Dangote Cement Plc

Growing Through Low Cost Strategy

May 17, 2016

Executive Summary

- Dangote Cement Plc (DangCem) used a low cost strategy it developed over the years to offer a lower price in order to drive sales
- In our view, the strategy was to gain market share against its major competitor, Lafarge Africa
- We believe the price cut strategy is not sustainable. We observed that the increase in cost associated with sales was higher than the increase in sales
- Nigeria and West and Central Africa operating regions were the only regions that recorded profits in Q1 2016
- The company has been able to gain market share in all its new operating regions
- The company has signed an agreement with Sinoma International Engineering and the Industrial and Commercial Bank of China to finance and build the next phase of its expansion
- We believe the implementation of Nigeria's 2016 budget will drive the business of the company
- The company's investment in capacity should contribute significantly to both its topline and bottom line going forward
- We estimate a dividend per share of N7.03 for the FY 2016
- **Our fair value of the shares of DangCem is N180.13**
- **We place a HOLD on the shares at the current price of N167.10 per share.**

Table 1	
Rating:	**HOLD**
Current Price	167.10
Fair Value	180.13
Price Target	180.13
Horizon	One Year

1.0 Q1 2016 Performance Analysis:

The T/O rose by 22.47% to N140.52bn in Q1 2016.

Dangote Cement Plc (DangCem) used a low cost strategy it developed over the years to offer a lower price in order to drive sales. In our view, the strategy was to gain market share against its major competitor, Lafarge Africa. We believe the strategy is not sustainable. We observed the increase in cost associated with sales was higher than the increase in sales. This means the company absorbed the increase in cost without the ability to pass it on to the customers. This has led to lower profit margins. The unaudited Q1 2016 result for the period ended March 2016 shows that its Turnover (T/O) increased by 22.47% to N140.52bn in Q1 2016, compared with N114.74bn in Q1 2015. This growth was as a result of a 69.61% growth in cement sales volume to 6.44Mt. The Nigerian market was a major contributor to this growth as price reduction resulted in record sales volume of 4.51Mt, representing a 45.39% increase. The cost of sales grew by 55.52% to N62.20bn from N40bn in Q1 2015. This was as a result of higher fuel costs due to the increased use of Low Pour Fuel Oil (LPFO). The Gross Profit margin dropped to 55.73% in Q1 2016 from 65.14% in Q1 2015.

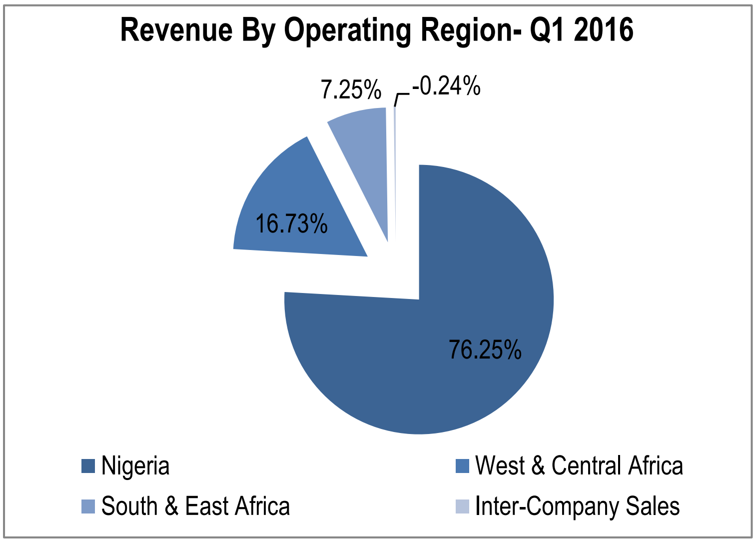
Cost of sales rose as a result of higher fuel costs due to the increased use of Low Pour Fuel Oil (LPFO)

DangCem recorded an increase in both selling and distribution costs and administration expenses as the company embarked on strong promotional activity. These expenses rose by 40.57% and 3.17%, to N16bn and N6.41bn respectively in Q1 2016. The administrative, selling and distribution expenses as a percentage of T/O increased marginally to 15.95% in Q1 2016 from 15.33% in Q1 2015.

Nigeria and West and Central Africa operating regions were the only regions to record profits in Q1 2016.

The finance income in Q1 2016 decreased by 74.26% to N7.21bn, compared with N28bn recorded in the corresponding period of 2015. The Q1 2015 finance income included a significant foreign exchange gain of N27.31bn which fell to N6.85bn in 2016. The finance costs also decreased from N16.27bn to N8.80bn, representing a decrease of 45.93% from the previous year. This was as a result of a fall in the foreign exchange loss to N2.17bn in Q1 2016 from N10.09bn in 2015. The Profit Before Tax (PBT) stood at N54.54bn in Q1 2016 down from N70.17bn in 2015. The tax provision increased to N1.76bn from N1.55bn in Q1 2015. This led to a Profit After Tax (PAT) of N52.78bn in 2016, down by 23.09% from N68.62bn recorded in 2015. **Notably, Nigeria and West and Central Africa operating regions were the only regions to**

record profits in Q1 2016. PAT in Nigeria fell by 39.98% to stand at N50.68bn. The West and Central Africa segment recorded a 181% increase in profit to N9bn while the South and East Africa segment recorded a loss of N3.29bn.



