Dangote Cement Plc.

DUNN LOREN MERRIFIELD

Nigeria | Equities | Building Materials | April 07, 2016 — DLM RESEARCH

New markets & pricing strategy lift overall performance

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Price:

- Current	**₦169.99***
- Target	**₦217.00**
- Recommendation:	**BUY**

** As at Thursday, April 07, 2016*

Investment Summary

Dangote Cement Plc; we upgrade our forecast and price target to **₦217.00** and recommend a **medium-to-long term BUY**. Our standpoint on the company is supported by its expansion efforts as it is positioning to continue its market leadership backed by unsatisfied regional capacity vs. existing and potential demand through various construction activities in the consumer, industrial and infrastructure segments. Our optimistic view on the company is further backed by relatively strong performances in its sales and revenue generation coupled with improved efficiencies. For 2016 and beyond, we expect the company's pricing strategy to be the main driver of growth in the Nigerian market which will be supported by volume strategy in other Africa regions. We expect local demand to grow above ~5% if infrastructure investments are improved at the current levels and the economic momentum stays as projected. We estimate that current industry capacity utilization of ~70%, presents opportunity for upside even when projected new capacity from DCP and other players are added. The Ministry for Works, Power & Housing of Nigeria has proposed that 62% of its ₦433billion budget for the period 2016-18 will be allocated to the completion, upgrading or building of 6,000km of roads. Hence, we believe transmission into cement consumption is almost immediate. Additionally, while we maintain that DCP will benefit from Nigeria's mega city projects estimated to cost ~$15billion, we believe that the reconstruction of the North-East zone devastated by Boko Haram will create even more opportunities for the company in the medium-to-long term even as we expect DCP to be a net exporter of cement from Nigeria at c.2mmt per annum, 13.5% of the local production with strong market share against long-established peers.

In 2015, Dangote Cement Plc (DCP) marked a historic sale where it sold c.18.86mmt of cement implying a growth of 35% and pushed up its net profit by 13.70%. This was driven by the new factories opened in Senegal, Cameroon, Ethiopia and Zambia; supported by favourable fuel mix as coal programme-enabled fuel cost savings supported margins. Hence, all its pan-African operations were profitable in 2015, even though most of their capacities were still in the less-profitable ramp-up phase. The West & Central Africa regions contributed an operating profit of ₦4.7billion (2014: ₦3.9bn loss), while South & East Africa posted ₦8.6billion (2014: ₦0.06bn). Cash generated during the year was strong at ₦299.5billion which enabled DCP to fund capital expenditure of ₦251.0billion.

Fig. 1: Quarterly results highlights

	4Q'2015	3Q'2015	3Q'2014	Q/q Δ	Y/y Δ
Revenue (₦'mn)	126,275	123,125	81,425	2.56%	55.08%
Operating profit (₦'mn)	34,287	51,130	24,647	-32.94%	39.11%
Net profit (₦'mn)	23,330	36,185	19,024	-35.53%	22.63%

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	1.18%/-4.44%
52-week range	₦123.51- ₦185.00
Average daily vol./val.	1,051,220/₦170.30m
Shares Outstanding (mn)	17,040
Market Cap. (₦'mn)	2,896,715($14,707mn)
EPS, ₦- 12months trailing	10.64
DPS, ₦- FY2015	8.00
FCF, ₦- FY2015	0.00

Source: Bloomberg, NSE, DLM Research

Fig. 3: Key ratios

	FY' 2015	FY'2014
Gross profit margin	58.96%	63.47%
Net profit margin	36.87%	40.73%
Equity multiplier	1.73x	1.68x
Asset turnover	0.44x	0.40x

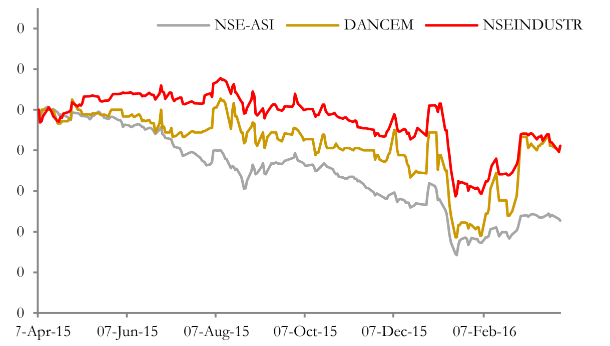
Source: Company report, NSE, DLM Research

Fig. 4: Valuations

	FY2015	FY2016E	FY2017F	FY2018F
P/Sales	5.96x	4.77x	4.15x	3.61x
P/E	15.84x	12.81x	12.32x	11.48x
PEG	0.00	0.00	0.00	0.00
EV/Sales	6.40x	5.07x	4.39x	3.72x
P/B	4.57x	4.17x	3.23x	2.68x
ROE	28.25%	32.54%	26.19%	23.34%
ROA	16.32%	18.30%	15.72%	15.10%
Div. Yield	4.65%	4.94%	5.23%	5.81%

Source: Company annual report, DLM Research

Fig. 5: Dangote Cement vs. NSE, 52-wk movement (rebased)



Source: NSE, DLM

In view of the above, we remain optimistic on growth prospects and continue to believe that DCP is better positioned to face the competition from major cement producers. We remain positive on its operating business model, strategic business plan and projected financial performance. We regard these factors as very key for the company's future performance and therefore used these factors and the overall positive outlook for the cement industry to recommend a medium term buy for DCP. We project a 3 year CAGR on EPS and DPS of 18.24% and 11.80% to ₦14.98 and ₦10.00 respectively. We also project a -23.40% CAGR reduction in P/B to ~2.68 – mainly due to increase in investments level. Our revenue growth expectation for the three years is 28.57% CAGR with sales volume estimated at c.28.61mmtp. We anticipate EBITDA/tonne and EV/tonne to reach $36.58 and $409.88 in FY'16.

