

Sufficient room for growth in volumes.

Dangote cement's Revenue in H1 was impacted by the current inflationary pressures, FX depreciation and supply chain disruptions as its group volumes declined 5.5% y/y to 13.4m MT in H1 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 17.7% y/y in H1 2023. Net Income was N178.6bn in H1 2023, a 3.8% y/y growth compared to H1 2022.

The company's management noted that the Naira cash crunch and the distortion of trading days caused by the general elections affected production volumes in H1 2023. Given its sizable market capacity, we believe that Dangote cement is well positioned to meet increased demand when industry volumes pick up. We are also optimistic that production volumes in the Pan-African region will increase as the commencement of operations in the 0.4Mta grinding plant in Ghana was announced and the 1.5Mta grinding plant in Cote d'Ivoire is in its final stages.

We forecast price growth of 15%, which will be the main driver of the group's topline performance for 2023e while we expect a marginal increase in volume growth of 5% due to the identified concerns. We have a price target of N428.36/s, with a BUY recommendation, our price target implies a 15.8% upside potential from the last closing price of N369.8/s. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50.

Recommendation

Buy

Target Price

N428.36

Closing Price

N369.80

*Price as of 01 September

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.	N5.1tn (US\$122.2bn)			
Free float	11.8%			
Bloomberg	DANGCEM.NL			
Reuters	DANGCEM.LG			

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Dangote Cement (N'm)	H1 2023	H1 2022	y/y	Q2 2023	Q1'2023	q/q
Revenue	950,832	808,037	17.7%	544,110	406,722	33.8%
Cost of sales (ex dep)	(332,032)	(280,873)	18.2%	(192,016)	(140,016)	37.1%
Gross profit	618,800	527,164	17.4%	352,094	266,706	32.0%
Selling and marketing expenses	(146,532)	(125,493)	16.8%	(81,285)	(65,247)	24.6%
Administrative expenses (ex dep)	(40,012)	(30,729)	30.2%	(23,053)	(16,959)	35.9%
Other income	11,057	1,601	590.6%	9,580	1,477	548.6%
EBITDA	443,255	372,893	18.9%	257,547	185,708	38.7%
Depreciation and Amortization	(63,219)	(54,772)	15.4%	(34,378)	(28,841)	19.2%
EBIT	380,036	318,121	19.5%	223,169	156,867	42.3%
Net finance income/(expense)	(33,217)	(12,574)	164.2%	(33,217)	(12,257)	171.0%
Gains/loss on Monetary assets	6,670	0	n/m	(5,333)	12,003	-144.4%
Net FX loss	(113,626)	(40,657)	179.5%	(103,837)	(9,789)	960.8%
Profit/(loss) before tax	239,863	264,890	-9.4%	93,039	146,824	-36.6%
Tax credit/(expense)	(61,260)	(92,786)	-34.0%	(23,937)	(37,323)	-35.9%
Profit/(loss) after tax for the period	178,603	172,104	3.8%	69,102	109,501	-36.9%
Net income attributable to equity holders	178,603	172,104	3.8%	69,102	109,501	-36.9%
Basic EPS (N)	10.39	10.10	2.9%	3.95	6.44	-38.7%

Margins:	H1 2023	H1 2022	y/y	Q2 2023	Q1'2023	q/q bps
Gross margin	65.1%	65.2%	-0.25%	64.7%	65.6%	-1.32%
EBITDA	46.6%	46.1%	1.02%	47.3%	45.7%	3.67%
PBT	25.2%	32.8%	-23.05%	-4.4%	-11.5%	-61.69%
Net margin	18.8%	21.3%	-11.81%	12.7%	26.9%	-52.83%

