

September 09, 2024



Earnings Note

## Event

Dangote Sugar Refinery (“the Group”) reported a stellar revenue growth, yet the bottom line persisted in a net loss position due to sustained cost pressures, and foreign exchange losses.

Revenue soared by 72% to N172.90 billion (Q2 2023: N100.56 billion), a performance that management attributed to strategic price adjustments implemented to counterbalance escalating input costs, and mitigate the impact of lower volume sales due to diminished purchasing power and constraints in financing letters of credits.

The Group’s reliance on raw sugar imports rendered it susceptible to Naira depreciation. This combined with the surging inflation sparked a cost of goods increase that almost doubled revenue growth, surging 140% to N163.51 billion (Q2 2023: N68.12 billion). Notwithstanding the price increases implemented, the sharp jump in input costs relative to the revenue caused gross profit to plummet by 71% to N9.39 billion (Q2 2023: N32.44 billion), and gross margin contracted by 2680 basis points to 5% (Q2 2023: 32%).

Operating expenses grew by 37%, driven by synergistic increase in selling expenses (+23% year-on-year), and administrative expenses (+38% year-on-year). This elevated cost further intensified the Group’s operational difficulties, leading to an 82% drop in operating profit to N5.14 billion (Q2 2023: N29.30 billion), and a corresponding operating profit margin contraction to 3% (Q2 2023: 29%).

Net finance cost escalated by 36% to N109.31 billion (Q2 2023: N80.33 billion), primarily driven by FX losses which accounted for a staggering 96% of this increase. Specifically, FX losses surged by 26% to N104.43 billion (Q2 2023: N82.57 billion).

The rise in net finance cost led to a loss before tax of N104.56 billion (Q2 2023: N49.90 billion). However, a tax credit of N29.55 billion (Q2 2023: N9.11 billion) offered some respite, tempering the loss after tax to N75.01 billion (Q2 2023: N40.79 billion).

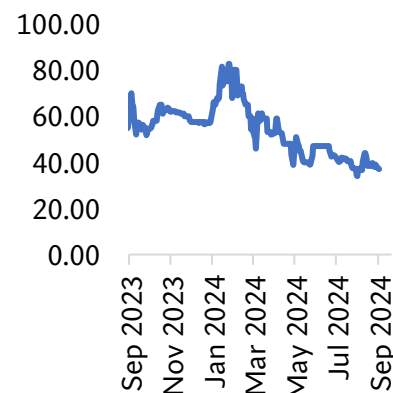
# HOLD

**Fair Value Estimate:**  
**N35.00**

Total return: -1%

## Stock Data

Current price (N)	35.35
Shares Outstanding (mn)	12,147
Market Cap (N'mn)	429,392
52-week high (N)	89.50
52-week low (N)	34.00
Trailing EPS (N)	(6.07)
Forward EPS (N)	(10.65)
Forward PE (X)	N/A
Justified PE Multiple (X)	N/A



Stock Data	FY 2022	FY 2023	FY 2024F
P/E	7.84x	N/A	N/A
P/BV	2.51x	5.42x	-8.57x
PBT Margin	20%	-25%	-34%
PAT Margin	14%	-17%	-23%
RoE	37%	-59%	258%
Dividend Yield	4%	0%	0%

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## Q2 2024 Financial Performance

Income Statement (N'mn)	Q2 2024	Q2 2023	Growth (%)
<b>Revenue</b>	<b>172,897</b>	<b>100,559</b>	<b>72%</b>
Cost of sales	(163,509)	(68,121)	<b>140%</b>
<b>Gross profit</b>	<b>9,388</b>	<b>32,437</b>	<b>-71%</b>
Other income	163	72	127%
<b>Operating income</b>	<b>9,551</b>	<b>32,509</b>	<b>-71%</b>
Selling expenses	(159)	(129)	23%
Admin expense	(4,250)	(3,082)	38%
<b>Operating expense</b>	<b>(4,409)</b>	<b>(3,211)</b>	<b>37%</b>
<b>Operating profit</b>	<b>5,142</b>	<b>29,298</b>	<b>-82%</b>
<b>Non-operating income/(expense)</b>	<b>(109,704)</b>	<b>(79,197)</b>	<b>39%</b>
Finance cost	(7,235)	(28)	25321%
Finance income	2,350	2,267	4%
FX loss	(104,427)	(82,571)	26%
Impairment gains/(losses)	(111)	0	100%
Fair value adjustment	(280)	1,135	-125%
<b>Profit before tax</b>	<b>(104,562)</b>	<b>(49,899)</b>	<b>110%</b>
Income tax	29,547	9,109	224%
<b>Profit after tax</b>	<b>(75,015)</b>	<b>(40,790)</b>	<b>84%</b>

**Source:** Company Accounts, WSTC Research

## Outlook

Our outlook for the Group's financial performance in FY 2024 remains subdued, as persistent macroeconomic headwinds which include FX illiquidity, elevated energy prices, and heightened inflationary pressures continue to undermine the expected revenue growth.

In light of the Q2 2024 financial performance, and our expectation for FY 2024, we have revised our fair value estimate downward to N35.00 (previously: N38.22). Notably, the stock price has declined by 25% since our last report. Despite lowering our fair value, our recommendation for the stock is now a **HOLD** (previously: SELL), as we believe the stock is fairly valued at the current price of N35.35.

