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### The Concord Team

- Adedamola Onakade
- Kolawole Ogunbowale





## Dangote Sugar Refinery- Overview



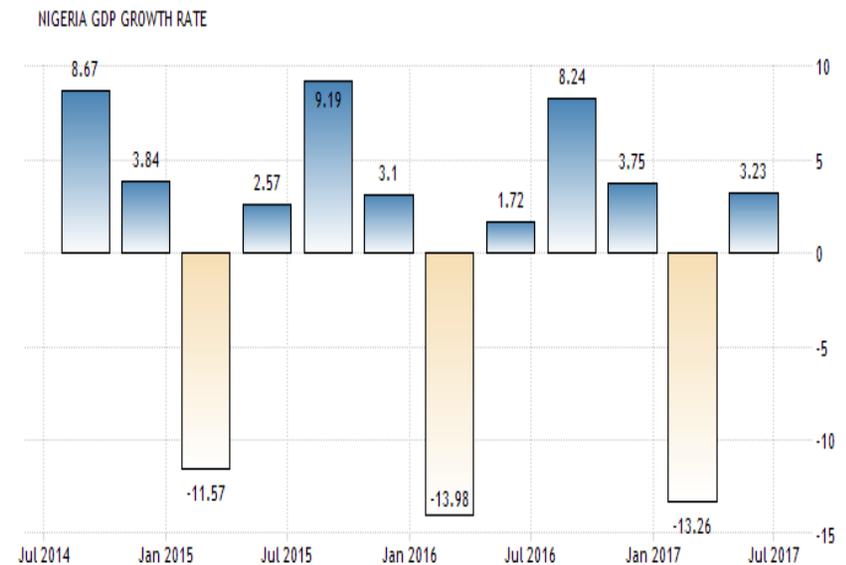
Steady growth between 2012 and 2014 followed by a decline till late 2016. Upward momentum again started in early 2017 and we expect continuous growth in the midst of policy stability and other salient economic factor.

- Dangote Sugar Refinery (DSR) has been one of the most attractive stocks in the consumer climate.
- The major drivers are the drop in raw sugar prices, and somewhat stable FX regime in the country. These two factors drove operational performance better than previous periods.
- H1 2017 EPS: N1.37 (+132% YoY)—and the consequent declaration of an interim dividend (N0.50) by the company—first on record, the company's share price has rallied 109% YTD, outperforming the food index (+45%) and the broader NSEASI (+41%).
- Interim dividend as a percentage of FY 16 final dividend is 83%.
- Expectations remain bullish on the stock as valuation remains relatively cheap hinged on a promising earnings outlook.



## Nigerian Economic Highlight

- Exit of recession; potential impact on consumer confidence
- Stable oil prices and production
- Continued slowing of yoy inflation ; significantly food inflation has dipped marginally
- Continuing policy bias towards market determined FX regime; deeping of IEXM (Investors & Exporters FX window)
- Holding of MPR at 14% to keep government bonds attractive i.e propping yields on bonds
- Increased chatter on Foreign Direct Investment (FDI) on investing in Nigeria
- Continued release of capital funds for infrastructural development by Federal Government





## Industry Analysis

### Key Players and market share

- \*\*DSR - 70%
- \*\*GSC - 15%
- \*\*BSR - 15%

### Concentration

- Concentrated with three companies controlling bulk of the market

### Stability

- Industry is stable with market shares rarely changing

### Entry/Exit Barrier – (High)

- Substantial financial capital is required to compete.
  - Potential entrant would require sizable R&D operation, national distribution network, large scale manufacturing capacity

### Business Cycle Sensitivity

- The Sugar industry is non cyclical
- Defensive – the demand/revenues and profits are least affected by fluctuations in overall economic activity

### Industry drivers

- Diversification focus into Agriculture
- Increase in food processing and pharmaceutical demand

### Life Cycle Stage & Analysis

- Growth stage
  - Increasing demand
  - Improving profitability
  - Falling prices
  - Low Competition

### Demography

- Rising population with growth rate at 2-3%pa
  - High composition of youth and children
  - High consumers of sugar and related products

### Competitors

- GSC and BSR are not listed on the Stock Exchange



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## Government & Regulatory Initiatives

