



DANGOTE SUGAR REFINERY PLC

External factors weigh on Q3'18 performance

- Sugar selling prices reduced further amid smuggled sugar competition
- Gross margin moderated in Q3'18, down 952bps q/q
- 9M'18 PAT down 37% y/y to ₦16.7 billion (Vetiva: ₦18.7 billion)
- Earnings revised to reflect 9M'18 result, BUY rating reiterated

Equity Research
8 November 2018

BUY

Target price **₦21.46**

Company Statistics

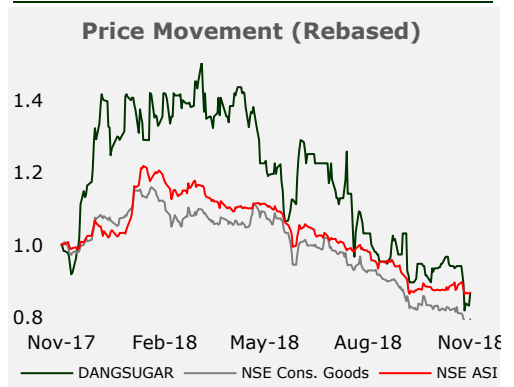
Price (₦)	13.00
Market Cap (₦Mn)	156,000
Enterprise Value (₦Mn)	126,634
Net Cash (₦Mn)	29,366
Shares Outstanding (Mn)	12,000
NSE	DANGSUGAR
Bloomberg	DANGSUGAR.NL
Reuters	DANGSUG.LG

Ownership Structure

Dangote Industries Ltd	68%
Others	32%

Share Price Performance

30 days	-7.56%
90 days	-24.44%
YTD	-25.48%



Source: NSE, Vetiva Research

Business Description

Dangote Sugar Refinery PLC (DANGSUGAR) is the largest sugar refinery in Sub-Saharan Africa with installed capacity of 1.44 million MT. DANGSUGAR is listed under the Consumer Goods sector, in the Food Products subsector on the Nigerian Stock Exchange. Following the acquisition of Savannah Sugar in Q1 2013, the group's operations now comprise of three key areas which include: i) Planting and milling of sugar cane ii) Refining of granulated white sugar; iii) Marketing and Distribution. DANGSUGAR is majorly owned by Danaote Industries Limited.

Revenue prints 5% below estimate amid further selling price cuts

DANGSUGAR released its 9M'18 results showing a 28% y/y revenue decline to ₦117 billion, 5% below our estimate. While we had expected revenue in Q3 to come in lower q/q, given that it is a seasonally slower quarter, topline still came in at ₦33 billion (Q2: ₦42 billion), below our ₦38 billion estimate. This variance was driven by further reduction in sugar prices in the quarter (Average selling price down 3% from H1'18 to ₦256,680/MT) as well as lower than expected volumes (Q3'18 volumes 9% below estimate at 131,581 MT). According to Management, the weaker run rate in Q3'18 was as a result of influx of lower quality unlicensed sugar smuggled into the country that has continued to gain ground. The company also reported a deterioration in the Apapa traffic gridlock which continued to hamper evacuation and distribution of finished products from the refinery in the quarter. On a y/y basis, we note that prices have declined by 19% y/y, in line with the 31% y/y downtrend in global sugar prices as at Q3'18, while sugar volumes have moderated 16% y/y driven by the aforementioned factors.

Bucking the trend of gross margin improvement recorded in previous quarters, Q3'18 gross margin came in 952bps weaker q/q at 21% (Vetiva: 27%), the lowest level since Q1'17. We believe this was due to lower prices in the period, and possibly efficiency losses. As such, Q3'18 EBIT declined 54% q/q to ₦5.4 billion (Vetiva: ₦9.4 billion), weakest EBIT in eight quarters. Overall, 9M'18 PAT came in at ₦16.7 billion, 37% and 11% lower when compared to 9M'17 and Vetiva estimate respectively.

Earnings revised lower, BUY rating maintained

Despite the more competitive operating environment, we expect DANGSUGAR's volumes to improve 20% q/q in Q4'18 supported by the seasonal boost from the festive season. Nonetheless, we revise our revenue estimate for the year to ₦156 billion (Previous: ₦171 billion) to account for the Q3 results as well as lower sugar prices for the rest of the year. After revising our gross margin estimate lower following the sharp variance in Q3, our FY'18 EBIT margin comes to 23% (Previous: 25%). Driven by this, our FY'18 PAT figure is revised lower to ₦23.6 billion (Previous: ₦26.4 billion). With this, our 12-month target price is revised to ₦21.46 - reiterating our BUY rating on the stock. DANGSUGAR currently trades at a FY'18 P/E of 7.1x and dividend yield of 7.0% (FY'18E DPS: ₦0.98).

