



## DANGOTE SUGAR REFINERY PLC

### External factors impact Q3 margins

**Equity Research**  
**03 November 2021**

**BUY**

**Target price** **₦24.34**

#### Company Statistics

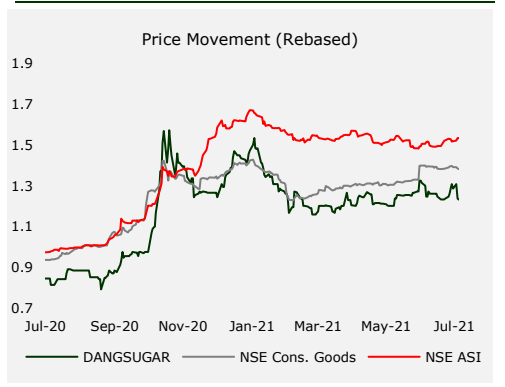
Price (₦)	16.50
Market Cap (₦Mn)	200,409
Enterprise Value (₦Mn)	185,304
Net Cash (₦Mn)	61,633
Shares Outstanding (Mn)	12,146
NSE	DANGSUGAR
Bloomberg	DANGSUGAR.NL
Reuters	DANGSUG.LG

#### Ownership Structure

Dangote Industries Ltd	66.87%
Others	33.13%

#### Share Price Performance

30 days	-5.47%
Ytd.	-6.25%
365 days	33.06%



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. 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 Dangote Industries Limited.

Dangote Sugar released its 9M'21 Earnings results showing an 11% y/y Revenue growth in Q3'21 to ₦63.5 billion, (Vetiva estimate: ₦66.5 billion) estimate. Whist sales volume was stronger y/y, we note that the major driver of growth was a 15% y/y increase in sugar prices (+7% q/q) to ₦20,035 per 50kg bag – according to the NSDC (National Sugar Development Council). Thus, the Q3 performance improved 9M Revenue 22% y/y to ₦195.5 billion (Vetiva: ₦198.4 billion).

Much like other sugar producers, Dangote Sugar's margins have declined sharply since the beginning of the year. Apart from FX challenges, we recall that Brazil, key supplier of raw sugar, faced weather challenges which shortened sugar supply and raised the commodity's pricing globally. Thus, gross margin declined 2ppts y/y to 19% for the 9M period. Furthermore, with increased volume roll-out and inflationary pressures on other operating costs, OPEX jumped 24% y/y, contracting EBIT margin 3ppts y/y, with EBIT printing at ₦29.4 billion.

So far this year, finance costs have multiplied 2.3x y/y to ₦6.3 billion, due to FX losses and interest expense on letters of credit, raising net finance costs 2.8x to ₦5.4 billion (9M'20: ₦1.4 billion). With this, PBT declined 21% y/y to ₦23.1 billion (9M'20: ₦29.1 billion), while due to a tax credit recognized in 2020, PAT declined at a faster 42% y/y to ₦15.5 billion (9M'20: ₦26.6 billion).

#### Margin expectation lowered on costs squeeze

Despite the squeeze to margins, we are less optimistic of a rise in refined sugar prices, owing to the stiff competition in the local sugar market and our belief that the hike in international sugar prices is temporary. That said, we expect stronger volumes in the Q4 festive period and thus, project Revenue of ₦264.9 billion for the FY'21 period. Additionally, margins are expected to remain depressed into the last quarter of the year. As such, we project a 7ppts moderation in gross margin to 18%. Consequently, we revise our FY'21 PAT expectation for the sugar giant downwards to ₦20.0 billion. All in, we estimate a one-year target price of ₦24.34 and rate the stock a BUY.

Income Statement (₦ Millions)	9M'21	9M'20	y/y Change	Vetiva Estimate	Variance
Revenue	195,500	160,514	22%	198,412	-1%
Gross Profit	36,747	34,146	8%	38,134	-4%
Operating Expenses	(8,318)	(6,732)	24%	(8,349)	0%
EBIT	29,466	28,422	4%	34,419	-14%
Net Finance Expense	(5,452)	(1,405)	288%	(3,000)	82%
Profit Before Tax	23,108	29,078	-21%	28,399	-19%
Profit After Tax	15,513	26,630	-42%	18,856	-18%
Gross Margin	19%	21%		19%	
OPEX to Sales	-4%	-4%		-4%	
EBIT Margin	15%	18%		17%	
PAT Margin	8%	17%		10%	

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Income Statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Turnover	161,086	214,298	264,872	270,169	278,275	393	523	646	659	679
Cost of Sales	(122,801)	(160,551)	(217,195)	(205,329)	(208,706)	(300)	(392)	(530)	(501)	(509)
Gross Profit	38,285	53,746	47,677	64,841	69,569	93	131	116	158	170
EBITDA	36,602	52,790	46,946	64,331	69,365	89	129	115	157	169
Depreciation	(5,952)	(7,669)	(8,891)	(9,751)	(10,562)	(15)	(19)	(22)	(24)	(26)
Operating Profit	30,650	45,121	38,055	54,581	58,803	75	110	93	133	143
Other income	606	907	688	757	688	1	2	2	2	2
EBIT	30,650	45,121	38,055	54,581	58,803	75	110	93	133	143
Net Interest Expense	(516)	(1,916)	(5,392)	(531)	(379)	(1)	(5)	(13)	(1)	(1)
PBT	29,820	45,622	30,366	54,050	58,424	73	111	74	132	142
Taxation	(7,459)	(15,847)	(10,325)	(18,377)	(19,864)	(18)	(39)	(25)	(45)	(48)
PAT	22,361	29,775	20,042	35,673	38,560	55	73	49	87	94

Balance Sheet	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Fixed Assets	82,997	101,734	116,681	125,842	134,759	202	248	285	307	329
Stocks	38,864	63,000	85,227	80,571	81,896	95	154	208	197	200
Trade and other debtors	33,779	63,060	77,943	79,501	81,886	82	154	190	194	200
Cash and bank balances	24,612	44,860	12,561	29,030	25,208	60	109	31	71	61
Total Assets	193,706	278,032	297,789	320,322	329,127	472	678	726	781	803
Creditors and Accruals	63,224	135,518	147,576	156,414	150,397	154	331	360	381	367
Borrowings	1,300	984	867	650	433	3	2	2	2	1
Total liabilities	85,569	153,321	165,261	173,882	167,649	209	374	403	424	409
Net Assets	108,136	124,712	132,528	146,440	161,479	264	304	323	357	394

Growth	2020A	2021E	2022F	2023F
Turnover	33%	24%	2%	3%
EBITDA	44%	-11%	37%	8%
PBT	53%	-33%	78%	8%
PAT	33%	-33%	78%	8%

Profitability	2020A	2021E	2022F	2023F
Return on Equity	24%	15%	24%	24%
Return on Assets	11%	7%	11%	12%

Margins	2020A	2021E	2022F	2023F
EBITDA margin	25%	18%	24%	25%
EBIT margin	21%	14%	20%	21%
PBT margin	21%	11%	20%	21%
Net Profit margin	14%	8%	13%	14%

Per share data	2020A	2021E	2022F	2023F
EPS	2.45	1.65	2.94	3.17
NAPS	10.27	10.91	12.06	13.29
DPS	1.50	1.01	1.79	1.94



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