Source: Company data, CSL Research

Price increment drives revenue growth

Dangote Cement reported a double-digit increase in Revenue, up 17.7% y/y to N950.8bn in H1 2023 from N808bn in H1 2022 based on its recently released H1 2023 results. On a q/q basis, performance was impressive, as Revenue was up 33.8% q/q to N544.1bn in Q2 2023 from N406.7bn in Q1 2023. We note that there was a slight 9% increase in volumes in Q2 2023, which we attribute to the firm's pan-African operations. Y/y, Revenue growth was price-induced amidst a decline in volume growth in H1 2023. Specifically, Revenue from the Nigerian operations decreased by 0.7% y/y to N618.5bn in H1 2023 from N622.9bn in H1 2022, due to a significant y/y decrease in volume (down 13.2% to 8.1m MT). The management attributed the decline in local production volumes to the naira cash crunch and the distortion of trading days caused by the general elections witnessed in Q1 2023.

However, we believe additional volumes from its Planned 6Mta Itori Plant would help improve production volumes and support the firm's earnings. In our view, further increases in price would be necessary to protect profit margins in H2. This makes us estimate a 15% y/y growth in price per tonne for the year 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 from the N1.2tn recorded in FY 2022.

Though the Pan African region also raised prices in the review period, Revenues was also boosted by a 11.3% increase in volume growth, which led to the 81.8% y/y increase in Revenue to N336.3bn in H1 2023. According to the management, volume growth was driven by Ethiopia, Senegal, Cameroon, Congo and Zambia operations. It was noted that there was capacity maximization in its Senegal, Ethiopia and Cameroon operations. Going forward, we are optimistic of an increase in production volumes in the in the Pan-African region. The management noted that its 0.4Mta grinding plant in Ghana has commenced operations and the company is at an advanced stage in the deployment of 1.5Mta grinding plant in Cote d'Ivoire. This makes us believe that the pan Africa region production volumes will maintain its uptrend in H2 and continue to support Revenue. Consequently, we forecast 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

Cost of Sales (adjusted for depreciation) was up by 18.2% y/y to N332bn in H1 2023. The y/y growth in Cost of Sales (adjusted for depreciation) was mainly driven by other production expenses (79% y/y). Also, marginal increases in fuel & power consumed (+5.9% y/y) and Plant maintenance cost (+16.6% y/y) contributed to the rise in Cost of Sales. The significant growth in Cost of Sales despite a 5.5% decline in sales volume points to cost pressures from inflation, FX depreciation, energy disruptions, and supply chain bottlenecks. Overall Gross profit increased by 17.4% y/y to N618.8bn in H1 2023 from N527.1bn in H1 2022. Similarly, on a q/q basis, Gross Profit increased by 32% to N352bn in Q2 2023 from N266.7bn in Q1 2023. Gross margin shrunk by 0.25% y/y to 65.1% in H1 2023 from 65.2% in H1 2022.

EBITDA increased by 18.9% y/y to N443.2bn in H1 2023. Consequently, EBITDA margin grew by 1.02% to 46.6% in H1 2023 from 46.1% in H1 2022. The pressure on EBITDA margin stems from the 16.8% y/y and 30.2% y/y growth in Selling & Distribution Expenses (adjusted for depreciation) and Administrative Expenses (adjusted for depreciation).

Going forward, we expect EBITDA Margin to remain stable, driven by Revenue growth and continued cost containment measures. Though inflationary pressure on energy costs remains a downside risk, we expect the gradual shift to alternative fuel, which the company is exploring for an optimal energy mix, to provide respite. Overall, we estimate EBITDA of N930bn in 2023, which translates to an EBITDA Margin of 47.3% in 2023 compared to 43.8% for FY 2022.

Net Finance Cost increased by 164.2% y/y to N33.2bn in H1 2023 from N12.57bn in H1 2022. While Finance Cost was up 42.9% y/y to N49.4bn, Finance Income was down by 26% y/y to N16.2bn. We note that the recent devaluation of the Naira led to a steep 179.5% increase in FX losses to N113.6bn as the company revalued its liabilities. This dragged Pre-Tax profit down by 9.4% y/y to N239.8bn in H1 2023 from N264.8bn in H1 2022.