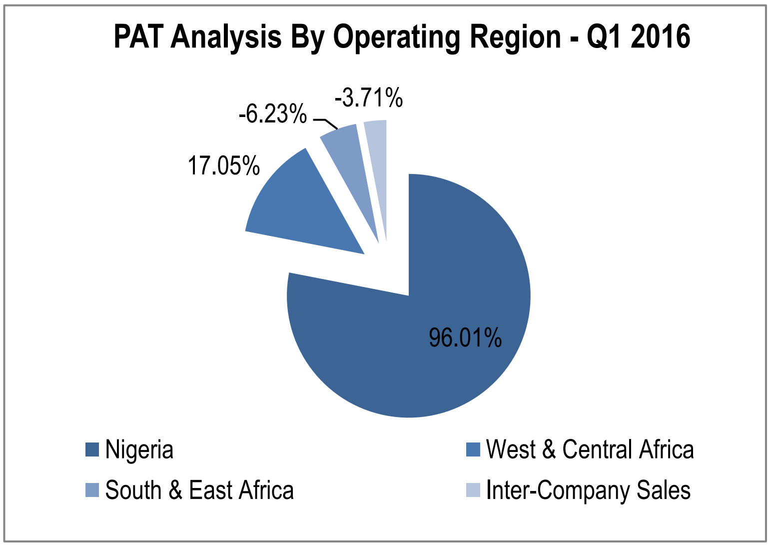


Table 2: Profitability Analysis (N'bn)

	Q1 2016	Q1 2015	%∆
T/O	140.52	114.74	22.47
EBIT	56.13	58.44	(3.95)
PBT	54.54	70.17	(22.27)
PAT	52.78	68.62	(23.09)
GP* Margin	55.73%	65.14%	(9.41%)
EBIT Margin	39.94%	50.93%	(10.99%)
PBT Margin	38.81%	61.15%	(22.34%)
PAT Margin	37.56%	59.81%	(22.25%)

GP- Gross Profit
Source: Company Account- Q1 2016 and FSDH Research Analysis

Given the run rate, the company should meet and surpass its previous year's performance.

All the profit margins in Q1 2016 fell compared with its performance in Q1 2015. The Gross Profit margin decreased to 55.73% in Q1 2016 while the Earnings Before Interest and Tax (EBIT) margin declined to 39.94% from 50.93% in Q1 2015. The PBT margin decreased to 38.81% in Q1 2016 from 61.15% as at Q1 2015. The PAT margin currently stands at 37.56% in Q1 2016, down from 59.81% in the corresponding period of 2015. This result also indicates that the percentage of T/O, PBT, and PAT in the Q1 2016 to the Audited T/O, PBT and PAT for the period ended December 2015 are: 28.58%, 28.96% and 29.11%, respectively. **Given the run rate, the company should meet and surpass the previous year's performance**

Table 3: Quarterly Result Highlights (N'bn)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Turnover	140.52	126.28	123.24	127.48	114.74
PBT	54.54	21.38	38.19	58.56	70.17
PAT	52.78	23.33	36.19	53.19	68.62

Source: Company Account and FSDH Research Analysis

The total assets were financed by a mix of equities and liabilities in the ratio of 60.10% and 39.90% respectively.

A cursory look at the balance sheet position as at Q1 2016 compared with FY December 2015 shows a marginal increase in the company's fixed assets. The total fixed assets increased by 0.41% to N948.86bn in Q1 2016 from N944.96bn in FY 2015. The company's stock decreased by 3.99% to N51bn Q1 2016, from N53.12bn recorded in FY 2015. The cash and bank balances recorded an increase of 61.16% from N40.79bn in FY 2015, to N65.74bn in Q1 2016. The company's trade debtors and other receivables increased in Q1 2016 by 31.39% to N15.17bn from N11.54bn in FY 2015. Trade creditors and other payables increased by 27.51% to N162.70bn in Q1 2016 from N127.60bn as at FY 2015. Working capital stood at a negative N68.48bn in Q1 2016, while net assets for the period increased by 8.32% to N698.35bn from N644.72bn in the FY 2015.

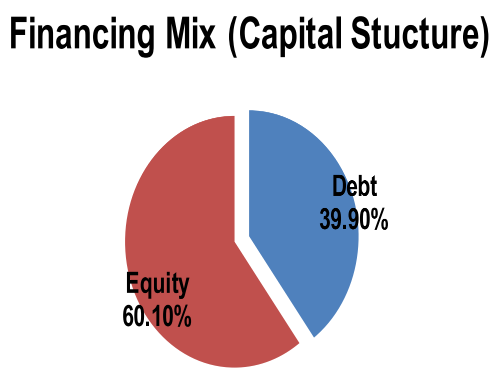
The total assets of the company which stood at N1.16trn as at Q1 2016 were financed by a mix of equities and liabilities in the ratio of 60.10% and 39.90% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N281.52bn, accounting for 60.73% of the total liabilities. The long-term liabilities which constituted mainly of long-term debts and deferred taxation stood at N182.03bn, accounting for 39.27% of the total liabilities.

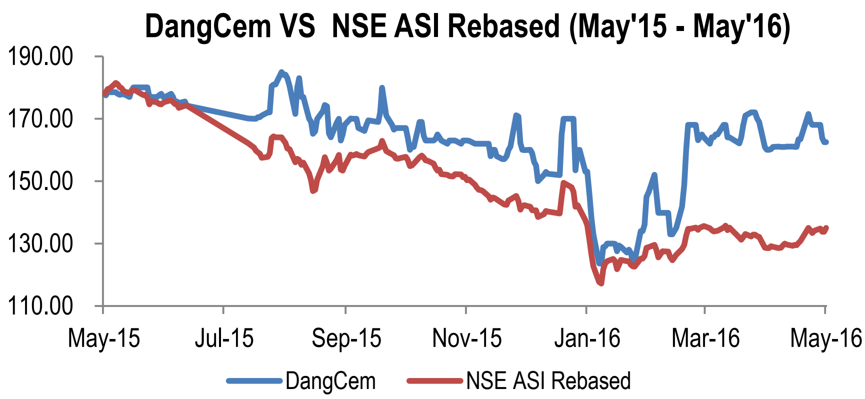
The company's total borrowings stood at N214.44bn in Q1 2016, down by 12.46% from N244.97bn in FY 2015.

