

## Pan African operations to the rescue.

Dangote Cement's operations were affected negatively by the election uncertainty and cash unavailability which impacted business operations in Q1 2023. The company also noted that the significant FX devaluation in Q2 2023 also hampered sales volumes. Consequently, the group sales volume declined 2.3% y/y to 20.29m MT in 9M 2023. However, the combination of increases in prices and strong volume growth from its Pan African operations came to the rescue, resulting in Revenue growth of 28.7% y/y in 9M 2023. We believe constrained purchasing power and low CAPEX expenditure by the government continue to affect sales volumes across the whole industry.

Dangote cement controls the largest market share in the industry (61.2%) and is well-positioned to meet increased demand when industry volumes pick up. Also, we are optimistic that the Pan-African region will continue to support the company's topline. The management announced the commencement of operations at its 0.45Mta grinding plant in Ghana and noted that the company has reached an advanced stage in the deployment of 1.5Mta grinding plant in Cote d'Ivoire. Clinker export to Cote d'Ivoire is also expected to commence in 2024.

We forecast total price increase of 20%, which will be the main driver of the group's topline performance for 2023e (14.4% price growth ytd) while we expect a marginal 5% increase in volume due to the identified concerns. We maintain our price target of N428.36/s, with a BUY recommendation. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50. Current Price: N328/s.

### Dangcem 9M 2023

Nm, except mentioned otherwise	9M 2023	9M 2022	y/y	Q3 2023	Q2 2023	q/q
Sales	1,514,601	1,177,256	28.7%	563,769	544,110	3.6%
Cost of Sales (Ex-Dep)	(560,061)	(421,607)	32.8%	(228,029)	(192,016)	18.8%
<b>Gross Profit</b>	<b>954,540</b>	<b>755,649</b>	<b>26.3%</b>	<b>335,740</b>	<b>352,094</b>	<b>-4.6%</b>
Other Income	16,635	3,115	434.0%	5,578	9,580	-41.8%
Selling and Distribution Expenses (ex-dep)	(242,241)	(198,187)	22.2%	(95,709)	(81,285)	17.7%
Administrative Expenses (ex-dep)	(65,748)	(45,351)	45.0%	(25,736)	(23,053)	11.6%
<b>EBITDA</b>	<b>662,762</b>	<b>515,586</b>	<b>28.5%</b>	<b>219,507</b>	<b>257,547</b>	<b>-14.8%</b>
Depreciation and Amortization	101,754	81,963	24.1%	38,535	34,378	12.1%
<b>EBIT</b>	<b>561,008</b>	<b>433,623</b>	<b>29.4%</b>	<b>180,972</b>	<b>223,169</b>	<b>-18.9%</b>
Net Finance Income/(Cost)	(70,414)	(25,333)	178.0%	(22,587)	(33,217)	-32.0%
<b>Profit before tax</b>	<b>404,890</b>	<b>335,900</b>	<b>20.5%</b>	<b>165,027</b>	<b>93,039</b>	<b>77.4%</b>
Tax expense	(127,342)	(122,799)	3.7%	(66,082)	(23,937)	176.1%
<b>Net Profit</b>	<b>277,548</b>	<b>213,101</b>	<b>30.2%</b>	<b>98,945</b>	<b>69,102</b>	<b>43.2%</b>
Net income attributable to equity holders	270,837	209,513	29.3%	92,234	69,102	33.5%
<b>Diluted EPS</b>	<b>16.08</b>	<b>12.41</b>	<b>29.6%</b>	<b>5.48</b>	<b>3.95</b>	<b>38.7%</b>

Margins:	9M 2023	9M 2022	y/y	Q3 2023	Q2 2023	q/q
Gross margin	63.0%	64.2%	-1.2ppts	59.6%	64.7%	-5.2ppts
EBITDA Margin	43.8%	43.8%	0.0ppts	38.9%	47.3%	-8.4ppts
PBT Margin	26.7%	28.5%	-1.8ppts	29.3%	17.1%	12.2ppts
Net margin	18.3%	18.1%	0.2ppts	17.6%	12.7%	4.9ppts