## H1 2024 Financial Performance

Income Statement (N'mn)	H1 2024	H1 2023	Growth (%)
<b>Revenue</b>	<b>295,624</b>	<b>202,784</b>	<b>46%</b>
Cost of sales	(277,486)	(144,595)	92%
<b>Gross profit</b>	<b>18,139</b>	<b>58,189</b>	<b>-69%</b>
Other income	216	145	49%
<b>Operating income</b>	<b>18,354</b>	<b>58,334</b>	<b>-69%</b>
Selling expenses	(310)	(304)	2%
Admin expense	(7,752)	(5,832)	33%
<b>Operating expense</b>	<b>(8,062)</b>	<b>(6,135)</b>	<b>31%</b>
<b>Operating profit</b>	<b>10,293</b>	<b>52,198</b>	<b>-80%</b>
<b>Non-operating profit/(loss)</b>	<b>(221,712)</b>	<b>(83,563)</b>	<b>165%</b>
Finance cost	(8,343)	(97)	8474%
Finance income	4,243	4,848	-12%
FX loss	(225,844)	(90,561)	149%
Impairment gains/(losses)	34	0	100%
Fair value adjustment	8,198	2,247	265%
<b>Loss before tax</b>	<b>(211,420)</b>	<b>(31,365)</b>	<b>574%</b>
Income tax	67,412	3,378	1896%
<b>Loss after tax</b>	<b>(144,008)</b>	<b>(27,987)</b>	<b>415%</b>
Balance Sheet (N'mn)	H1 2024	H1 2023	Growth (%)
<b>Assets</b>			
PPE	175,093	162,311	8%
Inventory	133,259	85,104	57%
Receivables	85,173	148,740	-43%
Cash	183,129	157,857	16%
Others	137,999	11,987	1051%
<b>Total Assets</b>	<b>714,654</b>	<b>565,999</b>	<b>26%</b>
<b>Liabilities</b>			
Borrowings	171,232	1,719	9859%
Payables	572,114	400,328	43%
Others	36,069	38,938	-7%
<b>Total Liabilities</b>	<b>779,416</b>	<b>440,985</b>	<b>77%</b>
<b>Net Assets</b>	<b>(64,762)</b>	<b>125,014</b>	<b>-152%</b>

Source: Company Accounts, WSTC Research

## Financial Projections

Income statement (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Revenue	403,246	441,453	570,373	685,431	924,796	1,117,213	1,365,540	1,658,602
EBITDA	92,142	82,611	81,963	159,386	172,891	206,774	255,233	346,316
EBIT	82,410	72,686	68,844	105,282	172,891	206,774	255,233	346,316
Profit before taxation (PBT)	82,303	(108,922)	(191,055)	(76,570)	18,538	43,276	103,906	236,641
Net profit (PAT)	54,742	(73,760)	(129,379)	(51,852)	12,554	29,306	70,364	160,249
EPS (₹)	4.51	(6.07)	(10.65)	(4.27)	1.03	2.41	5.79	13.19
DPS (₹)	1.50	0.00	0.00	0.00	0.62	1.45	3.48	9.23
Balance sheet (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Current assets	334,673	400,562	385,001	225,934	243,064	413,237	443,887	429,898
Non-current assets	157,762	200,228	210,210	215,127	219,560	222,894	227,522	224,514
Total assets	492,434	600,790	595,210	441,061	462,625	636,132	671,409	654,412
Current liabilities	307,438	521,214	642,102	541,061	548,174	699,939	686,150	551,134
Non-current liabilities	13,770	330	3,241	1,984	3,882	3,850	137	124
Long-term debt	532	246	389	206	370	279	0	0
Shareholders' equity	171,226	79,246	-50,133	-101,985	-89,431	-67,657	-14,878	103,154
Book value per share (₹)	14.10	6.52	-4.13	-8.40	-7.36	-5.57	-1.22	8.49
Cash flow statement (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Cash from operating activities	105,420	60,931	238,722	95,115	203,420	360,289	253,752	199,813
Cash from investing activities	(19,569)	(8,955)	(10,446)	(9,985)	(15,553)	(15,399)	(24,206)	(25,754)
Cash from financing activities	(13,969)	(18,458)	(281,793)	(203,923)	(175,200)	(196,009)	(197,776)	(177,705)
Net increase/ (decrease) in cash	71,881	33,518	(53,517)	(118,792)	12,666	148,881	31,769	(3,646)
Free Cash Flow to Equity	77,609	41,139	(66,171)	(132,798)	(449)	138,295	32,593	22,862
Ratio analysis (%)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
EBITDA margin	22.85	18.71	14.37	23.25	18.70	18.51	18.69	20.88
Operating margin	14.13	20.44	16.47	12.07	15.36	18.70	18.51	18.69
ROE	36.51	-58.90	-888.82	68.17	-13.12	-37.31	-170.51	363.06
ROA	12.85	-13.49	-21.64	-10.01	2.78	5.33	10.76	24.17
Dividend payout ratio (%)	33.28	0.00	0.00	0.00	60.00	60.00	60.00	70.00

**Source:** Company Accounts, WSTC Research

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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.

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