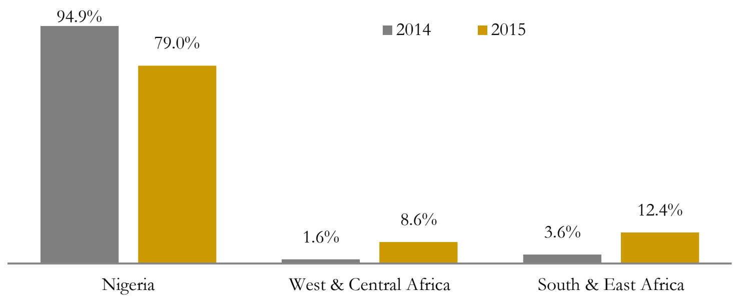
Risk factors: 1) Cement price decline; 2) Declining business cycle; 3) Increase in costs.

Pricing and volume strategy supports revenue growth. For the full year ended December 2015, Dangote Cement Plc (DCP) posted earnings per share (EPS) of ₦10.64 on revenues of ₦491.73billion, (FY'14; ₦391.64bn) which was up 25.56% y/y, though below our estimate of ₦528.71billion (-6.99% deviation). A total production capacity of c.43.6mmt was realised across its African operations. The key drivers of performance for the period were; 1) Focus on regional promotions which booted DCP's market share to ~62% despite the pricing actions by a competitor which resulted in a shift of sales away from DCP cement. 2) Strong performance in other African operations as it grew market share and recorded a significant growth in sales volume even though most of their capacities were still in the less-profitable ramp-up phase and operating at low capacity utilization. This was supported by the new Nigeria pricing strategy which drove record Q4 sales of nearly 4mt.

"For the full year ended December 2015, Dangote Cement Plc (DCP) posted earnings per share (EPS) of ₦10.64 on revenues of ₦491.73billion, (FY'14; ₦391.64bn) which was up 25.56% y/y, though below our estimate of ₦528.71billion."

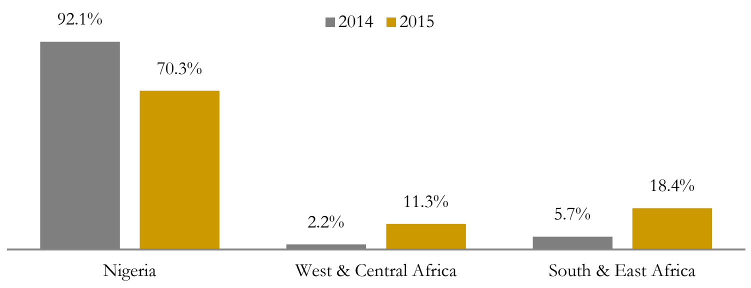
The pick-up in these markets and the strong sales in Nigeria in the last quarter of the year helped offset the lower than expected sales during the first three quarters of the year in Nigeria. As a results, the Q4 revenue of ₦126.3billion exceeded its eight quarters average of ₦110.4billion; though below the ₦127.48billion recorded in 2Q'15. In 2015, sales volume in Nigeria was c.13.3mtp (FY'14: 12.9mmt.) which was 4.31% above our estimates of 12.75mmt, while the overall cement sales volume for the group rose by 35% to 18.9mmt. (FY'14: 13.97mmt.). Hence,5.61mmt cement representing ~30% were sold from operations outside Nigeria, which include South Africa, Senegal, Cameroon, Ethiopia and Zambia, as well as import operation in Ghana. Ibese increased volumes by 29% to 5.0Mt, while Obajana increased by 7.4% to 8.0Mt. With sales volume gradually ramping up in other African operations and new line in Senegal to feed Mali, we expect other Africa operation volume contribution to reach 39% in 2016 and 50% in 2019. This therefore would reduce Nigeria's volume contribution from 66.70% in 2016 to ~50% in 2019. This will result to a ~16.20% growth in the group's cement sales volumes. In 2015, the company faced significant challenges from a falling oil price, the devaluation of the Naira, the delay to the general election which impacted major construction activities and a shortage of diesel fuel in April.

Fig. 6: Revenue contribution by region (%)



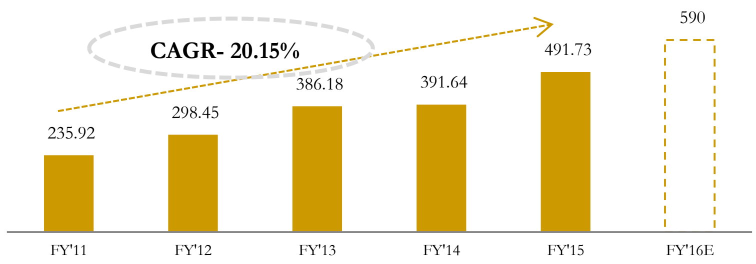
Source: Company report NSE, DLM Research

Fig. 7: Volume contribution by regions (%)



Source: Company report NSE, DLM Research

Fig. 8: Annual sales revenue (₦'bn)



Source: Company report NSE, DLM Research

Sales volume (mmt)	FY'15	FY'14
Nigeria	13,290	12,973
Other Africa operations	5,609	1,098
Total	18,858	13,971