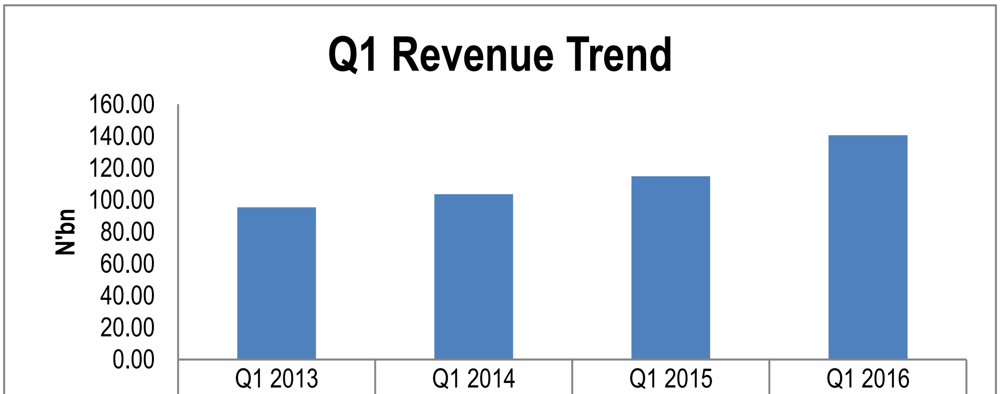
The company's total borrowings stood at N214.44bn in Q1 2016, down by 12.46% from N244.97bn in FY 2015. The long-term debt stood at N121.10bn a 41.87% decrease from N208.34bn in FY 2015 and accounting for 56.47% of total borrowings. Short-term borrowings at N93.33bn accounted for 43.53% of total borrowings. In order to achieve its expansion plans DangCem may take on additional borrowings. However, the company has been able to sign a Memorandum of Understanding (MOU) with its contractor Sinoma International Engineering and the Industrial and Commercial Bank of China. The agreement is to finance and build the next phase of

DangCem expansion. The deal with Sinoma is valued at US$4.3bn, for the construction of 10 additional new cement plants across Africa and one in Nepal. **These agreements may see the company reduce the rate of borrowing to achieve its expansion plans. Nevertheless, we project an increase in the company's total liabilities.**

DangCem generated a net cash flow from operating activities of N87.74bn in Q1 2016 from N92.71bn in Q1 2015. The company has been able to improve its cash flows mainly through an increase in its trade creditors and other payables. This indicates that the business is able to increase payment days to suppliers. It also indicates that its customers deposited more funds in advance for products. However, DangCem has some cash tied up in its prepayments and currents assets. Prepayments and current assets consisted mainly of advances to contractors and deposits for imports. In addition more of its cash was tied down in related party transactions compared to its position as at FY 2015. The ratio of cash profit generated from core operations to revenue dropped to 62.44% in Q1 2016 from 80.80% in Q1 2015. This means that less sales translated to cash profit in Q1 2016 than in Q1 2015.







	Q1 2013	Q1 2014	Q1 2015	Q1 2016
Revenue	95.43	103.57	114.74	140.52

1.1 FY 2015 Performance Analysis:

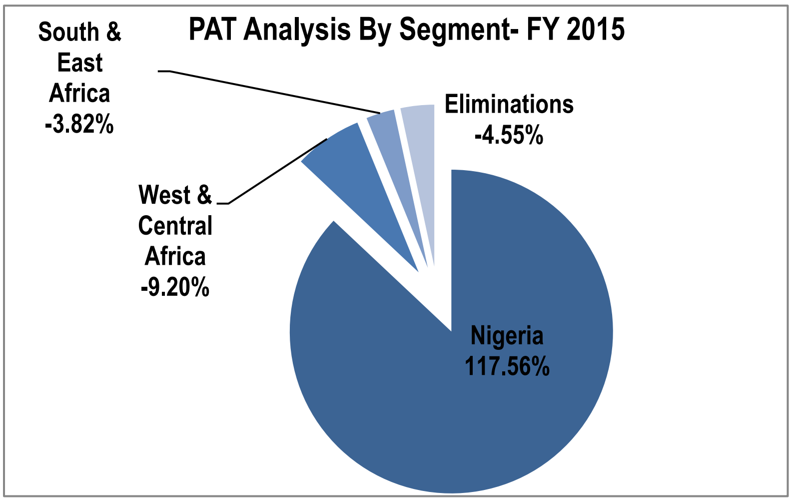
Ethiopia, Zambia, Senegal and Cameroon made increased contributions to the business, resulting in a 34.98% rise in cement sales volumes to 18.86MT

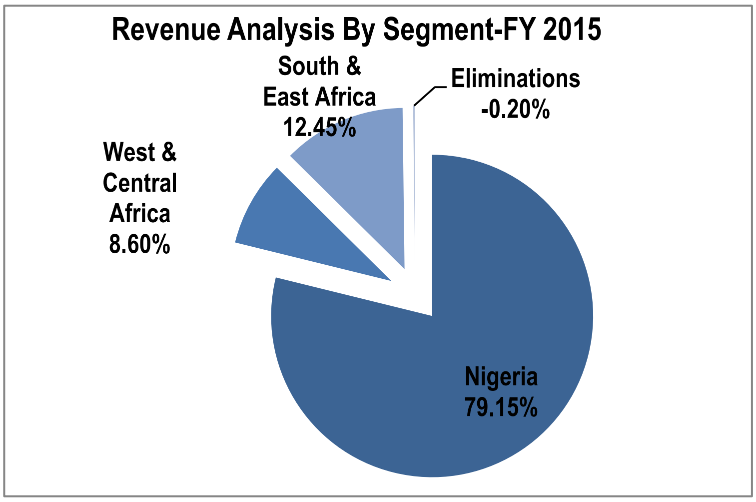
The turnover in FY 2015 increased by 25.56% to N491.73.

Dangote Cement's geographical diversification to other African countries resulted in a growth in the company's revenue in Full Year (FY) 2015. The reduction in the price of cement also drove the revenue. Despite the difficult operating environment the company's Nigerian operations remains the driver of profit, with the other African subsidiaries making a loss in FY 2015. The losses made in other African subsidiaries were as a result of the finance cost resulting from the expansion in those regions. We note that some of the African expansions resulted in operating profit. The FY result for the period ended December 2015 shows that its Turnover (T/O) increased significantly by 25.56% to N491.73bn in FY 2015, compared with N391.64bn in FY 2014. The growth was as a result of the increased contributions of the factories in Ethiopia, Zambia, Senegal and Cameroon. Leading to a 34.98% rise in cement sales volumes to 18.86MT. The cost of sales grew by 41.07% to N201.81bn from N143.06bn in FY 2014. DangCem recorded an increase in both the selling and distribution costs and administration expenses. These expenses rose by 30.48% and 35.14%, to N53.50bn and N32.55bn respectively in FY 2015. These operating expenses as a percentage of T/O increased marginally to 17.50% in FY 2015 from 16.62% in FY 2014.

