Dangote Cement Plc.

Nigeria | Equities | Building Materials | January 04, 2017

DLM RESEARCH

Strong top line but lower EBITDA and margin

Dangote Cement Plc (DCP) 9M'16 results: Top line numbers came in strong while the bottom line was negatively affected by higher costs. In addition, EBITDA and margins contracted on poor cost control which in our view implies that achieving EBITDA recorded in the previous financial year is a stretch target. Overall, we consider the results moderately positive.

Dangote Cement Plc (DCP) posted strong top line growth in 9-Month 2016 with EPS however missing our estimate by 8% and declining 17.04% Y-on-Y and 26.74% Q-on-Q. While new pricing and complete elimination of LPFO is set to boost margins, Nigeria operation was instrumental to the overall performance. Revenues and sales volume increased by ~21.00% and ~41.00% respectively year on year with 44mmtpa production capacity operational as of October 2016. The upside can also be attributed to continued expansion, and ramp up in other African countries even as the company continues to explore new opportunities in untapped markets. Continued year-over-year growth in revenues over the past quarters amid a sluggish economic environment is a positive in our view.

9Month'16 EBITDA of ₦178.44billion (~6% below our estimate) was down ~16.30% y-o-y due to lower selling price during the first half of the year, higher-than-anticipated costs (mainly energy and other direct costs) particularly as Tanzania Plant runs on expensive diesel generators. In fact, the company's costs have increased throughout the three quarters due to inflation of input prices. Therefore, if not managed, we believe that a continued rise in costs would put pressure on margins and hurt profitability of future earnings. Cost of fuel and power consumed rose by ~93.00% y-o-y and ~105.40% q-o-q – leading to higher energy cost/t. In addition, other direct costs also moved up by 70.25% y-o-y. With energy and related costs accounting for 37.54pp of cost of sales, this reflects the impact of energy costs on the company's overall cost structure. Hence, we lower our EBITDA forecast to ₦279.91billion which is a stretch target in view of the current cost structure, and project EBITDA/tonne and EV/tonne of $19.36 and $237.84 for FY'16.

We are of the view that our previous EBIT was overly estimated. Therefore, we adjusted our EBIT margins downward to account for higher costs from the new factories. Specifically, we envisaged a scenario with EBIT margins contracting to 30.80% in 2016E and 30.60% in 2017F. As a result, we trimmed our valuation to ₦182.11/share (vs. our previous ₦201.17/share) to reflect the downward adjustment on EBIT. Our target price reduction is mainly due to three important factors such as; free cash flow; weak costs control and weak domestic economic outlook. DCP trades at 2016E P/E of 17.03x, leaving investors with limited gap on valuations. With PER at 16.35x vs. NSE listed cement companies average of 9.61x, stock appears to be trading at a rich valuations. In our view, dividend yield of 4.60% on current price does not make the company a yield based play with our forecast ₦8.50 DPS in 2016. For 2016, stock price gained 2.35% and outperformed the sector's -26.37% and ASI's -6.17%, leaving some opportunity for investors to consider for the long term. Setting our new target price at ₦182.11/share, ~9.50% below our previous target price and 4.67% above the current market price, we maintain our HOLD rating on the stock.

Fig. 1: Quarterly results highlights

	3Q'2016	2Q'2016	3Q'2015	Q/q Δ	Y/y Δ
Revenue (₦'mn)	149,901	151,670	123,235	-1.17%	21.64%
Operating profit (₦'mn)	24,324	41,912	51,130	-41.96%	-52.43%
Net profit (₦'mn)	30,101	50,641	36,185	-40.56%	-16.81%

Source: Company report, Bloomberg, DLM Research

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Price:

- Current	**₦173.99***
- Target	**₦182.11**
- Recommendation:	**HOLD**

** As at Wednesday, January 04, 2017*

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-0.00%/2.30%
52-week range	₦123.51- ₦203.96
Average daily vol./val.	622,800/₦112.31m
Shares Outstanding (mn)	17,040
Market Cap. (₦'mn)	2,964,878($9,689.14mn)
EPS, ₦- 12months trailing	10.64
DPS, ₦- FY2015	8.00
FCF, ₦- FY2015	0.00

Source: Bloomberg, NSE, DLM Research

Fig. 3: Key ratios

	9M' 2016	9M'2015
Gross profit margin	47.59%	62.05%
Net profit margin	30.20%	43.23%
Equity multiplier	2.01x	1.72x
Asset turnover	0.29x	0.33x