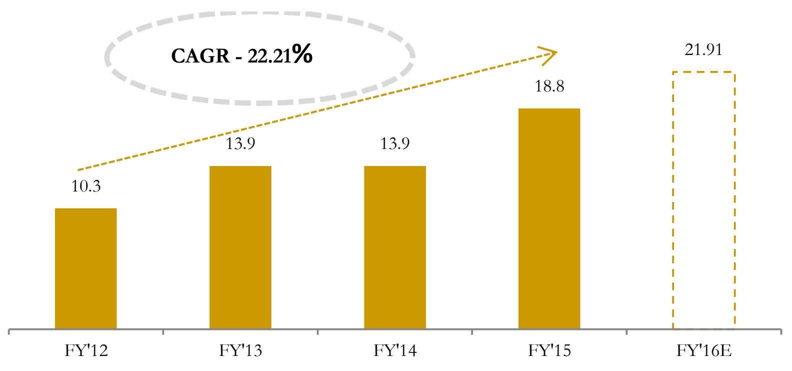
Expected sales volume (mmt)	2016E	2017F	2018F	2019F
Nigeria	14,619	15,350	15,810	16,285
Other Africa operations	7,292	9,844	12,797	16,380
Total	21,911	25,194	28,607	32,665
Exp. Average price/tone	28	27	27	26
Exp. Revenue from cement sales (₦'bn)	613,500	680,231	758,096	849,286
Growth factor - other Africa Op.(%)	30%	35%	30%	28%
Growth factor -Nigeria Op.(%)	10%	5%	3%	3%
Estimated other Africa Op volume contributions %	33%	39%	45%	50%
Estimated Nigeria Op volume contributions %	66.7%	60.9%	55.3%	49.9%

EBITDA & EV/Tone	FY'15	FY'16E	FY'17F	FY'18F	FY'19F
Price	166.73	213	230	235	240
Shares	17,040	17,040	17,040	17,040	17,040
Market cap	2,841,079	3,629,520	3,919,200	4,004,400	4,089,600
Debt	204,200	277,947	282,947	218,147	222,947.00
Cash	40,792	92,198	106,028	121,932	137,784
Enterprise value	3,004,487.2	3,815,268.6	4,096,118.8	4,100,614.6	4,174,763.4
Capacity (mmt)	43.6	47.25	49.25	54.25	77.25
EBITDA	262,448	340,520	365,444	408,880	448,256
EBITDA/tone (N)	6,019	7,207	7,420	7,537	5,803
EBITDA/Tonne ($)	30.56	36.58	37.67	38.26	29.46
EV/Tonne (N)	68,910	80,746	83,170	75,587	54,042
EV/Tonne ($)	349.80	409.88	422.18	383.69	274.33

Operations overview

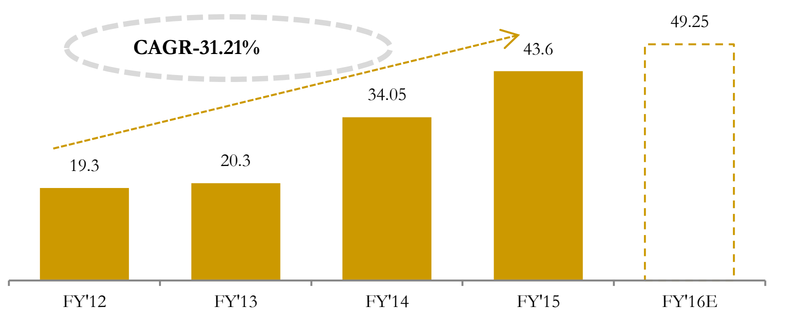
Operations	Capacity (mmt)	Operating	Expected
Obajana- Nigeria	13.25	13.25	
Ibese- Nigeria	12.00	12.00	
Gboko- Nigeria	4.00	4.00	
Itori Line 1 - Nigeria	3.00		3.00
Itori Line 2 - Nigeria	3.00		3.00
Okpella - Nigeria	3.00		3.00
Nepal	3.00		3.00
Pout -Senegal	3.00	1.50	1.50
Duala-Cameroon	3.00	1.50	1.50
Tema-Ghana	2.50	1.00	1.50
Mali	1.50		1.50
Niger	1.50		1.50
Abidjan- Ivory Cost	3.00		3.00
Madingou- Rep of Congo	1.50		1.50
Monrovia- Liberia	0.50		0.50
FreeTown- Sierra Leone	0.70		0.70
Aganang- South Africa	1.80	1.80	
Delmas-South Africa	1.50	1.50	
Zimbabwe	1.50		1.50
Ndola- Zambia	3.00	1.50	1.50
Mugher- Ethiopia	5.00	2.50	2.50
Kenya	3.00		3.00
Mtwara- Tanzania	3.00	3.00	3.00
Total	**77.25**	**43.55**	**36.70**

Fig. 9: Annual sales volume growth (mmt) 2012-2015



Source: Company report NSE, DLM Research

Fig. 10: Cement plants production capacities (mmtpa)



Source: Company report NSE, DLM Research

We continue to believe that cement prices are yet to bottom-out. Lending credence to our view is the observed new players looking to penetrate the market with varying production capacity while existing players are constantly expanding plant capacity. For example IBETO has recently signed a $386-million contract with Sinoma Engineering Company to build a 6000t/day clinker line, which will be located in Enugu, Nigeria. BUA Group, which recently added 3mmt to its existing plant, has signed a $700m contract with SINOMA CBMI to commence the construction of additional 3mmt second production line in Nigeria and cement plants in East Africa. The steel plant with a capacity of 1.2 million tonnes will cost $1.2 billion. South Port Cement Ltd, a new player, is set to build a 1.2mtpa. This may lead to a further price decrease. In our view, these new investments will further lower cost of production and bring about future reduction of the price of cement.