Source: Company data, CSL Research

### Recommendation

BUY

### Target Price

N428.36

### Closing Price

N328.00

\*Price as of 01 November

### Key data

#### Year to December, Nbn

	2022	2023e	2024e	2025e
Sales	1618.3	1968	2203	2448
EBITDA	706.2	930.0	1048.9	1172.2
EBIT	585.8	812.6	929.9	1049.2
PBT	524.0	789.5	932.9	1043.9
Net Profits	382.3	536.8	633.8	709.9
EV/EBITDA	7.8	5.2	4.6	4.1
PE	13.2	13.4	9.5	8.1
Dividend Yield	6.7%	6.4%	9.5%	8.1%
Market cap.	N5.94tn			
Free float	11.8%			
Bloomberg	DANGCEM.NL			
Reuters	DANGCEM.LG			

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### Price increment drives Revenue growth

Dangote Cement's recently released 9M 2023 results showed the company's revenue increased by 28.7% y/y, to N1.51tn in 9M 2023 from N1.18tn in 9M 2022. On a quarterly basis, performance was resilient, as Revenue was up marginally by 3.6% q/q to N563.77bn in Q3 2023 from N544.11bn in Q2 2023. Given a 2.4% decrease in group sales volumes to 20.29m MT from 20.80m MT, we attribute the growth in Revenue to price increases. Specifically, Revenue from the Nigerian operations increased by 4.8% y/y to N933.0bn in 9M 2023 from N890.65bn in 9M 2022 and we also attribute the growth in Revenue to price increases as we saw price per tonne increase y/y to N77,628 from the N66,072 recorded as at 9M 2022, indicating a y/y increase of 17.49% amidst a y/y decrease in volumes (10.9% to 12.02m MT).

The company attributed the y/y decline in sales volumes to multiplier effects of election uncertainty, cash unavailability which impacted business operations in Q1 2023, and the significant FX devaluation in Q2 2023. We believe that constrained purchasing power and low CAPEX expenditure by the government continue to affect sales volumes across the whole industry. We believe further price increases will be required to protect profit margins, thus we forecast a 20% y/y growth in price per tonne for the year (14.4% ytd price increase) while projecting a 5% y/y volume growth. Overall, we expect Revenue from the Nigerian operations to increase by 15% y/y to N1.5tn in FY 2023.

The Pan African region recorded significant Revenue growth in 9M 2023. Revenues grew by 103.9% to N588.24bn from N288.51bn in 9M 2022. The growth in revenue reflects strong growth in sales volumes, up 15.2%, as well as strong growth in prices. According to the management, volume growth was driven by strong performances from Ethiopia, Cameroon, Senegal, Zambia, and Congo operations. The company's Pan-African volume now accounts for 42% of the Group's total volume, reinforcing its diversification strategies. It was noted that there was capacity maximization in its Senegal, Ethiopia, and Cameroon operations. Going forward, we are optimistic about an increase in production volumes in the Pan-African region. The management announced the commencement of operations at the 0.45Mta grinding plant in Ghana and noted that the company is at an advanced stage of the deployment of the 1.5Mta grinding plant in Cote d'Ivoire. The company also noted that it will start clinker export to Cote d'Ivoire in 2024. This makes us believe that the pan Africa region's production volumes will maintain its uptrend trajectory and continue to support Revenue growth. Consequently, we maintain our forecasts and expect sales volume to increase by 10% y/y in 2023 while assuming price growth of 10% y/y in the Pan-African segment. Thus, we forecast Revenue from Pan-African operations to rise by 9% y/y in FY 2023. All in, we forecast the FY 2023 Group Revenue to grow by 26.0% y/y to N1.9tn.