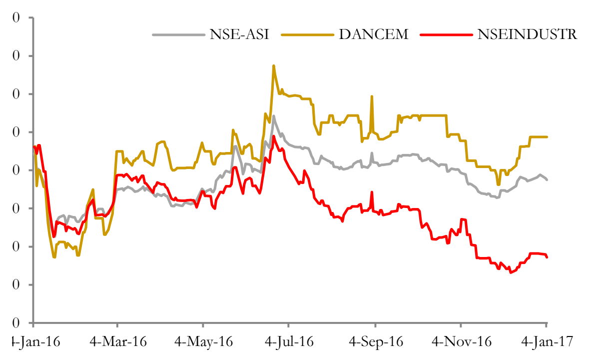
Source: Company report, NSE, DLM Research

Fig. 4: Valuations

	FY2015	FY2016E	FY2017F	FY2018F
P/Sales	6.03x	4.53x	3.84x	3.43x
P/E	16.35x	17.03x	15.70x	13.91x
PEG	0.00	0.00	0.00	0.00
EV/Sales	6.47x	4.97x	4.19x	3.57x
P/B	4.62x	3.94x	3.33x	2.70x
ROE	28.25%	23.15%	21.21%	19.44%
ROA	16.32%	10.95%	10.11%	10.48%
Div. Yield	4.60%	4.89%	5.17%	5.75%

Source: Company annual report, DLM Research

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



Source: NSE, DLM

We lowered our FY'16 revenue estimate by 2%. Our revenue forecast over the next 3 years is ₦864.32billion, and we expect FY-16 EPS to come in at around ₦10.22 (Previous forecast: ₦11.57). Our revenue growth expectation for the next three years is 20.68% CAGR. Taking cue from the strong volume growth for the period, however, we maintained 21% volume growth in Nigeria operation and material increase in other African operations. Overall, we increased our FY16 volume estimates upward by ~2.75% leading to ~33.17% expected volume growth, with sales volume estimated at c.25,16mmtp. With production ramp up in Ethiopia and Zambia, maiden operations in Tanzania and improved sales in Ghana, earnings stream is set to expand considerably despite economic headwinds across Africa.

"Taking cue from the strong volume growth for the period, however, we maintained 21% volume growth in Nigeria operation and material increase in other African operations."

Book value per share suggests that valuations are rich. The strong asset quality indicates the ability of the company's assets to generate future profits and cash flows. DCP's net asset value per share is currently ₦37.66/ per share. Between 2011 and 2015, the company's price to book value decreased by 4.47% (CAGR). If the company maintains this pace over the next four to five years, its P/B ratio could decline further to the neighbourhood of 3.3x. The company currently trades at 4.38x to its book value, which is close to the low end of its historic range. Given the strong asset quality with no accumulated losses, we expect DCP's share to be priced more than 4x its book value. Pricing the company's share in the neighbourhood of 3.3x book value suggests that the share is priced for a solid, long-term return and suggests that the market places some unjustifiable discount on the company's assets. So a P/B ratio of 4.38x mean that for every ₦1 of tangible assets there is ₦4.38 of market value. Thus a low P/B ratio means that the stock is "backed up" by tangible (sellable) assets.

Operating cash flow is positive, while cash return weaker than expected. Operating free cash flow adjusted for interest expenses is positive at ₦50.19. The Group generated cash of ₦182.9billion before changes in working capital, but after ₦26.7billion change in working capital, the net cash flow from operating activities came in at ₦156.1billion. **However,** with T.Bill and 3-year FGN Bond yielding 21% and 15.57% and corporate bonds yielding average 24%, cash return of 1.69% for DCP looks pretty poor in our view. Though we reckon the fact that DCP's free cash flow is likely to grow over time, hence, DCP appears to have a pretty solid value proposition.

Cash flow adjusted for interest	FY'11	FY'12	FY'13	FY'14	FY'15	9M'16
EBITDA	133,995	174,089	229,437	223,368	262,448	178,444
Capex	59,363	129,069	139,966	217,192	251,931	102,764
Interest paid	2,323	12,072	12,019	16,608	25,007	25,495
Operating cash flow adjusted for interest	72,310	32,948	77,452	(10,432)	(14,490)	50,185
OFCFPS		1.93	4.55	-0.61	-0.85	2.95
Outstanding share		17,040	17,040	17,040	17,040	17,040
Market Cap					2,964,790	2,964,790
Long term Debt					208,329	272,688
Cash and Bank Balance					40,792	86,872
Enterprise Vale					3,132,327	3,150,606
Cash Return (%)					-0.46%	1.59%

Free Cash flow	FY'11	FY'12	FY'13	FY'14	FY'15	9M'16
Net cash flow from operations	104,291	152,547	283,969	215,890	301,751	156,148
Capex	59,363	129,069	139,966	217,192	251,931	102,764
Free cash flow	44,929	23,478	144,003	(1,302)	49,820	53,384
FCFPS		1.38	8.45	-0.08	2.92	3.13
Outstanding share		17,040	17,040	17,040	17,040	17,040
Market Cap					2,964,790	2,964,790
Long term Debt					208,329	272,688
Cash and Bank Balance					40,792	86,872
Enterprise Vale					3,132,327	3,150,606
Cash Return (%)					**1.59%**	**1.69%**

