Dangote Cement

Rising energy costs, FX losses pressure Q2 22 earnings

Stock Rating: BUY
Price Target: N328.65
Price (2-Aug-2022): N265.00
Potential Upside / Downside: +24.0%
Tickers: DANGCEM NL / DANGCEM.LG

Dangote Cement (DANGCEM) released its Q2 22 unaudited results on Sunday (31 July). The group reported EPS decline of 33.8% y/y in Q2 22, culminating in a fall in H1 22 EPS by 9.9% y/y.

The earnings slump was mainly driven by elevated cost pressures and increased interest expenses. As a result, when annualised, the achieved EPS is below our and consensus forecasts for FY 22 by 14.5% and 20.9%.

The market's reaction to the results has been neutral. Year-to-date, the stock is up 3.1%.

Fig 1: Dangote Cement H1 2022 results

Income Statement (Naira millions)	H1 2021	H1 2022	y/y	Q2 21	Q1 22	Q2 22	y/y	q/q
Revenue	**690,545**	**808,037**	**17.0%**	**357,894**	**413,181**	**394,856**	**10.3%**	**-4.4%**
COGS	(276,115)	(322,461)	16.8%	**(148,119)**	(154,108)	(168,353)	13.7%	9.2%
Gross profit	**414,430**	**485,576**	**17.2%**	**209,775**	**259,073**	**226,503**	**8.0%**	**-12.6%**
Other Income	6,051	1,601	-73.5%	**2,139**	1,017	584	-72.7%	-42.6%
OPEX	(118,284)	(247,026)	108.8%	(61,461)	(77,620)	(169,406)	175.6%	118.3%
EBITDA	**351,065**	**372,893**	**6.2%**	**173,094**	**210,746**	**162,147**	**-6.3%**	**-23.1%**
D&A	(48,868)	(54,772)	12.1%	**(22,641)**	(27,943)	(26,829)	18.5%	-4.0%
EBIT	**302,197**	**318,121**	**5.3%**	**150,453**	**182,803**	**135,318**	**-10.1%**	**-26.0%**
Net Interest	(20,943)	(53,231)	154.2%	700	(26,405)	(26,826)	n/a	1.6%
PBT	**281,254**	**264,890**	**-5.8%**	**151,153**	**156,398**	**108,492**	**-28.2%**	**-30.6%**
Tax	(89,624)	**(92,786)**	3.5%	**(49,233)**	(50,547)	(42,239)	-14.2%	-16.4%
Minority Interest	(1,076)	(1,482)	37.7%	(1,323)	(1,436)	(46)	-96.5%	-96.8%
Net Income	**190,554**	**170,622**	**-10.5%**	**100,597**	**104,415**	**66,207**	**-34.2%**	**-36.6%**
EPS (Naira)	**11.21**	**10.10**	**-9.9%**	**5.92**	**6.18**	**3.92**	**-33.8%**	**-36.6%**
DPS (Naira)	-	-	-	-	-	-	-	-

Ratios	H1 2021	H1 2022	y/y	Q2 21	Q1 22	Q2 22	y/y	q/q
Gross Margin	60.0%	60.1%	08bps	58.6%	62.7%	57.4%	-125bps	-534bps
Cost of sales Margin	40.0%	39.9%	-08bps	41.4%	37.3%	42.6%	125bps	534bps
EBITDA Margin	50.8%	46.1%	-469bps	48.4%	51.0%	41.1%	-730bps	-994bps
EBIT Margin	43.8%	43.1%	-69bps	42.0%	44.2%	34.3%	-777bps	-997bps
Tax Rate	31.9%	31.4%	-49bps	32.6%	32.3%	38.9%	636bps	661bps
Net Profit Margin	27.8%	27.2%	-53bps	28.5%	25.6%	16.8%	-1,170bps	-884bps
ROAE	43.2%	37.6%	-556bps	23.4%	20.8%	14.8%	-857bps	-596bps
ROAA	18.3%	14.7%	-361bps	9.7%	8.7%	5.6%	-407bps	-308bps
Interest cover (x)	8.39	8.10		14.03	4.97	3.52		
Net debt/Equity (x)	0.51	0.57		0.52	0.31	0.58		
Net debt/EBITDA (x)	1.16	1.18		1.18	1.56	0.62		

Source: Company reports, Coronation Research

Revenue growth supported by price increases as volume falters

The group's revenue grew by 10.3% y/y in Q2 22, driven mainly by growth in its Nigeria operations (+18.3% y/y); growth from its Pan African operations (-6.8% y/y) faltered. The achieved revenue, when annualised, is above our forecasts for FY 22 by 2.9%, owing to larger-than-expected price increases.