Capacity expansion remains the focal point to capture the Africa cement growth story. With strong balance sheet and net debt 0.78x EBITDA and 0.68x cash flow from operating activities, we believe DCP has the ability to engineer further expansions. In 2015, DCP invested ₦251.9billion ((2014: ₦217.2bn) to increase production capacity in Nigeria as well as its production plants under construction in the various African countries. The significant proportion (~48.40%) was spent in South and East Africa. The company has announced its intention to further increase its cement production capacity in Nigeria by 30.77% to 38.25mmtp from the current 29.25mmtp. Funding of the expansion project is expected from a combination of internally generated retained earnings/cash and debt facility and therefore we expect

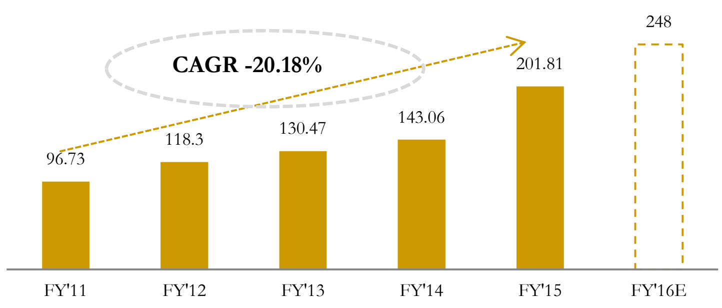
"With strong balance sheet and net debt 0.78x EBITDA and 0.68x cash flow from operating activities, we believe DCP has the ability to engineer further expansions"

leverage ratios to change; although, it is highlighted that payment terms allow a high portion of costs to be paid after commissioning. In our view, the Brownfield expansions enable higher returns and reduce market concentration risk. The new fully integrated plants, which will be completed within the next 30 months, will be located in Okpilla, Edo State and Itori, Ogun State. The plants will have two lines each of 3.0 million tonnes capacity. The completion of the new plants in Nigeria and other African countries will enable DCP to have sufficient capacity to produce higher grade cement, substantially reduce production costs and increase efficiency even further. This will increase the group's production capacity by c.33.65mmt to c.77.25mtpa therefore making the company the biggest cement producer in the sub-region. Based on our assessment, urbanization and focus on infrastructure development is expected to increase significantly in the near-to-medium term, therefore creating opportunities for cement producers. The growth in urbanization has resulted in increasing development of ultra-modern satellite and near-city development which include both residential and commercial premises. Hence, demand for cement remains high bearing in mind the increasing population growth. This supports our view that Nigeria's consumption of cement at 100kg per capita was relatively low, indicating massive growth potentials.

Cost of sales rose as more African factories commenced operations. The growth in COS was in line with increased production by the group as more factories were opened during the year. For the FY'15 results, DCP's cost of sales (COS) of ₦201.81billion was up by 41.10% y/y compared to ₦143.06billion recorded in the preceding year and above our estimate of ₦195.62billion (+3.16% deviation). The growth in COS was driven largely by ;1) Direct costs such as salaries and related staff costs, (₦15.26bn, 41.90% y/y), resulting from increased staff numbers as more African subsidiaries commenced operations ; 2) Plant maintenance cost, (₦18.33bn, 55.37% y/y) ; 3) material cost, (₦55.62bn, 67.41% y/y), which arose largely due to production ramp up and increase in sales volume in the subsidiaries in South Africa, as well as the commencement of operations in Senegal, Cameroon, Zambia and Ethiopia, and ;5) plant depreciation to ₦38.24billion, (FY'14: ₦21.65bn), coming from the new plants in other Africa regions. On energy cost, we note that fuel optimisation strategy reduces the company's use of expensive LPFO. During the year, all the energy used was generated by the company even as gas was most often priced in US$ but paid in Naira, which therefore reducing the need for FX. While we note a net increase in cost of sales, however, fuel and power costs in Nigeria were favourably impacted by the improved availability of gas resulting in the reduced use of LPFO, which is a much more expensive source of energy. The fuel mix was also improved by increased use of cheaper coal instead of LPFO, as well as the mothballing of production at Gboko, which runs entirely on LPFO and which produced significantly more cement in 2014. As a result the company's cash cost of production in Nigeria was lower than 2014 by ₦7.5billion. Specifically, energy cost increased by 7.21% y/y to ₦66.50billion, (FY'14: ₦62.02bn), representing 32.95% and 13.32% of COS and total revenue for the year. As a result of the growth in cost of sales, COS/revenue ratio increased slightly to 41.04% y/y from 36.53% in the previous year. Consequently, gross profit rose by 16.60% y/y to ₦289.72billion, (FY'14: ₦248.58bn), resulting to a gross profit margin of 58.96% from 63.47% in the previous year.