Free Cash flow	9M'15	9M'16
Net cash flow from operations	230,436	156,148
Capex	199,588	102,764
Free cash flow	30,848	53,384
FCFPS	1.81	3.13
Outstanding share	17,040	17,040

We reckon that the growing financial leveraging is largely on account of the business expansion. Since investment in the sector is capital intensive, the need for financing is bound to rise, particularly given the massive outlay required for new plant. In FY11, the company's total debt stood at ₦148.48billion but rose to ₦255.60billion in 2015. With gross financial liabilities already at ₦386.67 billion, further borrowing could take the company's financial liabilities above ₦450billion and total liabilities to more than ₦850 billion, which will be far higher than net asset, therefore putting the company's future cash flow and profitability under pressure and possibly impairing its ability to increase credit facility.

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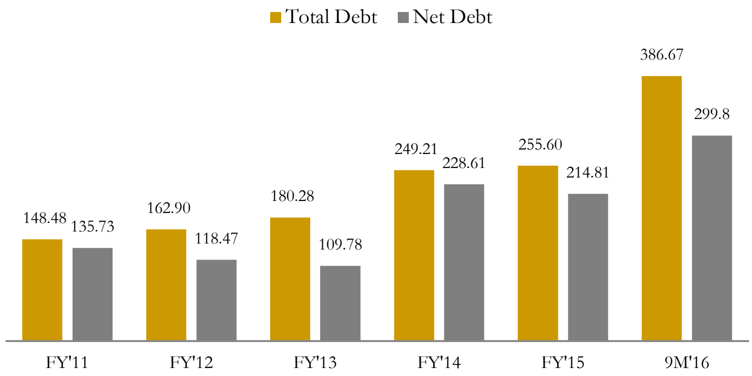
Fig. 6: Debt level 2011 - 2015 (N'bn)

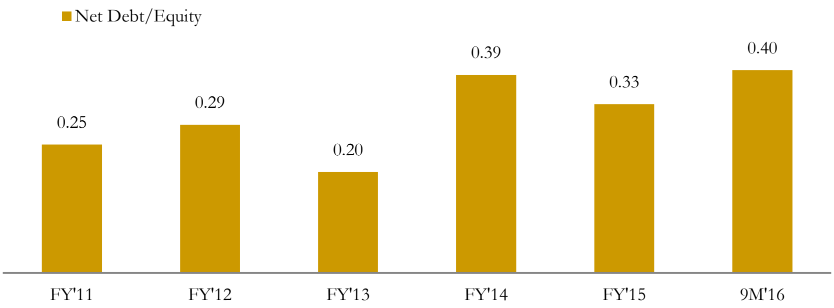


Source: Company report, DLM Research

Net debt and the net debt/EBITDA increased at ₦299.80billion and 1.68x, respectively. With a net debt of ₦299.80billion on shareholder's fund of ₦748.43billion, net debt-to-equity ratio steadily increased from 0.25 in 2011 to 0.40 in 9M'16. This means that the company uses debt-financing equal to 40% of equity. Overall, DCP utilizes long-term debts equal to 25% of equity as a source of long-term finance. The rising debt level reflects the risk of a significant cash outflow and pressure on DCP's credit metrics. A further increase in borrowings could increase the company's D/E ratio to 50% in FY'16.

We are however inclined to note that the company will see its balance sheet expand given the Pan African expansion.

Fig. 7: Debt to equity ratios 2011 - 2014 (x)



Source: Company report, DLM Research

Leverage & Coverage ratios	FY'11	FY'12	FY'13	FY'14	FY'15	9M'16
Total Debt/EBITDA	1.11	0.94	0.79	1.12	0.97	2.17
Net Debt/EBITDA	1.01	0.68	0.48	1.02	0.82	1.68
Net Debt/EBIT	1.14	0.81	0.56	1.22	1.03	2.45
EBITDA/Net Interest Exp	197	16	45	93	13	

Overall, we believe that DCP profitability will be pressured by a number of factors such as lofty costs and weak construction activities. While the company has only recently increased its cement price to offset the high production cost, a further price increase will be detrimental. However, the company appears to be focusing on potential in other African operations for medium to long term profit expansion which is considerably healthy in our view. With the company's peer's competitive power weakening by the day, this reflects further opportunities for the company.

"While we recognise the regional shortage, demand outlook for the next 10 years remains attractive given forecast population growth and the current housing deficit.."