We note that the company is currently enjoying a tax holiday, thus we saw a 34% y/y decrease in Tax Expenses resulting in a 3.8% y/y growth in Net Income to N178.60bn in H1 2023 from N172.1bn in H1 2022. Overall, Earnings per Share settled at N10.39/s in H1 2023 compared with N10.10/s in H1 2022.

Valuation

We have a price target of N428.36/s, with a BUY recommendation, our price target implies a 15.8% upside potential from the last closing price of N369.8/s. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50.

Dangote Cement Forecasts, Nm

Income statement	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Turnover	494,725	615,403	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)	(163,665)	(273,571)	(391,692)	(387,767)	(387,736)	(373,024)	(475,065)	(572,133)	(652,352)	(732,770)	(815,697)	(909,073)
Gross profit	328,160	342,532	513,890	582,446	576,936	661,172	908,572	1,046,190	1,315,432	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	20,542	5,213	10,212	2,980	4,754	6,221	5,333	5,440	5,548	5,659	5,773
EBIT	207,822	182,493	304,208	338,698	299,893	386,922	582,832	585,876	812,578	929,999	1,043,199	1,235,807
Depreciation and Amortisation	54,616	74,750	83,939	96,203	95,463	89,538	100,766	120,390	117,418	118,945	121,986	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)	(49,958)	(97,242)	(173,927)	(141,691)	(252,637)	(298,279)	(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	1,395,241	1,477,981	1,533,518	1,632,137	1,735,089	1,858,150	1,993,714
Other non-current assets	25,111	66,084	57,089	87,721	112,247	64,478	21,430	35,125	18,938	18,938	18,938	18,938
Total non-current assets	944,963	1,225,940	1,255,584	1,265,554	1,322,659	1,459,719	1,500,411	1,568,643	1,651,175	1,754,027	1,877,088	2,012,652
Current Assets												
Stocks	53,118	81,903	94,594	106,998	114,806	108,270	167,105	239,563	193,015	200,110	211,305	236,608
Trade debtors	11,544	26,279	30,155	44,468	31,093	35,194	47,469	45,490	70,085	72,232	80,503	91,481
Other debtors & prepayment	60,516	78,280	115,496	101,883	127,042	24,856	31,722	447,149	32,471	331,065	335,427	381,172
Due from related companies	-	-	1,608	2,380	4,266	5,249	3,752	5,981	7,856	7,979	9,643	10,724
Short term deposits	-	-	-	-	-	-	-	-	-	-	-	-
Cash	40,792	115,693	168,387	166,896	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	550,118	873,042	1,023,461	1,295,622	1,442,973	1,567,151	1,780,465
Total assets	1,110,943	1,529,104	1,665,883	1,694,463	1,730,487	2,009,857	2,373,453	2,592,104	2,946,798	3,197,000	3,444,239	3,803,117
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	208,329	152,475	242,894	125,715	107,279	158,908	176,562	333,498	167,505	202,693	221,443	295,269
Other	32,592	22,146	4,255	3,269	4,053	12,004	12,283	19,442	17,611	17,611	17,611	17,611
Total Non-current liabilities	265,425	277,783	364,047	212,344	205,173	293,892	323,848	506,966	339,142	374,330	392,780	466,906
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	83,553	185,802	193,160	144,705	221,554	293,220	265,706	-	404,339	451,452	503,141	571,757
Due to related companies	-	-	-	-	1,409	2,073	2,187	1,713	3,481	3,714	4,129	4,810
Short term debts	47,275	220,300	144,783	220,128	260,631	335,011	401,393	392,378	311,081	345,126	393,443	407,891
Taxation	1,289	18,220	63,901	9,223	49,932	59,781	153,385	167,971	153,385	153,385	153,385	153,385
Other	21,537	18,207	41,071	36,185	34,083	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	868,274	969,478	1,111,573	1,284,655	1,450,823	1,673,159
Non controlling interest	(6,235)	(12,925)	12,630	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	1,402,353	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	5.1x	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%	22.6%	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%	44.1%	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

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