### Cost pressures on the horizon

In 9M 2023, Cost of Sales (adjusted for depreciation) increased by 32.8% y/y to N560.06bn. A significant growth in other production expenses (86.51% y/y) drove the y/y growth in Cost of Sales (adjusted for depreciation). Increases in plant maintenance costs (+34.32% y/y) and fuel and power consumed (+28.91% y/y) also contributed to the increase in Cost of Sales. Gross profit climbed by 26.3% y/y to N954.54bn in 9M 2023, up from N755.65bn in 9M 2022. However, on a quarterly basis, Gross Profit fell by 4.6% to N335.74bn in Q3 2023 from N352.09bn in Q2 2023. Gross margin fell 1.2% y/y to 63% in 9M 2023, down from 64.2% in 9M 2022.

Amidst the current inflationary environment and persistent Naira depreciation which has negatively impacted operating costs, we saw the company's operating Expenses

(adjusted for depreciation) rise by 24.23% y/y to N327.06bn in 9M 2023 from N263.28bn in 9M 2022. The growth in Opex reflects the 22.2% y/y and 45% y/y growth in Selling and distribution Expenses (adjusted for depreciation) and Administrative Expenses (adjusted for depreciation), respectively. Other Income rose by 434% to N16.64bn in 9M2023. EBITDA increased by 28.5% y/y to N662.76bn in 9M 2023 from N515.59bn in 9M 2022. EBITDA margin remained constant at 43.8% in 9M 2023. Despite a 24.1% y/y rise in Depreciation and amortization to N101.75bn, EBIT climbed by 29.4% y/y to N561bn in 9M 2023 from N433.62bn in 9M 2022.

We expect EBITDA Margin to remain stable, driven by strong double-digit Revenue growth and continued cost containment measures. Though inflationary pressures on energy costs remain a downside risk, we expect the Okpella alternative fuel system which is expected to be commissioned in December, and the Phase transition from diesel power trucks to Compressed Natural Gas (CNG) to provide respite. Overall, we estimate EBITDA of N930bn in 2023, which translates to an EBITDA Margin of 47.9% in 2023.

Net Finance Cost increased by 178% y/y to N70.41bn in 9M 2023 from N25.33bn in 9M 2022. While Finance Cost was up 68.15% y/y to N91.08bn, Finance Income was down by 28.32% y/y to N20.67bn. We note that the company recorded a Net FX loss of N99.01bn, a 37.5% rise from the N72.39bn recorded in 9M 2022.

Pre-tax profit was up by 20.5% y/y to N404.89bn in 9M 2023 from N335.90bn in 9M 2022. We saw a slight increase of 3.7% y/y decrease in Tax Expense, However, Net Income grew significantly by 30.2% y/y to N277.55bn in 9M 2023 from N213.10bn in 9M 2022. Overall, Earnings per Share settled at N16.08/s in H1 2023 compared with N12.41/s in H1 2022.

We note that Dangote Cement successfully completed Tranche I of its second share buyback program in July, repurchasing 0.71% of outstanding shares. The buyback was exercised at an average price of ₦339.00/s. This brings the total number of outstanding shares to 16,841 from 16,883 as of 9M 2022.

## Valuation

We maintain our price target of N428.36/s, with a BUY recommendation. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50. Current Price: N328/s.