The finance income for FY 2015 increased by 13.92% to N34.82bn, compared with N30.57bn recorded in the corresponding period of 2014. This increase was as a result of a rise in foreign exchange gain to N33.12bn in 2015 from N27.42bn in 2014. The finance costs increased from N32.98bn to N54.35bn, representing an increase of 64.80% from the previous year. The increase in finance charges was due to the higher interest rates and a rise in foreign exchange rate loss to N20.87bn. The average effective interest rate for the group in FY 2015 stood at 12.9%, up from an average of 10% per annum in 2014. Profit Before Tax (PBT) stood at N188.29bn in FY 2015 up from N184.69bn in 2014. The tax provision decreased to N6.97bn from N25.19bn in FY 2014. This decrease was as a result of a substantial decline of 74.27% in deferred tax expense recognised in the current year. This led to a Profit After Tax (PAT) of N181.32bn in 2015, up by 13.68% from N159.50bn recorded in 2014 Notably, subsidiaries in other African countries recorded a Loss After Tax (LAT), with Nigeria being the only segment that recorded a positive bottom line figure.

The West and Central Africa and the South and East Africa segments recorded a loss of N16.68bn and N6.92bn respectively. The losses in these segments were mainly as result of the depreciation of the currencies in Ghana, South Africa, Cameroon and particularly Zambia against the Dollar. This led to an increase in finance costs in these regions. The South and East Africa region in particular recorded a sharp increase in finance costs, accounting for 81.10% of total group finance costs in FY 2015 up from 11.02% in 2014.





Despite DangCem's improved performance in FY 2015 its profit margins decreased compared with 2014. The gross profit margin decreased to 58.96% in FY 2015 compared with 63.47% in FY 2014. The PBT margin decreased to 38.29% in 2015 from 47.16% as at 2014. PAT margin currently stands at 36.87% in 2015, down from 40.73% in the corresponding period of 2014.

The company's profit margins decreased in FY 2015, compared with FY 2014.

Table 4: Profitability Analysis (N'bn)

	FY 2015	FY 2014	FY 2013	FY 2012
T/O	491.73	391.64	386.18	298.45
EBIT	207.82	187.10	195.88	146.49
PBT	188.29	184.69	190.76	135.65
PAT	181.32	159.50	201.20	145.02
GP Margin	58.96%	63.47%	66.21%	60.36%
EBIT Margin	42.26%	47.77%	50.72%	49.08%
PBT Margin	38.29%	47.16%	49.40%	45.45%
PAT Margin	36.87%	40.73%	52.10%	48.59%

Source: Company Annual Account – 2015 and FSDH Research Analysis

1.2 Analysis of Cash Flow Statement:

Less of the revenue translated into cash profit in 2015.

DangCem generated a net increase cash flow of N26.31bn in the year 2015, an increase over the net decrease cash flow of N57.08bn it generated in 2014. The major contributor is the net cash generated from operating activities. The acquisition of property, plant and equipment, repayment of loans and dividend payment significantly depleted the cash flows. The cash profit generated from the core operations increased to N275.40bn in 2015 from N241.93bn in 2014. However, the ratio of the cash profit generated from core operating activities to the revenue decreased to 56.01% in 2015 from 61.77% in 2014. This means that less of its revenue translated into cash profit in 2015 than in 2014.

The cash flow generated from operating activities increased to N301.75bn in 2015 from N215.89bn in 2014 while the net cash generated after tax increased from N215.35bn to N299.52bn. The net cash generated from operations was sufficient to cover the investment needs of the company but not sufficient to cover the financing needs. Thus, it contracted a new borrowing of N125.91bn.

Table 5: Cash Flow Analysis

N'bn	2015	2014
Cash Profit From Core Operations	275.40	241.93
Changes In Working Capital	26.35	(26.04)
Cash From Operating Activities	301.75	215.89
Income Tax Paid	2.23	0.23
Net Cash From Operating	299.52	215.35
Net Cash Used In Investing	(155.69)	(192.04)
Net Cash Generated by/(Used in) Financing Activities	(117.52)	(80.39)
Cash Generated for the Year	26.31	(57.08)
Ratio of Cash Flow from Core Operations to Revenue	56.01%	61.77%
Ratio of Net Cash from Operation to PPE Investment	118.89%	99.15%

Source: Company Annual Account – 2015 and FSDH Research Analysis

2.0 Drivers of Performance:

The following factors affected the performance of DangCem:

Positive Factors:

- Price reduction to boost sales volume
- Economies of scale
- Strong market share across all regions
- Expansion into other African countries
- The improvement in its corporate governance structure
- The significant increase in production capacity
- Nearness to raw materials

The company benefits from massive economies of scale.

Negative Factors:

- Increase in the price of LPFO
- The fall in disposable income
- Suspended state of its Gboko plant throughout most of 2015
- The devaluation in the foreign exchange market which affected operating and finance costs in most African countries in FY 2015
- Increase in production cost which it did not pass to customers.

Dangote cement is substituting LPFO for coal in its Nigerian plants.

2.1 Strategic Focus:

DangCem has the strategic goal of becoming the largest cement company in Sub-Saharan Africa and one of the leading cement companies in the world. Its strategy is to expand rapidly and serve growing markets. DangCem plans to build new capacity that will continue to serve the cement needs of Africa for the coming decades. It plans to have 74Mta of capacity by mid-2019. It also has plans to venture beyond Africa, with a plant in Nepal to serve local and export markets. The company's general strategy in every country and region it operates in is to be the leader on costs, quality and service. It does this by building large modern highly efficient plants that produces higher quality cement at lower costs. Additionally, DangCem is positioned to take advantage of the shift in the market demand to higher grades (such as 42.5 and 52.5 grades) that will be required as the height and size of buildings grow in Africa.

DangCem has the strategic goal of becoming the largest cement company in Sub-Saharan Africa and one of the leading cement companies in the world.