Cement consumption is still well below the global average of 513kg per capita. Given prospect for future growth in view of Nigeria's per-capita cement consumption which at c.125kg remains well below that of other major economies in the world, growth potential for the sector is massive. While we recognise the regional shortage, demand outlook for the next 10 years remains attractive given forecast population growth and the current housing deficit. Given our analysis of the market, only major cities particularly those closer to production factories with huge development due to urbanization are experiencing strong supply, while strong demand still exist in city suburbs particularly those that are far off from production factories, leading to some producers pursuing growth in these markets in South East, and South South, Nigeria. Though weak distribution is a major challenge.

Highlights of the 9M'16 results:

For the 9M'16, Dangote Cement Plc (DCP) posted revenue of ₦442.10billion, up 20.97% y-o-y compared with the ₦365.45billion posted in the prior year. For the 3Q'16, revenue increased by 21.64pp to ₦149.90billion, compared to ₦123.24billion recorded in the prior year, and contributed 33.91pp to the group's 9M'16 aggregate revenues. However, the 3-Month to September revenue declined by 1.117pp in relation to the ₦151.67billion posted in 2Q'16, and in line with our expectations. Overall, strong volume growth from other African operations and the 46% price hike announced in August drove the strong top line growth despite headwinds across Africa. We think the price increase was initiated to help mitigate the impact of Naira devolution on key costs such as fuel. For the 9-Month period, while cement volumes rose by 41.00pp to 18.36mmt, the Nigeria operation accounted for 69.61pp or ₦307.76billion of the aggregate revenues, while Pan African operations contributed ₦136.6billionn. While sales volume in Nigeria rose by 28.10% to 11.91mtp (9M'15: 9.30mmt.), the overall cement sales volume for the group rose by ~40.00%. Pan Africa sales volumes were up 72.90% to 6.45mmt. With revenue from Nigeria operation recording a lower growth of 4.20%, this in our view reflects a lower selling price in the first half of the year which diluted the impact of the 28.1% increase in volumes. However, with sales volume gradually ramping up in other African operations, we expect other Africa operation volume contribution to attain ~36.00% in 2016 and 48% in 2019. Of the c.12.0mmt of cement sold in Nigeria, c.6.0mmt was shipped from Obajana plant, 5.4mmt from Ibese and 0.6mmt from Gboko.

“We think the price increase was initiated to help mitigate the impact of Naira devolution on key costs such as fuel.”

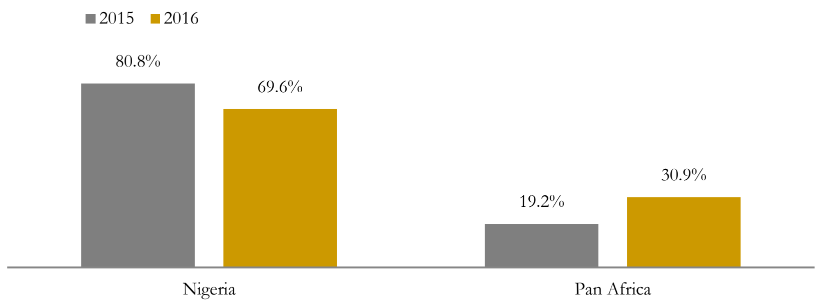
Cost of sales rose as input costs increases. For the review period, DCP's cost of sales (COS) of ₦231.68billion was up by 67.05% y-o-y compared to ₦138.70billion recorded in the preceding year. Hence, gross margin decreased to 47.59% as rising input and energy costs compressed gross profit to ₦210.41billion, (9M'15: ₦226.76bn). Cost of sales as a percentage of revenue came in at 52.41pp (9M'15: 37.95pp), with energy and related costs accounting for 37.54pp of cost of sales. This reflects the impact of energy costs on overall cost structure. With energy costs exerting pressure on gross profit, we are of the view that DCP could run all Nigeria lines 100% on local coal which is lower than gas with the view to eliminate shutdowns. We are inclined to highlight the availability of Coal at all Ibese & Obajana lines. With costs rising disproportionately, management priority will be to protect margins going forward.

Despite strong revenue and volume growth, EBITDA came in~16.29% lower y-o-y to ₦178.44billion compared to ₦213.18billion posted in 9M'15, with EBITDA margin declining to 40.36%. The decrease in EBITDA came on the back of a 65.60% rise in total costs which was driven largely by higher fuel and power costs in Nigeria, and a higher proportion of plants ramping up in other operations with lower achievable margins particularly the Tanzania Plant which runs mostly on diesel generators for power. Though, management highlighted that it plan to install gas turbines to power the plant by March 2017, replacing the expensive diesel gensets that is dragging the facility into losses. With the installation of gas turbines, we think Tanzania operation will be profitable at EBITDA level. With an effective tax rate of 10.22pp (9M'15: 5.34pp) on pre-tax profit of ₦148.72billion, (9M'15: ₦166.91bn), post-tax profit decreased by 15.49pp y/y to ₦133.52billion (9M'15: ₦157.99bn) as input and operating costs more than offset the growth in top line. While the current price increase will help to mitigate the impact of Naira devolution on key costs such, we are however sceptical DCP may not be able to achieve the level of post-tax profit attained in FY'15.