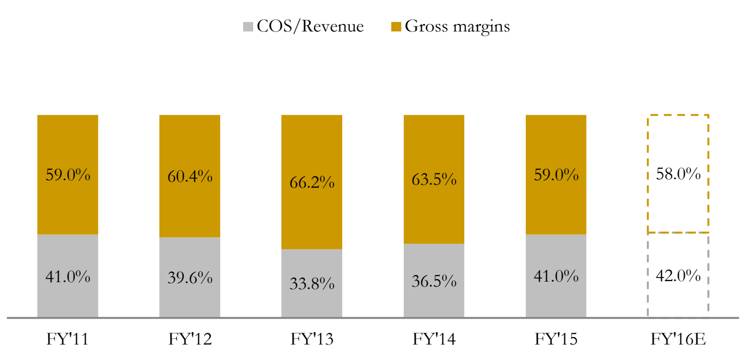
"During the year, all the energy used was generated by the company even as gas was most often priced in US$ but paid in Naira, which therefore reducing the need for FX"

Fig. 11: Annual Cost of sale (₦'bn) 2011-2015



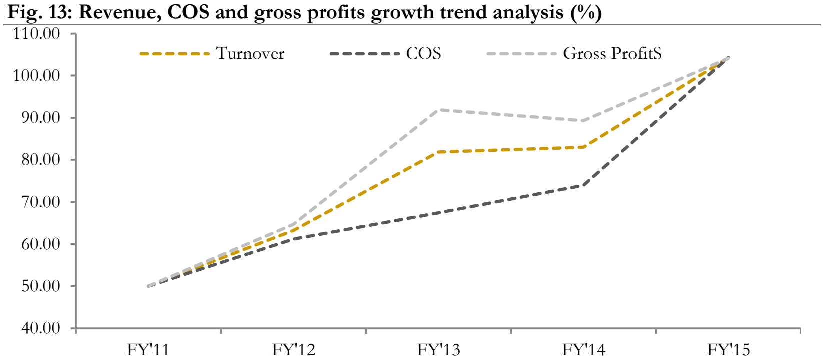
Source: Company report, NSE, DLM Research

Fig. 12: Annual COS/Revenues ratio and gross profit margins (%)



Source: Company report, NSE, DLM Research

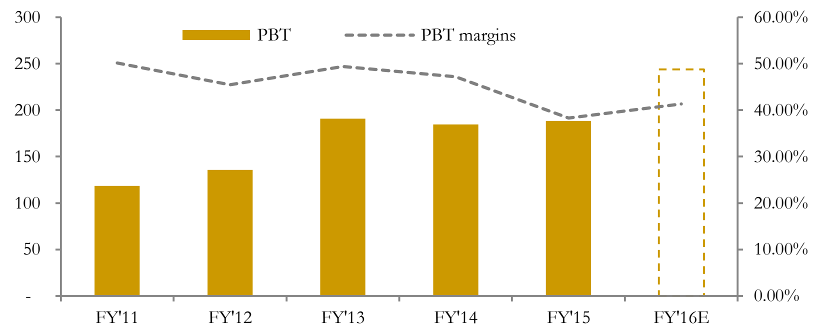
Fig. 13: Revenue, COS and gross profits growth trend analysis (%)



Source: Company report, NSE, DLM Research

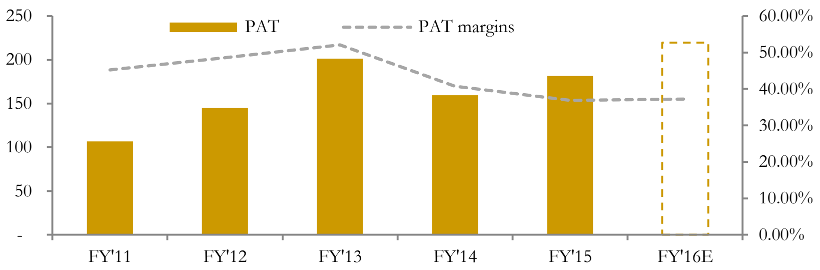
Pre-tax and post-tax profits grew significantly despite a surge in operating expenses. For the FY 2015, DCP posted pre-tax profit of ₦188.30billion, which was up 2.00% y/y against ₦184.69billion in the preceding year but below our estimate of ₦240.85billion (-21.82% deviation). This is even as growth in operating expenses continued to pressure operating profits largely due to increases in staff cost resulting from African subsidiaries. On operating expenses, we note that ~55% of opex was exposed to FX but most FX needs are on 'approved list' at CBN rate. The growth in pre-tax profit was largely driven by the positive growth of 11.10% in operating profit to ₦207.82billion, (FY'14: ₦187.10bn). Despite the growth noted in PBT, pre-tax profit margin declined to 38.29% from 47.16% in the previous year. Furthermore, a ~72.30% decrease in income tax provision boosted post-tax profit by 13.70% to ₦181.32billion, (FY'14: ₦159.50bn), with a net profit margin of 36.87%.

Fig. 14: Annual pre-tax profit (₦'bn) and margins (%)



Source: Company report, NSE, DLM Research

Fig. 15: Annual profit after tax (₦'bn) and margins (%)



Source: Company report, NSE, DLM Research

Strong cash generation supports net debt reduction. Though DCP's balance sheet remains strong with non-current assets increasing to ₦945.0billion (FY'14: ₦847.6bn) mainly as a result of increased capital expenditure, both within Nigeria and in other African countries. Financing outflows were ₦117.5billion (2014: ₦80.4bn), reflecting additional loans taken of ₦125.9billion, loans repaid of ₦116.20billion. For the review period, DCP's net debt declined by ₦17.80billion y/y to ₦204.20billion, (FY'14: ₦222.00bn), which was driven by strong cash generation from operating activities. Of the ₦245billion gross debt, 8.1% is in US Dollars, 12.8% in South African Rand, while 77.91% in Naira. This therefore lowers the company's exposures to FX fluctuation even as FX needs are on 'approved list' at CBN rate.