## Dangote Cement Forecasts, Nm

Income statement	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Turnover	494,725	615,103	805,582	901,213	891,671	1,034,196	1,383,637	1,618,323	1,967,784	2,203,084	2,448,620	2,782,553
Cost of sales (ex-depreciation)	(163,555)	(273,571)	(291,692)	(318,757)	(314,735)	(373,024)	(475,065)	(572,133)	(662,352)	(732,770)	(815,697)	(909,072)
Gross profit	328,160	342,532	513,890	582,446	576,936	661,172	908,572	1,046,190	1,315,431	1,470,314	1,632,922	1,873,480
Total opex	(124,289)	(170,581)	(214,895)	(253,970)	(280,023)	(279,004)	(331,961)	(465,870)	(508,293)	(545,864)	(589,383)	(643,446)
Other income	3,951	10,542	5,213	10,212	2,980	4,754	6,321	5,333	5,440	5,548	5,559	5,773
EBIT	207,822	182,493	304,208	338,698	299,893	386,922	582,832	585,876	812,578	929,999	1,043,097	1,235,807
Depreciation and Amortisation	54,616	74,750	83,339	96,203	95,463	89,538	100,766	120,390	117,428	118,945	122,986	133,817
EBITDA	262,448	257,243	388,147	434,901	395,356	476,460	683,598	706,266	930,006	1,048,943	1,172,185	1,369,624
Net interest (expense)/income	(19,528)	(1,564)	(16,785)	(38,455)	(50,063)	(14,174)	(44,942)	(62,633)	(23,088)	2,125	(5,221)	(12,753)
PBT	188,294	180,929	289,590	300,806	250,479	373,498	538,707	524,002	789,490	932,123	1,043,978	1,223,054
Taxation	(6,971)	(38,071)	(85,342)	(89,519)	(149,958)	(97,242)	(173,927)	(141,691)	(152,637)	(198,279)	(334,073)	(391,377)
Profit after tax	181,323	142,858	204,248	290,325	200,521	276,256	364,780	382,311	536,853	633,844	709,905	831,677
Balance sheet	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Property plant and equipment	919,812	1,159,856	1,198,495	1,177,833	1,210,412	1,295,241	1,477,981	1,533,518	1,632,137	1,735,089	1,858,150	2,003,724
Other non-current assets	25,141	66,084	57,089	87,792	112,247	6,478	23,430	35,125	18,318	18,318	18,318	18,318
Total non-current assets	944,953	1,225,940	1,255,584	1,265,625	1,322,659	1,459,719	1,500,411	1,568,643	1,650,455	1,753,407	1,876,468	2,022,042
Current Assets												
Stocks	53,118	81,903	94,594	106,998	114,806	108,270	167,105	239,563	193,025	200,210	212,305	236,608
Trade debtors	11,544	16,279	30,155	44,468	31,093	35,194	47,469	45,490	70,085	72,132	80,503	91,081
Other debtors & prepayment	60,516	78,280	115,496	101,883	127,042	24,861	31,722	44,749	32,474	33,065	33,517	38,172
Due from related companies	-	-	1,608	2,380	4,266	5,249	3,752	5,981	7,956	7,979	9,643	10,724
Short term deposits	-	-	-	-	-	-	-	-	-	-	-	-
Cash	40,792	115,693	168,387	165,896	123,903	145,835	338,843	283,843	699,749	830,052	927,838	1,059,045
Total non-current assets	165,980	303,164	410,299	428,838	407,828	550,138	873,042	1,023,461	1,295,622	1,442,973	1,567,251	1,780,465
Total assets	1,110,933	1,529,104	1,665,883	1,694,463	1,730,487	2,009,857	2,373,453	2,592,104	2,946,078	3,197,000	3,444,239	3,803,127
Non-current liabilities												
Deferred taxation	24,504	103,162	116,898	83,350	93,841	121,980	135,003	154,026	154,026	154,026	154,026	154,026
Long term loans	208,319	152,475	242,894	125,725	107,279	158,908	176,562	333,498	167,505	202,693	221,143	295,369
