	118%
Gross profit	926,782	567,744	63%
Other income	28,957	11,057	162%
Operating income	955,739	578,801	65%
General and administrative expense	(98,754)	(45,482)	117%
Selling and distribution expense	(304,470)	(153,225)	99%
Operating expense	(403,224)	(198,707)	103%
Operating profit	552,515	380,094	45%
Non-operating profit	(259,559)	(140,231)	85%
Finance income	24,798	16,207	53%
Finance cost	(131,221)	(49,424)	166%
FX loss	(201,301)	(113,626)	77%
Other income/ (expenses)	49,080	6,670	636%
Impairment of financial assets	(915)	(58)	1478%
Profit before tax	292,956	239,863	22%
Taxation	(103,052)	(61,260)	68%
Profit/Loss for the year	189,904	178,603	6%
Balance Sheet (N'mn)	H1 2024	H1 2023	Growth (%)
Assets			
PP & E	3,274,512	2,016,424	62%
Inventory	585,666	352,557	66%
Receivables	88,050	74,086	19%
Prepayments	624,676	324,796	92%
Cash	590,481	320,761	84%
Others	211,776	99,450	113%
Total Assets	5,375,161	3,188,074	69%
Liabilities			
Loans & Borrowings	370,372	399,947	-7%
Payables	928,760	492,924	88%
Others	1,912,450	982,826	95%
Total Liabilities	3,211,582	1,875,697	71%
Net Assets	2,163,579	1,312,377	65%

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	3,506,731	4,526,432	5,518,157	6,663,916	8,084,212	10,008,918
EBITDA	706,043	886,287	1,316,407	1,700,696	2,091,173	2,565,063	3,102,671	4,530,240
EBIT	585,653	735,127	1,051,426	1,358,664	1,686,358	2,075,483	2,510,240	3,787,104
Profit before taxation (PBT)	524,002	553,104	573,283	885,902	1,120,492	1,383,895	1,691,401	2,773,976
Net profit (PAT)	382,311	455,583	472,205	646,709	817,959	1,010,243	1,234,722	2,025,003
EPS (₦)	22.49	26.80	27.71	37.95	48.00	59.28	72.46	118.83
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	1,387,524	1,720,291	2,086,981	2,490,510	2,939,214	3,075,631
Non-current assets	1,592,194	2,529,711	3,492,086	3,557,433	3,428,526	3,272,142	3,083,922	2,841,232
Total assets	2,615,655	3,938,725	4,729,357	5,336,468	6,201,270	7,257,976	8,766,982	10,952,362
Current liabilities	1,021,685	1,612,632	2,474,705	2,883,694	3,534,085	4,159,050	5,038,249	5,792,225
Non-current liabilities	515,023	600,253	567,822	664,532	708,523	811,641	939,468	1,112,692
Total liabilities	1,536,708	2,212,885	3,042,528	3,548,227	4,242,608	4,970,691	5,977,717	6,904,917
Shareholders' equity	1,078,947	1,725,840	1,686,829	1,788,242	1,958,662	2,287,285	2,789,265	4,047,445
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	873,357	1,152,577	1,495,190	2,002,480	2,514,990	3,701,883
Cash from investing activities	(126,822)	(25,919)	(1,179,846)	(357,483)	(206,111)	(238,890)	(300,000)	(371,621)
Cash from financing activities	(373,779)	(352,016)	(290,862)	(586,096)	(662,059)	(954,029)	(966,468)	(1,038,609)
Net increase/ (decrease) in cash	(112,766)	300,854	(597,351)	208,998	627,019	809,561	1,248,522	2,291,653
Free cash flow	321,890	576,613	(353,999)	745,198	1,219,282	1,669,285	2,110,780	3,201,437
Ratio analysis	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
EBITDA margin	44%	40%	38%	38%	38%	38%	38%	45%
Operating margin	36%	33%	30%	30%	31%	31%	31%	38%
RoE	37%	32%	28%	37%	44%	48%	49%	59%
RoA	15%	14%	11%	13%	14%	15%	15%	21%
Dividend payout ratio	89%	112%	115%	100%	83%	73%	62%	42%

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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