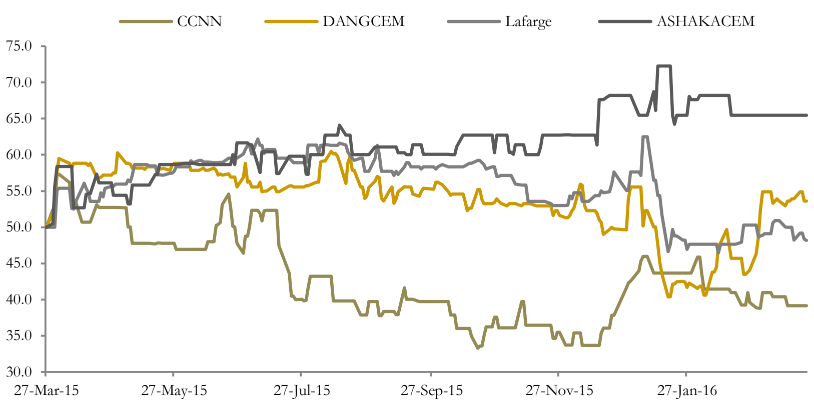
"The debt level resulted to 77.8% of the group's EBITDA for the year and a gearing ratio of 32.00%, which is comparatively lower than our estimated limit of 60%."

Our analysis showed that ₦177billion (~72%) of the debt is from parent company. The debt level resulted to 77.8% of the group's EBITDA for the year and a gearing ratio of 32.00%, which is comparatively lower than our estimated limit of 60%. Consequently, debt-to-assets ratio decreased slightly to 0.18x from 0.23x in the prior year, while cash flow to debt ratio improved to 1.47x (FY'14: 0.97x).

Valuation. We are positive on DCP's near-to-medium term performance. Our optimistic view on the company is backed by relatively strong performances in its sales and revenue generation coupled with improved efficiencies, good operating margins (5-year average of ~48.10%). We believe the company will record even stronger growth going forward given the current volume strategy. With production capacity already at 43.6mmt following the commissioning of the Zambia, Ethiopia and Tanzania factories, we raised our expected sales volume estimates for the year to 21.91mmt with an average price of ₦28,000/tonne, with other African operations accounting for ~33% of the total volume. We expect revenue growth of 25% in FY'16, with a CAGR of 28.57% i.e. from c.₦491.73billion in 2015 to c.₦812.88billion in 2018, driven largely by expected better regional sales matrix, and economies of scale. Currently, DCP trades at a replacement cost (EV/ton) of $409.88, based on FY16 estimates. DCP is currently trading at PER of 15.84x vs. NSE listed cement companies averages PER of 12.68x. From a valuation perspective, we employed several valuation metrics such as;1) the discounted cash flow model (60%); 2) maintainable earnings (simple, weighted average and five year projected earnings 10%); 3) peer method based on trailing price to earnings ratio (10%); and our price sensitivity analysis back test (20%). From this methodology we derive a target price of ₦217.00/share, with an implied EV/EBITDA multiple of 12.96x which represents 12.81x FY16E P/E and 4.17x P/B. Hence, we maintain our long term BUY rating on the stock. Though, our price sensitivity analysis back test shows value directions.

"We believe the company will record even stronger growth going forward given the current volume strategy. With production capacity already at 43.6mmt we raised our expected sales volume estimates for the year to 21.91mmt."

Fig. 16: Dangcem vs. industry peers, 52 –wk price movement (rebased)



Source: NSE. DLM Research

Fig.17: Valuation metrics

Capital structure (Equity)	71.28%
Capital structure (Debt)	28.72%
Forecast period	5year
Beta	1.12
Long term growth rate	5.00%
Risk free rate	12.50%
Risk premium	7.50%
Tax rate	10%
WACC	16.98%
Outstanding shares (Million)	17,040

Fig.18: Betas and Leverage

Unlevered beta	
Calculated Company beta	1.12
Tax rate	10%
Debt/equity ratio	40%
Unlevered Beta	**0.83**

Levered beta	
Unlevered beta	0.83
Tax rate	10%
Debt/equity ratio	0.40%
Levered Beta	**1.12**

Fig.19: Sensitivity analysis of enterprise value to changes in EV/EBITDA multiple and WACC (₦'billion)

		EV/EBITDA multiples				
		11x	12x	13x	14x	15x
Discount	13.50%	3,124,638	3,295,226	3,465,813	3,636,400	3,806,988
Discount	14.50%	3,007,618	3,170,885	3,334,152	3,497,419	3,660,686
Discount	15.00%	2,951,235	3,110,984	3,270,732	3,430,481	3,590,230
Discount	16.50%	2,790,116	2,939,842	3,089,568	3,239,294	3,389,019
WACC	16.98%	2,741,199	2,887,892	3,034,584	3,181,277	3,327,969

Fig.20: Sensitivity analysis of enterprise value to changes in growth rate and WACC (₦'billion)

		Terminal perpetual growth rates				
		2.5%	3.0%	4.0%	5.0%	6.0%
Discount	13.50%	4,043,342	4,190,730	4,532,048	4,953,676	5,487,738
Discount	14.50%	3,663,963	3,783,067	4,055,303	4,384,853	4,791,944
Discount	15.00%	3,497,459	3,605,141	3,849,872	4,143,551	4,502,491
Discount	16.50%	3,070,754	3,151,899	3,333,663	3,547,038	3,801,057
WACC	16.98%	2,953,818	3,028,372	3,194,712	3,388,827	3,618,307