Overall, we highlight that most of the challenges facing DANGSUGAR in the current financial year are more external with respect to the Nigerian operating environment. While these factors should be transient in nature, efforts to curtail the smuggled sugar by government authorities as well as improve traffic flow in the Apapa axis have yielded very dismal results and we are less optimistic about the timeline for improvement in these conditions.

Nonetheless, we highlight that DANGSUGAR has noted its independent efforts to bypass these impediments, with Management stating new initiatives to explore waterways for product logistics. Meanwhile, we highlight possible upside for domestic sugar prices in the near term given recent uptick in global sugar prices (up 25% QTD).

Vetiva Capital Management Limited

Lagos Office: Plot 266B Kofo Abayomi Street | Victoria Island | Lagos | Nigeria | +234-1-4617521-3
Abuja Office: United Mortgage Limited | 62, Lobito Crescent, Wuse 2 | Abuja | +234-9-8700686

Please Read: Important disclosures and analyst's certification appear in Appendix



Corporate Announcements: After being appointed as the substantive Group Managing Director of Dangote Sugar Refinery Plc in June 2018, DANGSUGAR reported the resignation of Engr. Abdullahi Sule effective 1st of August 2018. We note that Engr. Sule had served in the company for seven years and had been Acting Group Managing Director since 2015. He has reported resigned for personal reasons. Following this, the company announced the appointment of Mr Ravindra Singh Singhvi as the Chief Operating Officer effective 13th of August 2018. Mr Singhvi holds 37 years of experience in Manufacturing and Processing of Sugar, Petrochemicals, Cement and Textiles in India.

Income Statement (N'Million)	9M'18	9M'17	Y/Y Change	Vetiva Estimate	Variance
Revenue	116,756	163,031	-28%	122,270	-5%
Gross Profit	30,086	41,475	-27%	33,497	-10%
Operating Expenses	(6,140)	(5,306)	16%	(5,979)	3%
Investment Income	2,162	2,367	-9%	2,507	-14%
Other income	341	192	78%	384	-11%
EBIT	26,449	38,729	-32%	30,410	-13%
PAT	16,710	26,520	-37%	18,749	-11%
<i>Gross Margin</i>	25.8%	25.4%		27.4%	
<i>OPEX to sales</i>	5.3%	3.3%		4.9%	
<i>EBIT Margin</i>	22.7%	23.8%		24.9%	
<i>PAT Margin</i>	14.3%	16.3%		15.3%	



Income Statement	2016A	2017A	2018E	2019F	2020F	2016A	2017A	2018E	2019F	2020F
	₦'mil	₦'mil	₦'mil	₦'mil	₦'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
Turnover	169,725	204,422	156,121	193,099	202,754	1,028	1,034	504	623	654
Cost of Sales	(146,736)	(153,434)	(115,998)	(148,686)	(156,121)	(888)	(776)	(374)	(480)	(504)
Gross Profit	22,989	50,988	40,123	44,413	46,633	139	258	129	143	150
Operating Expenses	(6,929)	(7,482)	(8,274)	(7,531)	(7,705)	(42)	(38)	(27)	(24)	(25)
Investment Income	601	3,364	3,058	2,288	2,488	4	17	10	7	8
Other income	748	402	482	588	717	5	2	2	2	2
EBITDA	22,192	52,305	40,697	45,722	48,760	134	265	131	147	157
Depreciation	(4,784)	(5,033)	(5,308)	(5,963)	(6,625)	(29)	(25)	(17)	(19)	(21)
EBIT	17,409	47,272	35,389	39,758	42,134	105	239	114	128	136
Net Finance Costs	(299)	3,859	(209)	(230)	(253)	(2)	20	(1)	(1)	(1)
Profit before taxation	19,614	53,599	36,580	39,528	41,881	119	271	118	128	135
Taxation	(5,218)	(13,815)	(12,949)	(12,728)	(12,983)	(32)	(70)	(42)	(41)	(42)
PAT	14,396	39,784	23,631	26,800	28,898	87	201	76	86	93
Balance Sheet	2016A	2017A	2018E	2019F	2020F	2016A	2017A	2018E	2019F	2020F
	₦'mil	₦'mil	₦'mil	₦'mil	₦'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
Fixed Assets	54,803	54,124	58,979	66,260	73,613	332	274	190	214	237
Inventories	47,409	47,656	34,693	41,649	44,986	287	241	112	134	145
Trade Debtors	17,734	20,907	20,816	20,824	22,493	107	106	67	67	73
Other Assets	13,299	18,558	16,502	13,252	14,314	81	94	53	43	46
Deferred tax assets	3,928	7,173	7,173	7,173	7,173	24	36	23	23	23
Cash balance	35,020	41,368	26,594	30,611	31,594	212	209	86	99	102
Total Assets	172,206	195,080	173,467	189,313	204,481	1,043	987	560	611	660
Trade Creditors	88,811	75,653	49,904	52,385	56,327	538	383	161	169	182
Taxation	6,600	17,717	10,640	11,728	12,794	40	90	34	38	41
Deferred tax	5,299	5,213	5,213	5,213	5,213	32	26	17	17	17
Long term loan	1,467	1,467	1,320	1,453	1,583	9	7	4	5	5
Total Liabilities	106,054	97,055	68,985	72,757	78,086	642	491	223	235	252
Net Assets	66,152	92,736	104,482	116,555	126,395	401	469	337	376	408