Balance sheet remains strong with non-current assets increasing from ₦945.0 billion at the end of 2015 to ₦1.17 trillion. This was mainly as a result of gains on assets held outside Nigeria following the devaluation of the Naira and capital expenditure, both within Nigeria and in other African countries. Management however stated that the total additions to fixed assets amounted to ₦102.8billion, of which ₦28.8billion was spent in Nigeria and ₦73.9billion in Pan Africa Operations. Though, the gross capex was partially offset by a depreciation charge of ₦55.7billion.

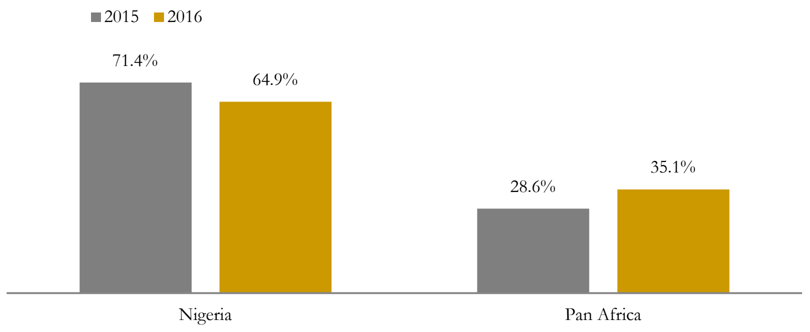
"Though, the gross capex was partially offset by a depreciation charge of ₦55.7billion."

Fig. 8: Revenue contribution by region (%)



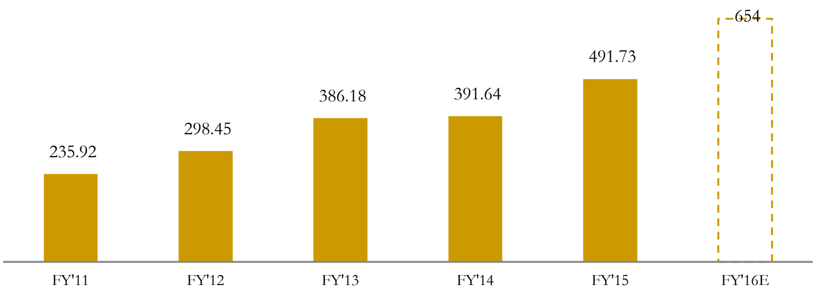
Source: Company report NSE, DLM Research

Fig. 9: Volume contribution by regions (%)



Source: Company report NSE, DLM Research

Fig.10: Annual sales revenue (₦'bn)



Source: Company report NSE, DLM Research

Sales volume (mmt)	9M'16	9M'15
Nigeria	11,913	9,296
Other Africa operations	6,450	3,731
Total	18,363	13,027

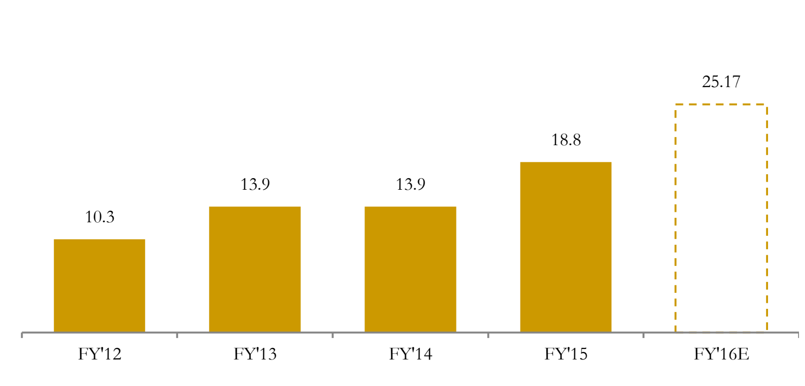
Expected sales volume (mmt)	2016E	2017F	2018F	2019F
Nigeria	16,081	18,171	19,989	21,588
Other Africa operations	9,087	11,994	15,593	19,958
Total	25,167	30,166	35,581	41,546
Exp. Average price/tone	26	26	25	25
Exp. Revenue from cement sales (₦'bn)	654,354	784,308	889,528	1,038,653
Growth factor - other Africa Op.(%)	30%	62%	32%	30%
Growth factor -Nigeria Op.(%)	21%	13%	10%	8%
Estimated other Africa Op volume contributions %	33%	36%	40%	44%
Estimated Nigeria Op volume contributions %	66.7%	63.9%	60.2%	56.2%