Fig.21: DCF Valuation

	FY'16E	FY'17F	FY'18F	FY'19F	FY'20F
EBIT(₦'mn)	263,688	273,553	295,076	310,472	321,311
Operating FCF (₦'mn)	108,271	294,875	464,137	508,606	565,009
Present Value of Op FCF	100,106	233,068	313,608	293,778	278,990
EV(₦'mn)	4,202,144				
Equity Value (₦'mn)	3,949,828				
Price/Share	₦231.80				

Fig.22: Sensitivity analysis of target price to changes in EV/EBITDA multiple and WACC

		EV/EBITDA multiples				
		11x	12x	13x	14x	15x
Discount	13.50%	168.20	178.21	188.22	198.23	208.24
Discount	14.50%	161.33	170.91	180.49	190.07	199.66
Discount	15.00%	158.02	167.40	176.77	186.15	195.52
Discount	16.50%	148.57	157.35	166.14	174.93	183.71
WACC	16.98%	145.70	154.30	162.91	171.52	180.13

Fig.23: Sensitivity analysis of target price to changes in perpetual growth and WACC

		Terminal perpetual growth rates				
		2.5%	3.0%	4.0%	5.0%	6.0%
Discount	13.50%	222.11	230.76	250.79	275.54	306.88
Discount	14.50%	199.85	206.84	222.81	242.15	266.04
Discount	15.00%	190.08	196.40	210.76	227.99	249.06
Discount	16.50%	165.04	169.80	180.46	192.99	207.89
WACC	16.98%	158.17	162.55	172.31	183.70	197.17

Fig.24: Sensitivity analysis of implied terminal EBITDA multiples to changes in growth rate and WACC (x)

		Terminal perpetual growth rate				
		2.5%	3.0%	4.0%	5.0%	6.0%
Discount	13.50%	16.39	17.25	19.25	21.72	24.85
Discount	14.50%	15.02	15.75	17.42	19.44	21.93
Discount	15.00%	14.42	15.09	16.63	18.46	20.71
Discount	16.50%	12.87	13.42	14.63	16.06	17.75
WACC	16.98%	12.45	12.96	14.09	15.41	16.98

Fig.25: Peer multiples valuation

Company	Country	P/B	P/S	EV/EBITDA	P/E
Ultratech	USA	4.29	4.01	17.56	39.58
Ambuja Cements	Indian	4.22	7.01	13	44.21
Anhui Conch	China	1.16	1.75	7.43	10.79
Taiwan Cement Corp	Taiwan	1.06	1.17	11.01	17.5
Lafargeholcim	Switzerland	0.82	1.31	11.58	12.24
China Shanshui Cement Group	China	1.76	1.24	10.94	41.8
Heidelberg Cement	Germany	0.97	1.08	7.74	17.17
Italcementi	Italy	1.18	0.83	11.96	27.12
High		4.29	7.01	17.56	44.21
Low		0.82	0.83	7.43	10.79
Mean		1.93	2.30	11.40	26.30
Median		1.17	1.275	11.295	22.31
Harmonic mean		1.35	1.45	10.67	20.08
Illiquidity discount					0.8
Adopted P/E					16.063
Implied Price per share (₦)				**200.43**	**215.68**

Fig. 26: Statement of Profit or Loss, ₦'mn

	FY2015	FY2016E	FY2017F	FY2018F
Turnover	491,725	614,656	706,855	812,883
Change %		25.00%	15.00%	15.00%
Cost of Sales	(201,808)	(245,863)	(303,948)	(365,797)
Change %		21.83%	23.63%	20.35%
Gross Profit	289,917	368,794	402,907	447,086
Change %		27.21%	9.25%	10.96%
SG&A	(86,046)	(110,638)	(134,302)	(158,512)
Change %		28.58%	21.39%	18.03%
Core operating Profit	203,871	258,156	268,605	288,573
Change %		26.63%	4.05%	7.43%
EBITDA	262,448	340,520	365,444	408,880
Change %		29.75%	7.32%	11.89%
Other Operating Income	3,951	5,532	4,948	6,503
EBIT	207,822	263,688	273,553	295,076
Change %		26.88%	3.74%	7.87%
Profit Before Taxation	188,294	254,224	264,278	283,584
Change %		35.01%	3.95%	7.31%
Income tax expenses	(6,971)	(25,422)	(26,428)	(28,358)
Profit After Taxation	159,502	202,314	224,309	242,172
Change %		26.18%	3.95%	7.31%

Source: Company's annual reports, DLM Research

Fig.27: Statement of Financial Position (N,m)

	FY2015	FY2016E	FY2017F	FY2018F
Non-current assets:				
Fixed Assets	917,212	831,465	1,031,465	1,131,615
Other non-current assets	27,751	159,811	183,782	211,350
Total noncurrent assets	944,963	991,276	1,215,247	1,342,965
Current assets:				
Inventories	53,118	45,131	55,793	67,146
Trade Debtors	11,544	23,576	23,239	26,725
Prepayment	60,526	92,198	106,028	121,932
Bank and Cash Balances	40,792	92,198	106,028	121,932
Other current assets	-	6,147	7,069	9,755
Total current assets	165,980	259,250	298,157	347,491
Total Assets	1,110,943	1,250,526	1,513,404	1,690,455
Current Liabilities:				
Overdraft	2,947	2,947	2,947	2,947
Trade payable	127,597	185,239	229,002	275,601
Short term loan	47,275	65,000	65,000	65,000
Other current liabilities	25,826	38,109	43,825	50,399
	203,645	291,295	340,774	393,946
Non-current Liabilities				
Long term loans	208,329	210,000	215,000	150,200
Other noncurrent Liabilities	57,196	46,099	49,480	52,837
	265,525	256,099	264,480	203,037
Total Liabilities	469,170	547,394	605,253	596,984
Shareholders' equity	641,773	703,132	908,151	1,093,471

