Dangote Cement Plc [DANGCEM]

Bottom-line cruises on the wings of pioneer tax windfall

United Capital
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Equity Research | Earnings Update

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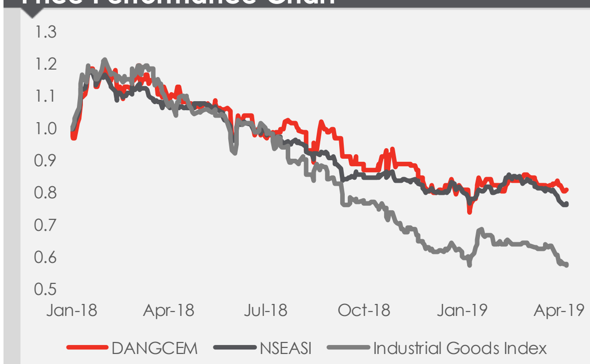
Rating:	Target Price	Upside
BUY **Low-Risk**	**N220.0**	**18.5%**

Price Performance Chart



Sources: Bloomberg, United Capital Research

Key Data

Last Price (₦)	185.0
52 week High/Low (₦)	260.0/170.0
1M Price Change (%)	-4.6
3M Price Change (%)	+5.1
6M Price Change (%)	-7.0
12M Price Change (%)	-28.5
YTD Change (%)	-1.9
Beta	1.1
Market Capitalization (₦'m)	3,169,534.4
Market Capitalization ($'m)	8,804.3
Shares Outstanding. (Units'm)	17,040.5
Float (%)	14.7
12M Dividend Yield (%)	8.6

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Recently, Dangote Cement Plc (DANGCEM) released financial reports for the year that ended 31st December 2018. Therein, revenue grew 11.9% to N901.2bn, missing our FY-18E estimated by c.1.4% while Profit After Tax accelerated 91.1% y/y to N390.3bn on pioneer tax windfall. Accordingly, declared dividend spiked 52.4% to N16.0/ share translating to a dividend yield of 8.6%. Below we give our take on the past year's results and our expectations for the forthcoming year.

Topline: Nigerian market delivers volume growth, other African regions flat

Dangote Cement's Nigerian operations delivered an 11.9% y/y growth in revenue that was mainly driven by an uptick in volumes (+11.4% y/y) as revenue/tonne remained relatively flat. This is an improvement from the phenomenon recorded in FY-17 where revenue growth of 29.6% had been majorly driven by an increase in prices. Meanwhile, revenue generated across the firm's pan-African operations (ex-Nigeria), came in at +9.6% y/y mostly buoyed by price increases as volume growth was almost flat. The tepid Pan-African volumes outcome is traceable to plant shut down in Tanzania and civil unrest in Ethiopia. Overall, group revenue rose 11.9% y/y to N901.2bn, shy of our FY-18E forecast of N913.7bn, with the Nigerian operations accounting for 68.6%.

While an attendant 9.1% y/y increase in Cost of Sales trailed increase in volumes, Cost-to-Sales ratio moderated to 42.5% (from 43.6% in FY-17) as the firm continued to pursue cheap and readily-available sources of energy that are devoid of exchange rate risk. Notably, the group successful elimination of the use of Low Pour Fuel Oil (LPFO) in its two biggest (Nigerian) plants (Obajana and Ibese) boded well for production costs. Accordingly, Gross Profit rose 14.0% y/y to N517.9bn while Gross Margin saw an uptick to a comfortable 57.5%.

Bottom-line cruises on the wings of pioneer tax windfall

Despite the 19.4% surge in operating expenses, group EBITDA (+12.0% y/y to N434.9bn) and EBIT (+11.3% y/y to N338.7bn) trended northwards respectively. Overall, PBT recorded a 3.9% y/y growth to N300.8bn (vs our FY-18E of N297.4bn).

Bottomline received a boost on materialization of pioneer tax credit: Bottomline received a boost on the materialization of a tax credit to the tune of N89.5bn relating to pioneer status on previous capital investments made on its Nigerian business (Ibese production lines 3&4 and Obajana production line 4 respectively). Hence, PAT surged 91.1% y/y to settle at an all-time high of N390.3bn. Meanwhile, we tested the group effective tax rate paid in FY-17 on the FY-18 PBT numbers, by our calculation the Cement giant would have recorded a 3.9% growth in bottom-line.