The company is organised into three strategic regions; Nigeria, West & Central Africa and South & East Africa. **Each region is pursuing the overall corporate strategy and also specific strategies that take into account the conditions of each market**.

Its pricing strategy is already having adverse effects on its major competitor in Nigeria.

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Nigeria Domestic Sales: DangCem's strategy in this key market is to invest heavily in order to become the leading manufacturer of cement for domestic consumption. The company also sustains it strategy of delivering more than half of its cement directly to its customers, enabling it to build close relationships with customers. The company has already begun a cost management strategy that will ensure the security of its energy supplies and a reduction in the overall cost of its energy. It has been able to do this by equipping its production lines in Nigeria with coal milling facilities. Coal is significantly cheaper than Low Pour Fuel Oil (LPFO) and serves as a backup if gas supply is reduced. **DangCem next focus in this cost cutting strategy is to mine coal in Nigeria instead of importing it making energy costs even more competitive.**

The company is organised into three strategic regions; Nigeria, West & Central Africa and South & East Africa.

DangCem next focus in this cost cutting strategy is to mine coal in Nigeria instead of importing it making energy costs even more competitive.

Nigeria Export Sales: DangCem also plans to build capacity in Nigeria to equip it to be become the largest supplier to the surrounding countries that do not have sufficient limestone to manufacture cement. The company currently imports bulk cement into Ghana and clinker into Cameroon. Therefore DangCem's first goal will be to substitute these imports for products it manufactures in Nigeria. **It hopes to increase efficiency and profitability by increasing the capacity utilisation of the Nigerian plants**. DangCem also plans on building two new factories in Nigeria to help service these export markets.

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West & Central Africa: The strategy in this region will be to offer a superior product at a more attractive price compared to what is currently available in the market. This will enable the company to gain market share. **The company also plans to make its products even more competitive by reducing shipping costs**.

Most countries in this region are obligatory importers of cement or clinker. DangCem plans on servicing them from its integrated factories in Nigeria and Senegal by road at first and then by sea thereby keeping shipping costs low.

South & East Africa: These countries have access to ample native limestone so most countries will have integrated factories. However, these countries are also exposed to cheap imports from Pakistan and the Far East. **As a result, DangCem strategy in most cases will be to position its factories well into the inlands, where pricing is higher and imported cement faces additional shipping costs to reach the market.**

3.0 Business:

DangCem is one of Africa's leading cement companies with a total capacity of 44Mta as at 2015.

DangCem is one of Africa's leading cement companies with a total capacity of 44Mta as at 2015. It is currently operational in Nigeria, Cameroon, Ethiopia, Senegal, South Africa, Tanzania and Zambia, as well as in import terminal in Ghana. It also has plans to start operations in Congo, Cote d'Ivoire, Sierra Leone, Liberia, Mali, Kenya, Zimbabwe and Nepal.

DangCem's total production capacity in Nigeria from its three existing cement plants was 29.25Mta in 2015.

Nigeria: DangCem's total production capacity in Nigeria from its three existing cement plants was 29.25Mta in 2015. The company estimates its market share at 66% in Q1 2016.

- **The Obajana Plant** located in Kogi State is its largest factory with a total capacity of 13.25Mta from four production lines. Obajana was initially designed to run on natural gas with LPFO as the backup fuel. All four lines are now being equipped to use coal as a backup and possibly as a primary source of energy.
- **The Ibese Plant** located in Ogun state has a total capacity of 12Mta and serves Lagos and the key South-West market. It also produces cement for export to nearby countries in West Africa like Ghana and Niger. Like Obajana, Ibese runs on natural gas and has undergone a revamp to use coal as backup fuel.
- **The Gboko Plant** located in Benue state is the company's oldest factory and has a total capacity of 4Mta. The plant was in a suspended state in 2015 allowing the company to begin to equip the plant to run solely on coal.

In order to support its export to import strategy, the company has announced plans to build a new 3-6Mta plant at Itori, to the North of Lagos.

The plant was originally designed to run solely on LPFO. Gboko serves the local markets in the East of Nigeria and could potentially supply Cameroon with clinker once it reopens

In order to support its export to import strategy, the company has announced plans to build a new 3-6Mta plant at Itori, to the North of Lagos. It has also performed a ground breaking ceremony for a 6Mta plant at Okpella in Edo state.

Cameroon: DangCem has a 1.5Mta cement grinding facility which it commissioned in March 2015 in the port of Douala. The company is positioned to take advantage of the suspension of the importation of bulk and bagged cement –a prohibition that will take effect in 2016. DangCem estimated market share in this market is 44%. The company is currently importing clinker from the Far East and elsewhere. It has however found imported clinker to be of lower quality than ideal and plans to import clinker made by its Nigerian plants. All sales are to the domestic market. DangCem has announced plans to build a second facility, most likely at Yaoundé and expected to be opened in 2018.

Senegal: The 1.5Mta plant in Pout began cement production in December 2014 and sales in January 2015. The plant also has a limestone reserve of about 300Mt in its quarry. The company was able to gain about 28% market share in 2015 by selling a higher grade of products at the same price as the lower grades in the market. There are plans to build a second line that will provide clinker for export, mostly to Mali where DangCem plans to set up a cement grinding facility. Currently, approximately 90% of sales are to the local market.

South Africa: DangCem services the South African market under its subsidiary the Dangote Cement South Africa with Sephaku branding. This a joint venture with Sephaku Holdings, which owns 36% of DangCem South Africa. **The total capacity is 3.3Mta with an integrated plant in Aganang and a grinding plant in Delmas.** The location of the two factories allows the company to reach a substantial part of South Africa's inland market. It sells cement through bulk distribution and through retail outlets. Delmas produces mostly 32.5- grade cement while Aganang mainly serves the market for a stronger 42.5 and 52.5- grade cements.

Ethiopia: **The Company's operations in Ethiopia consist of a 2.5Mta integrated plant in Mugher with a limestone reserve of 223Mt.** The plant produces both 32.5 and 42.5-grade cements. Sales of the 42.5 grade currently accounts for only 40% of total sales. Ethiopia is a key market for DangCem; it aims to have more than 25%-30% market share in this country. The company's estimated market share in Ethiopia in the first quarter of 2016 was 27%. The company plans to double the size of the Mugher plant by the end of 2018. As of January, 1 2016 Ethiopia was regrouped into the West and Central Africa operating region.