GROWTH RATES	2016A	2017A	2018E	2019F	2020F
Turnover growth	68%	20%	-24%	24%	5%
Growth in EBITDA	5%	136%	-22%	12%	7%
Growth in PBT	19%	173%	-32%	8%	6%
Growth in PAT	25%	176%	-41%	13%	8%

PROFITABILITY	2016A	2017A	2018E	2019F	2020F
Return on Equity	23%	50%	24%	24%	24%
Return on Assets	10%	22%	13%	15%	15%

MARGINS	2016A	2017A	2018E	2019F	2020F
EBITDA Margin	13%	26%	26%	24%	24%
EBIT Margin	10%	23%	23%	21%	21%
PBT Margin	12%	26%	23%	20%	21%
Net Profit Margin	8%	19%	15%	14%	14%

PER SHARE DATA	2016A	2017A	2018E	2019F	2020F
EPS (₹)	1.20	3.32	1.97	2.23	2.41
DPS(₹)	0.60	1.75	0.98	1.23	1.59
NAPS(₹)	5.51	7.73	8.71	9.71	10.53
P/E (x)	5.3	4.2	7.1	6.3	5.8
Dividend Yield (%)	10%	13%	7%	9%	11%



Disclosures Section

The research analyst(s) denoted by an "*" on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analysts denoted by an "*" on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst(s) cover in this research) that: (1) all of the views expressed in this report accurately articulate the research analyst(s) independent views/opinions, based on public information regarding the companies, securities, industries or markets discussed in this report. (2) The research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Ratings Definitions

Vetiva uses the following rating system:

Buy rating refers to stocks that we consider highly undervalued, but with strong fundamentals, and where potential return in excess of or equal to 15.00% is expected to be realized between the current price and analysts' target price.

Hold rating refers to stocks that we consider correctly valued with little upside or downside, and where potential return between +5.00 and +14.99% is expected to be realized between current price and analysts' target price.

Sell rating refers to stocks that we consider overvalued, but with good or weakening fundamentals, and where potential return below +5.00% is expected to be realized between current price and analysts' target price.

Rating Suspended: applies to a stock when investment rating has been suspended because there is no sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target price.

Extra-normal situations: The standard rating methodology as defined above does not however apply in extra-normal situations. We define an extra-normal situation as one where mostly non-quantitative material considerations and factors which cannot be reasonably and reliably estimated are considered in providing a recommendation on a stock. In such cases, the analyst may use professional judgement at their own discretion to assign ratings which may contradict the expected rating based on the standard rating methodology.

Analysts' Compensation: The research analyst(s) responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking and Wealth Management.

Valuation and Risks: Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any security recommended herein. You can contact the analyst named on the front of this note for further details.

Frequency of Next Update: An update of our view on the company would be provided when next there are substantial developments/financial news on the company.