ROE surged to 39.6%, dividend up 52.4%: OPEX margin declined to 37.6% which in addition to tax credit birthed Net margins of 43.3% and ROE of 39.6%, its highest in recent history. Our three-level Du-Pont analysis of the firm's ROE showed that in spite of lower leverage (1.7x in FY-18 vs 2.1x in FY-17), a surge in Net Margin (from 25.1% to 43.3%) and improvement in Asset Turnover (0.53x in FY-18 from 0.48x in FY-17) gave ROE a boost. In line with the huge bottom-line growth, the board of directors have proposed a dividend of N16.0/share, a 52.4% growth from last years'. With a dividend payout ratio of 70.0%, the proposed sum of N272.6bn is higher than the historical average of Profit After Taxes (N193.1bn) declared in the last eight years.

Outlook: BUY recommendation maintained, bottom-line growth to moderate

Looking ahead, we expect continued group revenue growth, we project a 10.7% y/y increase to N998.1bn in 2019, shy of a possible record N1.0tn revenue. Our expectation is predicated on an uptick in volume growth in the Pan-African operations, forecasted at 6.1% y/y from the relatively flat outcomes recorded in 2018 as more volumes are sold in Tanzania and Ethiopia. We also anticipate that the Nigerian operations will continue to maintain dominance in terms of contribution to group revenue (projected at 67.2%) and expected revenue growth of 8.4%. Furthermore, we continue to see scope for further growth in volumes in Nigeria (+7.5% y/y in FY-19f) on favorable industry dynamics and DANGCEM's strong industry standing. Yet, the entry of new players intending to nibble at market share could cap any future dramatic rise in price. Additionally, we expect 8.9% y/y and 7.6% y/y growth to N473.5bn and N323.6bn growth in EBITDA and PBT respectively. Finally, we expect Profit After Taxes to settle at N229.8bn, a decline of 41.1%, as the impact of tax credit fizzles.

Overall, we have revised our TP to N220.0, a 18.5% upside potential. We continue to see attractive entry opportunity for both long term play and ahead of the dividend closure of register date, 4th June 2019.

Dangote Cement: FY 2018 Result Summary

Headlines	FY 2018	FY 2017	Change
Revenue	**901,213**	**805,582**	11.9%
Cost of sales	-383,311	-351,290	9.1%
Gross profit	517,902	454,292	14.0%
Finance income	11,323	35,926	-68.5%
Finance costs	**-49,778**	**-52,711**	-5.6%
Profit/Loss Before Tax	300,806	289,590	3.9%
Taxation	**89,519**	**-85,342**	-204.9%
Profit/Loss After Tax	**390,325**	**204,248**	91.1%
	FY 2018	**FY 2017**	
Cash and bank balances	166,896	168,387	-0.9%
Trade & Other Receivables	44,468	30,155	47.5%
Trade & Other Payables	230,970	270,721	-14.7%
Net Assets	**986,613.0**	**781,360.0**	**26.3%**
Gross Margin	57.5%	56.4%	**1.1%**
Net Margin	43.3%	25.4%	**18.0%**
Cost to Sales	42.5%	43.6%	**-1.1%**
Leverage Ratio (Total Liabilities/Total Assets)	41.8%	53.1%	**-11.3%**
Price (N)	186.0		
EPS (N)	22.9		
BVPS (N)	57.9		
P/E (x)	8.1		
P/BV(x)	3.2		
ROE	39.6%		
Proposed Dividend (N)	16.0		
Dividend Yield	8.6%		
Dividend Closure Date	June 4th - 10th		

Sources: Company Financials, United Capital Research

Disclosure Appendix

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Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.

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Company	Disclosure
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Flour Mills of Nigeria Plc	g,h
FCMB Plc	h
Fidelity Bank Plc	g,h
Forte Oil Plc	g,h
Stanbic IBTC Plc	h
PZ Nigeria Plc	h

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