Tanzania: The Company began clinker production at its 3.0Mta integrated plant at Mtwara in December 2015. The factory will be equipped with a 60MW coal-fired power plant making it a dual fuelled plant. The company sells the 32.5 and 42.5-grades of cement in Tanzania. DangCem has also laid foundations for a new jetty at Mtwara which will enable it to import materials such as coal and ship out cement for domestic and export markets.

Zambia: The 1.5Mta plant in Ndola began production in June 2015. DangCem intends to double its current capacity by 2019, either through a second line at Ndola or a new facility near Lusaka. This factory is now the largest in Zambia with a limestone reserve of 240Mt. It sells 32.5 Portland Cement and the 3X brand 42.5R Portland Limestone Cement. With a fleet of 370 trucks it services the entire Zambian market as well as more distant export destinations such as Malawi and Burundi.

Ghana: The company has imported cement from the Far East into Ghana since 2011. However, DangCem has recently begun to truck cement into Ghana from its Ibese factory. The company's estimated market share in the market was 18% in the first quarter of 2016. The company also plans on building a 1.5Mta grinding plant at Takoradi, scheduled to open in 2017.

As at December, 31 2015 only Dangote Industries Limited (DIL) with 15,494,247,300 (90.93%) shares held more than 5% of the issued share capital of DangCem. Aliko Dangote is the ultimate owner of DIL. The table below shows all DangCem current expansion plans.

Table 6: Planned Forthcoming Capacity Additions (Provisional)			
Country	**Type**	**Capacity(Mta)**	**Expected**
Rep.Congo	Integrated	1.5	2016
Sierra Leone	Import	0.7	2016
Cote d'Ivoire	Grinding	3.0	2017
Liberia	Grinding	0.7	2017
Ghana	Grinding	1.5	2017
Cameroon	Grinding	TBC*	2018
Senegal	Integrated	1.5	2018
Ethiopia	Integrated	TBC*	2018
Mali	Grinding	1.5	2018
Niger	Integrated	1.5	2018
Zambia	Integrated	TBC*	2019
Nigeria, Itori	Integrated	3.0-6.0	2019
Nigeria, Okpella	Integrated	6.0	2019
Kenya	Integrated	3.0	2019
Zimbabwe	Integrated	TBC*	2019
Nepal	Integrated	3.0	2019

***TBC-To Be Confirmed**

Source: Company Account

Table 7: Shareholding Structure as at December 31, 2015		
Shareholders	**No of Shares Held**	**% of Shareholding**
Dangote Industries Limited	15,494,247,300	90.93
Aliko Dangote (GCON)	27,642,637	0.16
Others	1,518,617,467	8.91
Total	17,040,507,404	100.00

Source: Company Annual Account – 2015

Table 8: Directors' Shareholding as at February 29, 2016		
Director	**Position**	**Holdings**
Alhaji Aliko Dangote	Chairman	27,642,637
Onne van der Weijde	Group Chief Executive Officer	Nil
Olakunle Marcus Alake	Independent Non-Executive Director	3,906,702
Abdu Dantata	Non-Executive Director	2,500,000
Emmanuel Ikazoboh	Independent Non-Executive Director	40,000
Olusegun Olusanya	Non-Executive Director	16,313
Joseph O Makoju	Non-Executive Director	11,000
Devakumar Edwin	Non-Executive Director	2,000,000
Sani Dangote	Non-Executive Director	Nil
Ernest Ebi	Independent Non-Executive Director	Nil
Fidelis Madavo	Non-Executive Director	Nil
Douraid Zaghouani	Non-Executive Director	Nil

Source: Company Annual Account – 2015

Table 9: Company Summary

Ticker	DANGCEM
Sector	Industrial Goods
Sub-sector	Building Materials
Date of Incorporation	January 04, 1992
Date of Listing	October 26, 2010
Financial Year End	December
Number of Fully Paid Share	17,040,507,404
Current Capitalization(NGN)	2,847,468,787,208.40
NSE Capitalization (NGN)	9,228,696,673,953.02
% of NSE Capitalisation	30.85%
52 Week high NGN	185
52 Week low NGN	123.51
YTD Return (%)	1.82%
52 Weeks Average Volume Traded	832,943.81
Trailing EPS NGN	9.71
Trailing P/E Ratio (X)	17.21

**** As at May 16, 2016***
Source: Company Annual Account – 2015 and FSDH Research Analysis

4.0 Product Analysis:

Dangote Cement produces the 32.5, 42.5 and the 52.5 grade cement.

Dangote Cement currently produces three grades of cement namely: 32.5, 42.5 and 52.5 grade cement. The Nigerian government released a new set of guidelines on construction in 2014, promoting the sole use of 42.5 for building and public structures construction, whilst limiting the use of 32.5 cement to wall plastering and other superficial amendments. The 42.5 was deemed suitable for most buildings applications except in heavy load-bearing, flyovers, bridges and dams for which the 52.5 grade becomes handy.

Dangote Cement products are distributed via a number of channels depending on the consumers' demands

Dangote Cement products are distributed via a number of channels depending on the consumers' demands. Then cement can be transported in Bulk or Bag. Bulk cement is mostly used for companies that already have storage facilities for cement, such as silos or barns and require it in large quantities for their operations, while bagged cement is primarily targeted at retailers or co-distributors. The company also uses vessels to transport clinker as well as bulk and bagged cement across the continent to neighbouring countries as supplements to its overseas (grinding or cement production) plants in order to meet overriding regional demand.

The company's major competitor, Lafarge Africa, has a wider range of product lines ranging from extra strength brands to quick drying products namely; Atlas Cement, Elephant Cement, Supaset Cement, Power Max Cement and Ashaka Cement. Dangote Cement seems to have a significantly greater market share and seems to have penetrated the market more successfully.

4.1 Facility Services:

DangCem also engages in facility service products such as Project Inspection, Real Estate and Plant Maintenance, Operation Refurbishment and Building and Structure Renovations.