EBITDA & EV/Tone	FY'15	FY'16E	FY'17F	FY'18F	FY'19F
Price	166.73	185	220	230	235
Shares	17,040	17,040	17,040	17,040	17,040
Market cap	2,841,079	3,152,400	3,748,800	3,919,200	4,004,400
Debt	204,200	384,447	389,447	249,647	254,447.00
Cash	40,792	98,099	115,757	129,648	146,502
Enterprise value	3,004,487.2	3,438,747.9	4,022,490.0	4,039,199.2	4,112,345.0
Capacity (mmt)	43.6	47.25	49.25	54.25	77.25
EBITDA	262,448	279,910	336,467	380,300	414,601
EBITDA/tone (N)	6,019	5,924	6,832	7,010	5,367
EBITDA/Tonne ($)	19.42	19.36	22.04	22.61	17.20
EV/Tonne (N)	68,910	72,778	81,675	74,455	53,234
EV/Tonne ($)	221.58	237.84	263.47	240.18	170.62

Operations overview

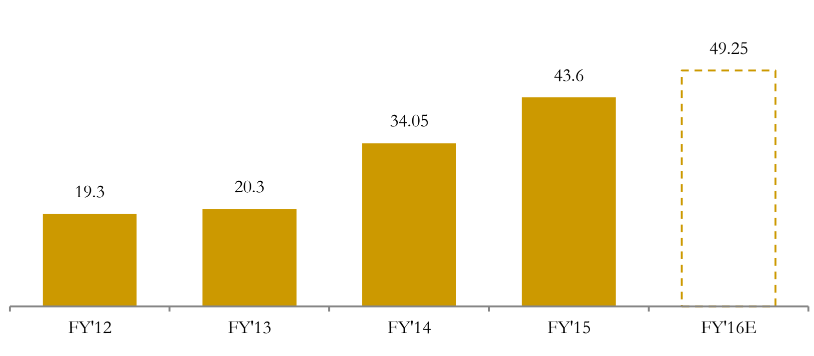
Operations	Capacity (mmt)	Operating	Expected
Obajana- Nigeria	13.25	13.25	
Ibese- Nigeria	12.00	12.00	
Gboko- Nigeria	4.00	4.00	
Itori Line 1 - Nigeria	3.00		3.00
Itori Line 2 - Nigeria	3.00		3.00
Okpella - Nigeria	3.00		3.00
Nepal	3.00		3.00
Pout -Senegal	3.00	1.50	1.50
Duala-Cameroon	3.00	1.50	1.50
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. 11: Annual sales volume growth (mmt) 2012-2016E



Source: Company report NSE, DLM Research

Fig. 12: Cement plants production capacities (mmtpa)



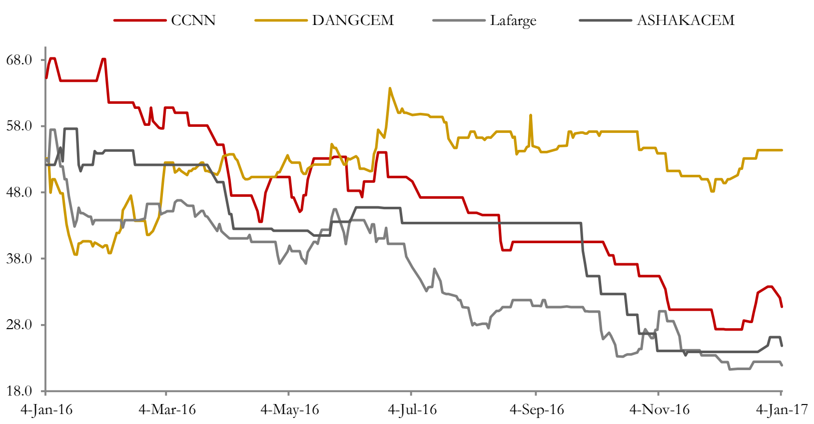
Source: Company report NSE, DLM Research

Valuation.

Dangote Cement's EBITDA and EBIT margins historically are double-digit and significantly above industry peers and we think that the company will maintain the double digit margins trend over medium to long term. We expect revenue growth of 33% in FY'16, with a CAGR of 20.68% i.e. from c.₦491.73billion in 2015 to c.₦864.32billion in 2018, driven largely by improved regional sales matrix and economies of scale. Currently, DCP trades at a replacement cost (EV/ton) of \$237.84, based on FY16 estimates. From a valuation perspective, we employed several valuation metrics such as; 1) the discounted cash flow model (70%); 2) maintainable earnings (simple, weighted average and five year projected earnings 10%); 3) peers method based on trailing price to earnings ratio (10%); and our price sensitivity analysis back test (10%). From this methodology we derived a target price of ₦182.11/share. With PER at 16.35x vs. NSE listed cement companies averages PER of 9.61x, stock appears to be trading at a rich valuations. Hence, we maintain short term HOLD and a BUY rating for long term investors. Our price sensitivity analysis back test shows value directions.

