

Dangote Sugar Earnings Review 9M 2019

Cost pressure drags profitability but renewed optimism

Revenue recovers on reduced smuggled sugar

Dangote Sugar released its 9M 2019 financials yesterday where the company reported a 0.6% y/y rise in Revenue to N117.4bn in 9M 2019 from N116.8bn in 9M 2018. However, on a q/q basis, Revenue dipped 12.2% q/q to N37.1bn in Q3 2019 from N42.2bn in Q2 2019. Nevertheless, we note Revenue in Q3 2019 came in higher than Q3 2018 Revenue by 13.4% y/y. This suggests the company may be feeling the impact of the border closure positively as we believe entry of smuggled sugar must have been severely limited. Across business segments, sales of the 50kg bag category grew 0.9% y/y to N111.2bn while Revenue from retail sugar was up 2.7% y/y to N3.3bn. On the other hand, Revenues from retail molasses and freight services were down 26.8% y/y and 7.3% y/y.

Raw sugar prices drive production cost higher

Cost of Sales climbed higher by 2.0% y/y to N88.4bn for 9M 2019 from N86.7bn in 9M 2018. On a q/q basis, Cost of Sales fell by 13.5%, higher than the 12.2% q/q decline in revenue. However, the growth in Cost of Sales on a y/y basis was faster than the growth in Revenue driven by 4.6% y/y growth in raw materials cost which suggests DangSugar must have been impacted by the mild pressure on raw sugar price. Consequently, Gross Profit fell 3.5% y/y to N29.0bn in 9M 2019 from N30.1bn in 9M 2018. Gross margin printed at 27.3% in 9M 2019, 1.3ppts lower than 9M 2018 28.6%.

Management keeps lid on OPEX

Operating Expenses edged higher albeit marginally, up 1.6% y/y to N6.2bn for 9M 2019 compared to N6.1bn in 9M 2018 suggesting sustained efforts on keeping costs tight due to weak Revenue growth. The rise in OPEX was driven by an 11.2% y/y growth in Administrative Expenses to N5.6bn. On the other hand, Selling & Distribution expenses was down 43.6% y/y to N607.0m. On the back of lower Gross Profit, EBITDA declined 5.1% y/y to N26.1bn in 9M 2019 from N27.5bn in 9M 2018. EBITDA margin for 9M 2019 was lower by 1.3ppts y/y to 22.3%.

Investment income slumps as profit edges lower

EBIT fell 7.2% y/y to N22.5bn in 9M 2019 from N24.2bn in 9M 2018 on the back of lower Other Income (down 64.2% y/y to N122.1m) and lower Operating profit. Notably, Investment income was lower by 72.5% y/y to N593.7m on the back of lower Cash & Cash Equivalents (down 60.6% y/y to N11.6bn). Lower Tax Expense (down 13.0% y/y to N6.1bn) cushioned the decline in Net Income which fell 12.0% y/y to N14.7bn in 9M 2019 from N16.7bn in 9M 2018. Earnings per Share (EPS) stood at N1.24/s for 9M 2019 compared to N1.41/s in 9M 2018.

Overall view – renewed optimism on border closure

Q3 results gives us cause for optimism as Revenue continues to recover with the impact of the border closure being partially felt. While cost pressures particularly on raw materials remain, we are largely optimistic on Dangote Sugar going forward as we expect the full impact of the border closure to filter into Revenue in Q4.

Dangote Sugar Earnings Highlight 9M 2019

N'm	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Revenue	117,425	116,756	0.6%	37,061	42,218	-12.2%
Cost of Sales	(88,406)	(86,670)	2.0%	(29,157)	(33,692)	-13.5%
Gross Profit	29,019	30,086	-3.5%	7,904	8,526	-7.3%
Selling & Distribution Expenses	(607)	(1,076)	-43.6%	(210)	(219)	-4.2%
Administrative Expenses	(5,631)	(5,064)	11.2%	(2,117)	(1,930)	9.7%
Impairment gains / (losses) on financial assets	-	-	n/a	-	-	n/a
Results from Operating Activities	22,781	23,945	-4.9%	5,578	6,377	-12.5%
Other Income	122	341	-64.2%	45	47	-3.9%
Change in value of biological assets	(443)	(79)	463.2%	327	(343)	-195.3%
EBIT	22,460	24,208	-7.2%	5,950	6,081	-2.2%
Finance Income	594	2,162	-72.5%	6	274	-98.0%
Finance Cost	(85)	(163)	-47.7%	(19)	(24)	-20.2%
Net Finance (Cost) / Income	509	1,999	-74.6%	(14)	250	105.6%
Profit before Tax	22,968	26,207	-12.4%	5,936	6,331	-6.2%
Income Tax (Expense) / Credit	(8,266)	(9,498)	-13.0%	(2,210)	(2,359)	-6.3%
Profit for the Period	14,703	16,710	-12.0%	3,726	3,972	-6.2%

Profit for the period attributable to:

Owners of the Company	14,846	16,883	-12.1%	3,775	4,024	-6.2%
Non-Controlling Interests	(143)	(174)	-17.6%	(48)	(52)	-6.9%
	14,703	16,710	-12.0%	3,726	3,972	-6.2%

Other Key Inputs	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Earnings Per Share	1.24	1.41	-12.1%	0.31	0.34	-6.2%
EBITDA	26,135	27,543	-5.1%	6,819	7,886	-13.5%

Margins	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Gross Margin	24.7%	25.8%	-1.1ppts	21.3%	20.2%	1.1ppts
EBITDA Margin	22.3%	23.6%	-1.3ppts	18.4%	18.7%	-0.3ppts
Operating Margin	19.4%	20.5%	-1.1ppts	15.1%	15.1%	-0.1ppts
Net Margin	12.5%	14.3%	-1.8ppts	10.1%	9.4%	0.6ppts
No of Outstanding Shares	12,000	12,000		12,000	12,000	
Depreciation & Amortisation	3,354	3,598	-6.8%	1,242	1,509	-17.7%

Source: Company Financials, FSDH Research

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