5.0: SWOT Analysis

5.1 Strengths:	**5.2 Weaknesses:**
❖ Economies of scale ❖ Planned operations and presence in numerous African countries ❖ Strong and competent management team ❖ Modern plants with state of the art technology ❖ Market leader with a strong brand ❖ Rising revenue ❖ Export-to-import strategy	❖ Foreign exposure ❖ Key man risk
5.3 Opportunities:	**5.4 Threats:**
❖ Abundance of raw materials (Limestone) ❖ Rapid urbanisation and housing deficit ❖ Ban on cement importation ❖ High barrier to entry (initial investment cost) ❖ Potential demand in other countries	❖ Foreign exchange rate instability ❖ Weak consumer income ❖ Declining government income ❖ Shortage of gas supply

6.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- The recent expansion drive of the company across Africa and Nepal
- Huge infrastructure and housing deficit in Nigeria and other African countries creating strong demand for cement
- Ban on cement importation in Nigeria and Cameroon
- Abundance of raw materials (Limestone) in specific countries
- Switch to lower energy cost (coal and gas powered plants)
- Expected increase in the production capacity
- Economies of scale
- Implementation of efficient and newer technology
- Expected growth in government spending on roads and infrastructure.

Negative Factors:

- Foreign exchange exposure and risk
- The weak consumers spending power
- Expected increase in finance cost.

Our forecast final dividend for the FY 2016 is N7.03 per share.

Looking at the medium to long term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N606.97bn, N761.36bn, N947.41bn, N1,171.35bn and N1,436.50bn for the periods ending December 2016, 2017, 2018, 2019 and 2020. We estimate EBIT of N237.70bn, N298.17bn, N382.40bn, N478.64bn and N615.71bn, and EBITDA of N316.89bn, N390.57bn, N480.25bn, N589.56bn and N721.35bn for the same period using an EBIT margin of 39.16%. Our PBT forecasts for the periods are: N225.96bn, N294.69bn, N355.96bn, N441.01bn and N549.02bn. Adjusting for tax, our PAT forecasts are N196.59bn, N226.91bn, N274.09bn, N339.58bn and N422.74bn. PAT Margin for the period are 32.39%, 29.80%, 28.93%, 28.99% and 29.43%. **Our forecast final dividend for the FY 2016 is N7.03 per share.**

Table 10: Income Forecast (2016-2020)						
=N='bn	Dec-15A	Dec-16F	Dec-17F	Dec-18F	Dec-19F	Dec-20F
Turnover (Net Sales)	491.73	606.97	761.36	947.41	1,171.35	1,436.50
Cost of Sales	(201.81)	(273.85)	(343.51)	(427.45)	(528.49)	(648.12)
Gross Profit	289.92	333.12	417.85	519.96	642.86	788.38
Admin, Selling & Distribution Expenses	(86.05)	(100.65)	(126.25)	(157.10)	(194.23)	(238.20)
Depreciation	(54.63)	(79.19)	(92.40)	(109.23)	(130.83)	(158.78)
Other Operating Income	3.95	5.23	6.57	8.17	10.10	12.39
EBIT	207.82	237.70	298.17	371.03	458.72	562.56
EBITDA	262.45	316.89	390.57	480.25	589.56	721.35
Net Finance Cost	(19.53)	(11.74)	(3.48)	(15.07)	(17.72)	(13.55)
PBT	188.29	225.96	294.69	355.96	441.01	549.02
Taxation	(6.97)	(29.37)	(67.78)	(81.87)	(101.43)	(126.27)
PAT	181.32	196.59	226.91	274.09	339.58	422.74

Table 11: Ratio Analysis (2015 - 2020)						
	Dec-15A	Dec-16F	Dec-17F	Dec-18F	Dec-19F	Dec-20F
EBITDA Margin	53.37%	52.21%	51.30%	50.69%	50.33%	50.22%
EBIT Margin	42.26%	39.16%	39.16%	39.16%	39.16%	39.16%
PBT Margin	38.29%	37.23%	38.71%	37.57%	37.65%	38.22%
PAT Margin	36.87%	32.39%	29.80%	28.93%	28.99%	29.43%
EPS(N)	10.64	11.54	13.32	16.08	19.93	24.81
DPS(N)	6.00	7.03	8.12	9.80	12.15	15.12
Dividend Payout	75.18%	60.96%	60.96%	60.96%	60.96%	60.96%
Earnings Yield *	6.26%	6.40%	7.39%	8.93%	11.06%	13.77%
Dividend Yield *	3.53%	3.90%	4.51%	5.44%	6.74%	8.39%
P/E Ratio*	15.98	15.61	13.53	11.20	9.04	7.26
Number of Shares ('bn)	17.04	17.04	17.04	17.04	17.04	17.04
ROCE	23%	22%	21%	21%	21%	20%
ROE	28.12%	27.91%	28.00%	29.01%	30.43%	31.80%
Collection Days	5	5	5	5	5	5
Payment Days	80	84	84	84	84	84
Inventory Turnover (x)	3.80	4.14	4.14	4.14	4.14	4.14
Asset Turnover (x)	0.44	0.47	0.44	0.44	0.44	0.43
Current Ratio (x)	0.83	1.01	1.62	2.04	2.33	2.68
Quick Ratio (x)	0.56	0.71	1.35	1.77	2.06	2.41
Debt Ratio (Total Liabilities /Total Assets)	0.42	0.45	0.53	0.56	0.58	0.60