Other	32,692	22,146	4,255	3,259	4,053	12,004	12,283	19,442	17,611	17,611	17,611	17,611
Total Non-current liabilities	265,525	277,783	364,047	212,334	205,123	293,892	323,848	506,966	339,142	374,330	392,780	467,006
Current Liabilities												
Bank overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Trade creditors	44,044	83,164	78,561	86,265	63,277	56,168	105,518	334,899	125,109	140,147	167,609	186,796
Other creditors	85,553	185,802	192,160	144,705	221,554	293,220	265,706	-	404,339	451,452	503,141	571,757
Due to related companies	-	-	-	-	1,409	2,073	1,187	1,713	3,481	3,714	4,129	4,810
Short term debts	47,275	220,300	144,783	220,118	260,631	335,011	401,393	392,378	311,081	345,126	393,143	407,891
Taxation	1,289	18,220	63,901	9,213	49,332	59,781	153,385	167,974	153,385	153,385	153,385	153,385
Other	24,537	18,307	41,071	36,185	31,083	8,460	148,294	124,724	135,595	148,025	135,429	174,577
Total Current Liabilities	200,698	525,793	520,476	495,506	631,886	829,817	1,076,483	1,021,685	1,132,989	1,241,848	1,356,936	1,499,316
EQUITY												
Share capital	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520	8,520
Share premium	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430	42,430
Other reserve	-	-	-	-	-	-	-	-	-	-	-	-
Revenue reserve	620,501	605,662	639,462	84,869	776,839	779,271	868,174	969,478	1,111,573	1,284,655	1,450,823	1,673,159
Non controlling interest	(6,235)	(12,915)	11,630	11,486	11,297	15,024	18,299	24,578	28,380	32,817	37,786	43,608
Total shareholders' funds	644,720	725,528	781,360	986,613	897,937	890,970	981,669	1,078,947	1,224,844	1,402,363	1,573,500	1,801,758
VALUATION	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Price to earnings	15.8x	20.0x	14.0x	7.3x	14.3x	13.3x	13.2x	13.4x	9.5x	8.1x	7.2x	6.1x
Dividend yield	3.6%	4.8%	5.1%	6.3%	9.5%	7.4%	5.7%	6.7%	6.4%	8.9%	10.5%	11.8%
EV / Sales	5.4x	4.2x	3.1x	2.8x	2.9x	2.6x	3.6x	3.4x	2.5x	2.2x	1.9x	1.7x
EV / EBITDA	9.6x	9.9x	6.5x	5.7x	6.4x	5.6x	7.3x	7.8x	5.2x	4.6x	4.1x	3.4x
EV / EBIT	12.1x	14.0x	8.3x	7.3x	8.5x	6.8x	8.6x	9.4x	6.0x	5.1x	4.5x	3.8x
Price to book value	4.4x	3.9x	3.7x	2.9x	3.2x	4.1x	4.8x	4.7x	4.2x	3.6x	3.2x	2.8x
Profitability ratios	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Gross margin	66.7%	55.7%	63.8%	64.6%	64.7%	63.9%	65.7%	64.6%	66.8%	66.7%	66.7%	67.3%
EBIT margin	42.3%	29.7%	37.8%	37.6%	33.6%	37.4%	42.1%	36.2%	41.3%	42.2%	42.8%	44.4%
EBITDA margin	53.4%	41.8%	48.2%	48.3%	44.3%	46.1%	49.4%	43.6%	47.3%	47.6%	47.9%	49.2%
PBT margin	38.3%	29.4%	35.9%	33.4%	28.1%	36.1%	38.9%	32.4%	40.1%	42.3%	42.6%	44.0%
Net profit margin	36.9%	23.3%	25.4%	32.3%	22.5%	26.7%	26.4%	23.6%	27.3%	28.8%	29.0%	29.9%
ROA av.	17.3%	10.8%	12.8%	23.2%	11.7%	14.8%	16.6%	15.4%	19.4%	20.6%	21.4%	23.0%
ROCE av.	20.1%	13.0%	17.5%	29.3%	15.8%	19.9%	23.4%	21.2%	31.5%	32.5%	32.4%	33.2%
ROE av.	29.3%	20.9%	27.1%	44.2%	21.3%	30.9%	38.9%	37.1%	46.6%	48.3%	47.7%	49.3%
Dividend yield	3.6%	4.8%	5.1%	6.3%	9.5%	7.4%	5.7%	6.7%	6.4%	8.9%	10.5%	11.8%

Source: Company, CSL estimates

## Important Risk Warnings and Disclaimers

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