Conflict of Interest: It is the policy of Vetiva Capital Management Limited and its subsidiaries and affiliates (individually and collectively referred to as "Vetiva") that research analysts may not be involved in activities that suggest that they are representing the interests of Vetiva in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts are not subject to the supervision or control of anyone in Vetiva's Investment Banking or Sales and Trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Company Disclosure:

Vetiva may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests which Vetiva has with companies or in securities discussed in this report are disclosed hereunder:

Company	Disclosure
Dangote Sugar Refinery Plc	

- a. The analyst holds personal positions (directly or indirectly) in a class of the common equity securities of the company
- b. The analyst responsible for this report as indicated on the front page is a board member, officer or director of the Company



- c. Vetiva is a market maker in the publicly traded equities of the Company
 - d. Vetiva has been lead arranger or co-lead arranger over the past 12 months of any publicly disclosed offer of securities of the Company
 - e. Vetiva beneficially own 1% or more of the equity securities of the Company
 - f. Vetiva holds a major interest in the debt of the Company
 - g. Vetiva has received compensation for investment banking activities from the Company within the last 12 months
 - h. Vetiva intends to seek, or anticipates to receive compensation for investment banking services from the Company in the next 3 months
 - i. The content of this research report has been communicated with the Company, following which this research report has been materially amended before its distribution
 - j. The Company is a client of Vetiva
 - k. The Company owns more than 5% of the issued share capital of Vetiva
- Vetiva has other financial or other material interest in the Company

Important Regional Disclosures

The analyst(s) involved in the preparation of this report may not have visited the material operations of the subject Company (ies) within the past 12 months. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that. To the extent this is a report authored in whole or in part by a Non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any Non-U.S. analyst contributors: The Non-U.S. research analysts (denoted by an * in the report) are not registered/qualified as research analysts with FINRA; and therefore, may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Each analyst (denoted by an *) is a Non-U.S. Analyst and is currently employed by Vetiva.

Legal Entities

Vetiva Capital Management Limited is registered with the Nigerian Securities & Exchange Commission (SEC) to conduct Issuing House, Financial Advisory, Fund/Portfolio Management business. The subsidiary, Vetiva Securities Limited is licensed by the SEC and the Nigerian Stock Exchange to operate as a Broker/Dealer in the Nigerian Capital Market. Vetiva Trustees Limited, which is also a subsidiary of Vetiva Capital Management Limited, is licensed by the SEC to carry on Trusteeship business in Nigeria.

General

This research report is based on public information which the research analyst(s) consider credible and reliable. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Vetiva, including the Investment Banking team and the Wealth Management team, as Vetiva has established information barriers between its Research team and certain business groups. Whilst reasonable care has been taken in preparing this report, no responsibility or liability is accepted either by Vetiva, its officers or any of its employees for any error of fact or opinion expressed herein. No reliance should be placed on the accuracy, fairness or completeness of the information contained in this report as it has not been verified by the research analyst(s) involved or the companies whose securities have been referred to except as otherwise disclosed. Neither Vetiva nor any of its officers or employees including the research analyst(s) warrant or represent the accuracy or completeness of information set out in this report. Any ratings, forecasts, estimates and opinions set forth in this report constitute the analyst(s) position as at the date and time of this report and may not necessarily be so after the report date and time, as they are subject to change without notice. It is also instructive to note that a company's past performance is not necessarily indicative of its future performance as estimates are based on assumptions that may or may not be realized.

The value, price or income from investments mentioned in this report may fall, as well as rise, due to economic conditions, industry cycles, market indices, operational or financial conditions of companies or other factors. Thus, Vetiva and its officers and employees shall not accept liability for any loss arising from the use of this report or its contents in making investment decisions or recommendations. This report provides general information only. It is not intended to provide personal investment advice and does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investments and securities discussed in this report may not be suitable for all investors and certain investors may not be eligible to purchase or participate in some or all of them. Users of this research report should independently determine the suitability and evaluate the investment risks associated with investments and securities discussed in this report. All investors are solely responsible for their investment decisions. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report. Vetiva, through business units other than Vetiva Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report.



Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and Vetiva is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report. Vetiva may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. To the extent that this report discusses any legal proceeding or issue, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Information relating to the tax status of companies whose securities are discussed in this report is not intended to provide tax advice or to be used by anyone to provide tax advice.

By accepting and making use of this research report, you agree to be bound by the foregoing limitations.

No portion of this document may be reprinted, sold or redistributed without the written consent of Vetiva Capital Management Limited. Vetiva research report is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

© 2018 Vetiva Capital Management Limited. All rights reserved.