**At Our Fair Value of N180.13*
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 12: Statement of Financial Position Forecast (2016 - 2020)						
N'bn	Dec-15A	Dec-16F	Dec-17F	Dec-18F	Dec-19F	Dec-20F
Property, Plant and Equipment	917.21	1,032.42	1,181.86	1,349.12	1,536.39	1,746.13
Intangible assets	2.61	2.61	2.61	2.61	2.61	2.61
Deferred Taxation	14.47	16.80	19.51	22.66	26.32	30.57
Prepayments & Other Assets	9.09	10.45	12.01	13.80	15.85	18.22
Investments	1.58	1.58	1.58	1.58	1.58	1.58
Long Term Assets	**944.96**	**1,063.86**	**1,217.57**	**1,389.77**	**1,582.76**	**1,799.11**
Inventory	53.12	66.17	83.00	103.29	127.70	156.61
Trade Receivables	6.23	8.13	10.20	12.69	15.69	19.24
Other Receivables	5.31	54.11	283.75	518.60	762.84	1,103.33
Prepayment and Other current assets	60.53	63.06	79.10	98.42	121.69	149.23
Deposits/Balances & Cash	40.79	31.61	41.20	40.13	64.57	118.69
Current Assets	**165.98**	**223.08**	**497.25**	**773.13**	**1,092.49**	**1,547.10**
Total Assets	**1,110.94**	**1,286.94**	**1,714.82**	**2,162.90**	**2,675.25**	**3,346.21**
Trade Payables	44.04	62.94	78.95	98.24	121.46	148.96
Other Current Liabilities	155.37	127.67	160.15	199.28	246.39	302.16
Current Tax Payable	1.29	29.37	67.78	81.87	101.43	126.27
Current Liabilities	**200.70**	**219.99**	**306.88**	**379.39**	**469.28**	**577.39**
Working Capital/ Net Current Asset	**(34.72)**	**3.09**	**190.38**	**393.73**	**623.21**	**969.71**
Capital Employed	**910.25**	**1,066.95**	**1,407.95**	**1,783.50**	**2,205.96**	**2,768.82**
Deferred Taxation	24.50	24.50	24.50	24.50	24.50	24.50
Staff Retirement Benefits	3.99	3.65	4.76	5.76	7.13	8.88
Long Term Provisions and Other Charges	3.28	3.28	3.28	3.28	3.28	3.28
Deferred Income	0.98	0.98	-	-	-	-
Long Term Payable	24.44	-	-	-	-	-
Long Term Debt	208.33	330.13	564.94	805.03	1,055.26	1,402.69
Long Term Liabilities	**265.53**	**362.55**	**597.49**	**838.57**	**1,090.18**	**1,439.35**
Total Liabilities	**466.22**	**582.53**	**904.36**	**1,217.97**	**1,559.46**	**2,016.74**
Total Net Assets	**644.72**	**704.40**	**810.46**	**944.93**	**1,115.78**	**1,329.47**
Paid Up Share Capital	8.52	8.52	8.52	8.52	8.52	8.52
Share Premium	42.43	42.43	42.43	42.43	42.43	42.43
Employee Benefit Reserve	(1.01)	(1.01)	(1.01)	(1.01)	(1.01)	(1.01)
Capital Reserves	2.88	2.88	2.88	2.88	2.88	2.88
General Reserve	620.50	680.76	787.84	923.62	1,096.12	1,311.87
Foreign Exchange Reserve	(22.37)	(22.37)	(22.37)	(22.37)	(22.37)	(22.37)
Total Reserves	**642.43**	**702.70**	**809.78**	**945.55**	**1,118.05**	**1,333.81**
Shareholders' Funds	**650.95**	**711.22**	**818.30**	**954.07**	**1,126.57**	**1,342.33**
Non-Controlling Interest	**(6.24)**	**(6.81)**	**(7.84)**	**(9.14)**	**(10.79)**	**(12.86)**
Total Equity	**644.72**	**704.40**	**810.46**	**944.93**	**1,115.78**	**1,329.47**
Total Equity & Liability	**1,110.94**	**1,286.94**	**1,714.82**	**2,162.90**	**2,675.25**	**3,346.21**

Source: Company Annual Account – 2015 and FSDH Research Analysis

7.0 Valuation:

We employed relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

Assumptions:

- EV/EBITDA Multiple: 10.44x
- Debt: N280.05bn
- Cash: N40.79bn
- Number of shares in issue: 17.04bn

The fair value for Dangote Cement Plc is N180.13.

Applying the EV/EBITDA multiple of 10.44x**,** we arrived at **N180.13** which is our fair value.

The current market value of Dangote Cement share is N167.10, the highest and the lowest closing prices in the last 52 weeks are N185 and N123.51 respectively. The forward earnings yield and dividend yield of the company at our fair value are 6.40% and 3.90% respectively. The capital appreciation for the stock of Dangote Cement Plc shows an upward potential of 7.80%. This is less than our minimum equity return benchmark of 16.65% but higher than the 10% discount on the market price. **We therefore place a HOLD rating on the shares of Dangote Cement Plc at the price of N167.10 as at May 16, 2016.**

7.1 Risks to Price Target:

The following risks may affect the attainment of our target price:

- Increase in the yield on fixed income securities
- Drop in market liquidity
- Issuance of new equity
- Reduction in dividend payment

Table 13 : Comparable Analysis (Nbn)		
Company	**Dangote Cement**	**Lafarge Africa**
Turnover (Net Sales)	491.73	267.23
Gross Profit	289.92	82.53
EBIT	207.82	38.30
PBT	188.29	29.27
PAT	181.32	27.00
GP Margin	58.96%	30.88%
EBIT Margin	42.26%	14.33%
PBT Margin	38.29%	10.95%
PAT Margin	36.87%	10.10%
ROE	28.12%	15.33%
Net Assets	644.72	176.15
Net Assets Per Share	37.83	38.67
PE Ratio	17.21	17.49
Earnings Yield	5.81%	5.72%

**As at May 16,2016*
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 14 : Analyst Rating	
Rating	**Criteria**
BUY	Fair value of the stock is ≥ 16.65%* compared with the current market price.
HOLD	Fair value of the stock ranges between -10% and 16.65% of the current market price.
SELL	Fair value of the stock is > 10% below the current market price.

****16.65% is our estimated minimum equity return. It is the combination of our risk free rate and risk premium. Our risk free rate is the average yield on a five-year FGN Bond. We adopted a 5% risk premium and set the risk free rate every quarter.***

Fair Value: This is the value of the ordinary shares of the company using the valuation method appropriate for the company. It is the intrinsic or true value of the stock based on the fundamentals of the company. The market price may either trade at a premium or discount to the intrinsic value.

Price Target: This is the price that we believe the shares of the company will trade within our time horizon. Other risk factors may affect the attainment of this price. This price may or not be different from the intrinsic value.

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