"With PER at 16.35x vs. NSE listed cement companies averages PER of 9.61x, stock appears to be trading at a rich valuations."

Fig. 13: Dangcem vs. industry peers, 52 –wk price movement (rebased)



Source: NSE. DLM Research

Fig.14: Valuation metrics

Capital structure (Equity)	71.28%
Capital structure (Debt)	28.72%
Forecast period	5year
Beta	1.08
Long term growth rate	5.00%
Risk free rate	13.50%
Risk premium	6.50%
Tax rate	10%
WACC	16.69%
Outstanding shares (Million)	17,040

Fig.15: Betas and Leverage

Unlevered beta	
Calculated Company beta	1.08
Tax rate	10%
Debt/equity ratio	40%
Unlevered Beta	**0.79**

Levered beta	
Unlevered beta	0.79
Tax rate	10%
Debt/equity ratio	0.40%
Levered Beta	**1.08**

Fig.16: DCF Valuation

	FY'16E	FY'17F	FY'18F	FY'19F	FY'20F
EBIT(₦'mn)	201,430	236,144	259,296	268,099	273,959
Operating FCF (₦'mn)	-198,585	216,770	389,623	467,588	515,503
Present Value of Op FCF	-183,836	171,970	264,893	272,433	257,394
EV(₦'mn)	3,531,320				
Equity Value (₦'mn)	3,279,004				
Price/Share	₦192.43				

Fig.17: Sensitivity analysis of enterprise value to changes in EV/EBITDA multiple and WACC (₦'billion)

		EV/EBITDA multiples				
		11x	12x	13x	14x	15x
Discount	14.50%	2,316,713	2,455,919	2,595,125	2,734,331	2,873,537
Discount	15.30%	2,241,440	2,375,883	2,510,327	2,644,770	2,779,213
Discount	16.30%	2,151,459	2,280,220	2,408,982	2,537,744	2,666,505
Discount	17.30%	2,065,801	2,189,167	2,312,533	2,435,899	2,559,265
WACC	16.69%	2,117,646	2,244,277	2,370,907	2,497,537	2,624,167

Fig.18: 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	14.50%	3,022,863	3,131,531	3,379,914	3,680,588	4,052,010
Discount	15.30%	2,788,375	2,881,009	3,090,870	3,341,480	3,645,984
Discount	16.30%	2,534,687	2,611,450	2,783,698	2,986,433	3,228,534
Discount	17.30%	2,316,470	2,380,800	2,523,970	2,690,419	2,886,329
WACC	16.69%	2,446,022	2,517,598	2,677,672	2,865,135	3,087,674

Fig.19: Sensitivity analysis of target price to changes in EV/EBITDA multiple and WACC

		EV/EBITDA multiples				
		11x	12x	13x	14x	15x
Discount	14.50%	120.78	128.95	137.12	145.29	153.46
Discount	15.30%	116.37	124.26	132.15	140.04	147.93
Discount	16.30%	111.09	118.64	126.20	133.76	141.31
Discount	17.30%	106.06	113.30	120.54	127.78	135.02
WACC	16.69%	109.10	116.53	123.96	131.40	138.83

Fig.20: 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	14.50%	162.22	168.60	183.18	200.82	222.62
Discount	15.30%	148.46	153.90	166.22	180.92	198.79
Discount	16.30%	133.58	138.08	148.19	160.09	174.29
Discount	17.30%	120.77	124.55	132.95	142.72	154.21
WACC	16.69%	128.37	132.57	141.97	152.97	166.03

Fig.21: 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	14.50%	16.07	16.85	18.64	20.80	23.47
Discount	15.30%	15.07	15.76	17.32	19.18	21.45
Discount	16.30%	13.98	14.57	15.91	17.48	19.36
Discount	17.30%	13.03	13.55	14.71	16.06	17.65
WACC	16.69%	13.59	14.16	15.42	16.90	18.66

Fig. 22: Statement of Profit or Loss, ₦'mn

	FY2015	FY2016E	FY2017F	FY2018F
Turnover	491,725	653,994	771,713	864,319
Change %		33.00%	18.00%	12.00%
Cost of Sales	(201,808)	(326,997)	(385,857)	(432,159)
Change %		62.03%	18.00%	12.00%
Gross Profit	289,917	326,997	385,857	432,159
Change %		12.79%	18.00%	12.00%
SG&A	(86,046)	(130,799)	(154,343)	(177,185)
Change %		52.01%	18.00%	14.80%
Core operating Profit	203,871	196,198	231,514	254,974
Change %		-3.76%	18.00%	10.13%
EBITDA	262,448	279,910	336,467	380,300
Change %		6.65%	20.21%	13.03%
Other Operating Income	3,951	5,232	4,630	4,322
EBIT	207,822	201,430	236,144	259,296
Change %		-3.08%	17.23%	9.80%
Profit Before Taxation	188,294	193,447	209,829	236,764
Change %		2.74%	8.47%	12.84%
Income tax expenses	(6,971)	(19,345)	(20,983)	(23,676)
Profit After Taxation	181,323	174,102	188,846	213,087
Change %		-3.98%	8.47%	12.84%