Nigeria revenue was mainly driven by price increases (average price per tonne rose by 30.2% y/y) which offset the decline in volume (-9.1% y/y to 4.51Mt) in the period. According to management, the slump in Nigerian volume was due to persisting disruptions in energy supply which impacted volumes.

In the Pan-African region, price increases were also implemented (average price per tonne rose by 3.5% y/y). However, this was not enough to offset the substantial volume decline (-14.1% y/y to 2.45Mt). According to management, volume declined due to the amplification of global supply chain disruptions, rising commodity prices brought about by inflation, the plant maintenance in its Senegal operations and the extended shut down of its Congo plant.

Overall, the group's sales volume declined by 10.3% y/y to 6.96Mt in Q2 22, driving the overall H1 22 volume down by 7.0% y/y to 14.21Mt

Rising energy costs pressure EBITDA margin

Gross margin shrank by 125bps to 57.4% in Q2 22, a six-quarter low, owing to the more significant Cost of sales growth (+13.7% y/y) than revenue. Cost of Sales was pressured mainly by the surge in Fuel & Power consumed (+27.8% y/y) expenses, which reflects the rise in energy costs, especially diesel and coal.

EBITDA declined by 6.3% y/y in Q2 22, owing to a 49.3% y/y jump in Operating expenses. The surge in Haulage expenses (+72.0% y/y) following the rise in diesel prices in Nigeria was the primary contributor to the increase in Operating expenses. Consequently, EBITDA margin shrank 730bps to 41.1%, the lowest level since Q3-19. To mitigate the impact of rising energy costs, management stated that the company was strengthening its efforts to ramp up the usage of alternative fuels, which aims to leverage waste management solutions, reduce CO_2 emissions, and source material locally.

Foreign exchange losses exacerbate earnings decline

Further down the P&L, the group recorded Net finance cost of N26.83bn in Q2 22 from Net finance income of N700.00m in Q2 21, as it incurred a significant N22.44bn foreign exchange loss. Consequently, Profits Before Tax declined by 28.2% y/y. Despite the decline in tax expense in Q2 22 (-14.2% y/y), Net Income fell by 34.2% y/y.

Conclusion

DANGCEM's revenue performance in H1 22 was in line with our expectations (+0.6% variance). We are encouraged that the company was able to take advantage of higher prices amidst dwindling volumes across its Nigerian and Pan-African markets. On its operations, the company is ramping up production at the Okpella plant and is deploying grinding plants in Ghana and Cote d'Ivoire, expanding its Pan-African reach. The group has also commenced the 3rd season of its National Consumer Promotion – "Bag of Goodies 3"; management continues to drive consumer engagement to support demand ahead of the rainy season into the rest of the year. Thus, we expect these will bode well for revenue growth.

On the negative, we are concerned about the elevated operating expense profile. If the growth continues at this run rate, we are likely to increase our FY 22 Opex forecast post the 9M 22 results release. However, management plans to intensify its efforts to ramp up the usage of alternative fuels and source materials locally. Thus, we expect a slight reduction in energy costs in Q3 22.

Overall, we maintain our BUY recommendation on the stock. On our estimates, the stock is trading on 2022F P/E and EV/EBITDA multiples of 11.7x and 6.9x, discounts to emerging market peer multiples of13.8x and 8.7x.

Management call on Wednesday, 3 August 2022, at 3.00 pm Nigeria/UK time. Click here to register.

Analyst:
Adebayo Adebanjo, Analyst
aadebanjo@coronationam.com

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Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the benchmark over the next 12 months or the stated investment horizon.
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ZENITHBANK	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	30.86
GTCO	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	36.63
ACCESS	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	12.88
FBNH	8-Apr-22	Sell	16-May-22	Sell	28-Jul-22	Sell	8.34
UBA	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	11.72
STANBIC	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	45.00
MTNN	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	274.41
AIRTELAFRI	8-Apr-22	Sell	16-May-22	Sell	28-Jul-22	Sell	1,051.07
DANGCEM	8-Apr-22	Buy	16-May-22	Buy	28-Jul-22	Buy	328.65
BUACEMENT	8-Apr-22	Not Rated	16-May-22	Not Rated	28-Jul-22	Sell	44.60

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Buy	70.0%
Sell	30.0%
Hold	0%
Under Review	0%

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Coronation Asset Management,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.