Source: Company's annual reports, DLM Research

Fig. 28: Profitability & return

	FY2015	FY2016E	FY2017F	FY2018F
Gross profit margin	58.96%	60.00%	57.00%	55.00%
Operating profit margin	42.26%	42.90%	38.70%	36.30%
Net profit margin	36.87%	37.22%	33.65%	31.40%
ROCE	22.91%	27.49%	23.33%	22.76%
ROE	28.25%	32.54%	26.19%	23.34%
ROA	16.32%	18.30%	15.72%	`15.10%

Source: Company's annual reports, DLM Research

Fig. 29: DuPont Analysis

	FY2015	FY2016E	FY2017F	FY2018F
Total assets turnover	0.44x	0.49x	0.47x	0.48x
Net income margin	36.87%	37.22%	36.65%	31.40%
Equity multiplier	1.73x	1.78x	1.67x	1.55x
ROE	28.07%	32.46%	28.77%	23.36%

Fig. 30: Efficiency ratios

	FY2015	FY2016E	FY2017F	FY2018F
Fixed assets turnover	0.54x	0.74x	0.69x	0.72x
Current assets turnover	2.96x	2.37x	2.37x	2.34x
Total assets turnover	0.44x	0.49x	0.47x	0.48x
Inventory turnover	2.11x	2.50x	5.45x	5.45x
Receivables turnover	42.60x	26.07x	30.42x	30.42x
Payables turnover	1.58x	1.33x	1.33x	1.33x
Days inventory outstanding	96	67	67	67
Days collection outstanding	8	14	12	12
Days payable outstanding	230	275	275	275
Operating cycle (days)	0.00	0.00	0.00	0.00

Source: Company's annual reports, DLM Research

Fig. 31: Liquidity ratios

	FY2015	FY2016E	FY2017F	FY2018F
Working capital (₦'mn)	(37,665)	(32,044)	(42,616)	(46,456)
Current ratio	0.82	0.89	0.87	0.88
Quick ratio	0.55	0.74	0.71	0.71
Cash ratio	0.20	0.32	0.31	0.31

Source: Company's annual reports, DLM Research

Fig. 32: Long-term solvency & stability ratios

	FY2015	FY2016E	FY2017F	FY2018F
Gearing	0.00%	0.00%	0.00%	0.00%
Equity multiplier	1.73x	1.78x	1.67x	1.55x
Total debt-to-equity	0.40x	0.39x	0.31x	0.20x
Total debt-to-assets	23%	22%	19%	13%
Proprietary	58%	56.23%	60.01%	64.69%
Interest coverage	3.46	5.96	5.95	7.16
Cash coverage	0.00x	0.00x	0.00x	0.00x

Source: Company's annual reports, DLM Research

Fig. 33: Shareholders' investment ratios

	FY2015	FY2016E	FY2017F	FY2018F
EPS, ₦	10.64	13.43	13.96	14.98
DPS, ₦	8.00	8.50	9.00	10.00
Pay-out	75.18%	63.30%	64.48%	66.76%
FCFPS, ₦	0.00	0.00	0.00	0.00

Source: Company's annual reports, DLM Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management. This equity research report qualifies as an initiation research report on the company whose stock has been analysed, hence the level and depth of details documented herein. Further updates on this company, or its stock, or both, will be communicated to investors via brief research notes or earnings-flash emails, as occasion demands.

Our recommendation is slightly biased towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials. The investment rank or grade given to a company is an alphabet which falls in the set {A+, A, B, C+, C, D, E, F}, where

- Grade A+ means the company has done excellently well on all fronts that form the basis of our consideration, and has a strongly positive performance outlook.
- Grade A means the company's performance is of high quality, but can be made better. Outlook for the company is positive.
- Grade B means the company performed marginally above average, at least relative to its peers, but faltered on some fronts. Outlook is weakly positive.
- Grade C+ means the company's performance is exactly average; outlook is neither positive nor negative.
- Grades C and D indicate that dwindling performance is the company's fate at the current time. Outlook for the company is mildly negative.
- Grades E and F mean the company is headed for towards jeopardy, which might impair its ability to continue as a going concern. Outlook for the company in this case is alarmingly negative.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profitability margins, growth, economic profitability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to <30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

Source: Company Financials, DLM Research

In our analysis, we distinguish between fair value and price target. Fair value is our opinion of the actual fundamental worth of a stock, irrespective of what the market thinks of the stock or what investors are willing to pay for it. Value investors purchase stocks way below their fair values, while income investors might purchase stocks at their fair values at the very maximum.

Price target, on the other hand, is the estimated price we opine the stock will trade in the near to medium term. It is the price that, if realized, could result in the best investment returns, given prevailing market conditions. It gives an idea of the price other investors might be willing to pay for a stock regardless of its actual worth. We employ fair value, price target or both to determine a stock's upside or downside potential.

A BUY recommendation directly means what it says; purchase the stock according to your wallet and appetite for risk. A SELL recommendation prompts investors to exit their positions in the stock, as the analyst believes the stock is not worth investors' time and capital commitment. A HOLD recommendation generally tells investors to do nothing; if you have not bought the stock, do not buy it and if you have bought it, do not sell it.

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