Source: Company's annual reports, DLM Research

Fig.23: Statement of Financial Position (N,m)

	FY2015	FY2016E	FY2017F	FY2018F
Non-current assets:				
Fixed Assets	917,212	1,131,465	1,331,465	1,431,615
Other non-current assets	27,751	170,039	200,645	224,723
Total noncurrent assets	944,963	1,301,504	1,532,110	1,656,338
Current assets:				
Inventories	53,118	60,024	70,828	79,328
Trade Debtors	11,544	25,085	25,371	28,416
Prepayment	60,526	98,099	115,757	129,648
Bank and Cash Balances	40,792	98,099	115,757	129,648
Other current assets	-	6,540	7,717	10,372
Total current assets	165,980	287,847	335,431	377,411
Total Assets	1,110,943	1,589,351	1,867,541	2,033,749
Current Liabilities:				
Overdraft	2,947	2,947	2,947	2,947
Trade payable	127,597	279,515	359,428	402,559
Short term loan	47,275	96,500	96,500	96,500
Other current liabilities	25,826	85,019	115,757	129,648
	203,645	463,982	574,632	631,654
Non-current Liabilities				
Long term loans	208,329	285,000	290,000	150,200
Other noncurrent Liabilities	57,196	88,289	112,670	155,577
	265,525	373,289	402,670	305,777
Total Liabilities	469,170	837,271	977,302	937,432
Shareholders' equity	641,773	752,080	890,239	1,096,318

Source: Company's annual reports, DLM Research

Fig. 24: Profitability & return

	FY2015	FY2016E	FY2017F	FY2018F
Gross profit margin	58.96%	50.00%	50.00%	50.00%
Operating profit margin	42.26%	30.80%	30.60%	30.00%
Net profit margin	36.87%	26.62%	24.47%	24.65%
ROCE	22.91%	17.90%	18.26%	18.49%
ROE	28.25%	23.15%	21.21%	19.44%
ROA	16.32%	10.95%	10.11%	10.48%

Source: Company's annual reports, DLM Research

Fig. 25: DuPont Analysis

	FY2015	FY2016E	FY2017F	FY2018F
Total assets turnover	0.44x	0.41x	0.41x	0.42x
Net income margin	36.87%	26.62%	24.47%	24.65%
Equity multiplier	1.73x	2.11x	2.10x	1.86x
ROE	28.07%	23.03%	21.07%	19.26%

Fig. 26: Efficiency ratios

	FY2015	FY2016E	FY2017F	FY2018F
Fixed assets turnover	0.54x	0.58x	0.58x	0.60x
Current assets turnover	2.96x	2.27x	2.30x	2.29x
Total assets turnover	0.44x	0.41x	0.41x	0.42x
Inventory turnover	2.11x	2.89x	5.45x	5.45x
Receivables turnover	42.60x	26.07x	30.42x	30.42x
Payables turnover	1.58x	1.17x	1.07x	1.07x
Days inventory outstanding	96	67	67	67
Days collection outstanding	8	14	12	12
Days payable outstanding	230	340	340	340
Operating cycle (days)	0.00	0.00	0.00	0.00

Source: Company's annual reports, DLM Research

Fig. 27: Liquidity ratios

	FY2015	FY2016E	FY2017F	FY2018F
Working capital (₦'mn)	(37,665)	-	-	-
Current ratio	0.82	0.62	0.58	0.60
Quick ratio	0.55	0.49	0.46	0.47
Cash ratio	0.20	0.20	0.21	0.21

Source: Company's annual reports, DLM Research

Fig. 28: Long-term solvency & stability ratios

	FY2015	FY2016E	FY2017F	FY2018F
Gearing	0.00%	0.00%	0.00%	0.00%
Equity multiplier	1.73x	2.11x	2.10x	1.86x
Total debt-to-equity	0.40x	0.51x	0.43x	0.23x
Total debt-to-assets	23%	24%	21%	12%
Proprietary	58%	47.32%	47.67%	53.91%
Interest coverage	3.46	3.78	3.42	4.67
Cash coverage	0.00x	0.00x	0.00x	0.00x

Source: Company's annual reports, DLM Research

Fig. 29: Shareholders' investment ratios

	FY2015	FY2016E	FY2017F	FY2018F
EPS, ₦	10.64	10.22	11.08	12.51
DPS, ₦	8.00	8.50	9.00	10.00
Pay-out	75.18%	83.19%	81.21%	79.97%
FCFPS, ₦	3.13	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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