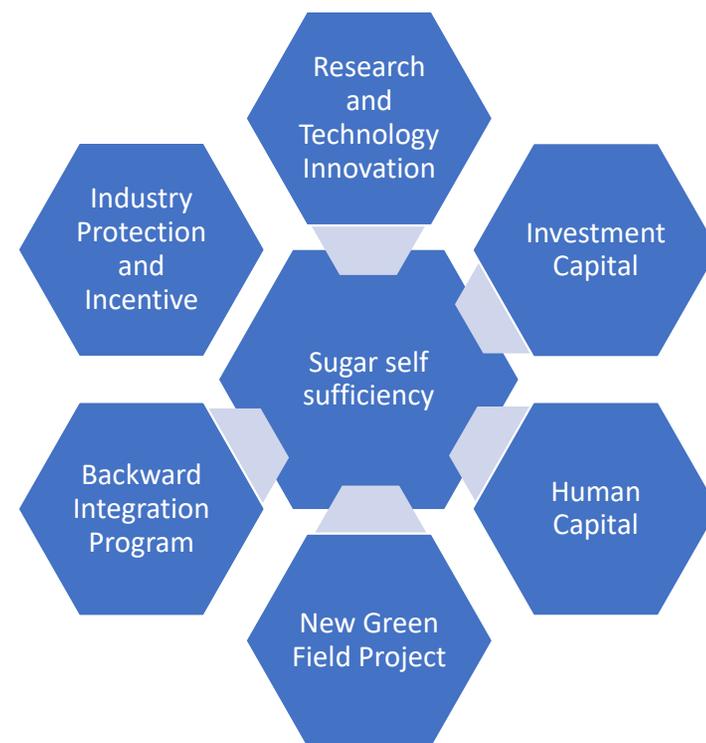
### Nigerian Sugar Development Council (NSDC)

- Development of 10 year sugar masterplan via the NSDC
  - Primary objective is to hit 1.79mt of sugar & 161.2 m litres of ethanol by 2023 according to the master plan

### Regulations

- Machinery and Spare Parts for the establishment of Local sugar manufacturing industries shall attract 0%
- Sugar Cane to sugar value chain investors shall enjoy a 5year tax holiday
- Raw sugar shall attract an import duty rate of 10% plus a levy of 50% while refined sugar shall attract an import duty rate of 20% plus a levy of 60%
- Credit support scheme for sugar cane growers via commercial banks and CBN
- Banning of refined sugar in retail-ready packets into the country

### Sugar Master Plan



**Company Analysis**

**Facts**

Incorporated in 2005 and listed in March 2007

**Major products**

- Vitamin A fortified granulated sugar
- Non-fortified granulated sugar

**Size**

- Largest market share (about 70%)
- No 1 in the industry
- 1.44MTPA refining capacity

**Strategic Initiative**

- Convert port-based refining to fully integrated sugar production in Nigeria from over 150,000ha locally grown cane at existing plantations
- Develop significant export market for sugar products



**Market**

**Growth drivers**

- Drop in global raw sugar prices
- Cost management strategy and operational efficiency
- Government's ban on importation of processed sugar
- Implementation of backward integration strategy

**Strengths**

- Strong brand name
- Leverages financial & technical relationship with Group

**Weaknesses**

- Key-man risk

**Opportunities**

- Consumption growth in Africa
- Improved funding to support agriculture

**Threats**

- Foreign exchange instability
- Patronage of unlicensed sugar in the market



## Financial Analysis

Key Ratios	FY 2015A	FY 2016A	FY 2017E	FY 2018F	FY 2019 F
EPS	0.93	1.2	2.99	2.67	2.49
DPS	0.5	1.5	1.34	1.24	1.21
P/E	10.87	10.87	4.36	4.88	5.24
P/B	1.25	2.37	2.07	1.77	1.54
EV/EBITDA	3.58	5.93	4.45	2.58	2.52
ROA	10.9%	8.1%	19.3%	16.2%	13.7%
ROE	19.2%	21.8%	47.4%	36.2%	29.4%
Debt/Equity	20.3%	3.1%	2.8%	2.5%	2.3%
Gross Margin	20.3%	13.5%	25.9%	25.0%	23.0%
EBIT Margin	14.1%	6.1%	22.5%	7.1%	11.2%
PBT Margin	16.0%	11.6%	23.1%	20.8%	18.4%
PAT Margin	11.0%	8.5%	15.7%	14.1%	12.5%

### KEY

NSEASI – Nigerian Stock Exchange All Share Index

H1 – First half

YTD – Year to Date

Dangote sugar refinery stock has been so attractive with all key driver pointing to a sustainable momentum.

- H1 2017 EPS N 1.37 (+132% YoY)
- N 0.50 interim dividend declaration
- Increase in share price over 109% YTD
- Outperformed the food index of +45% and
- Outperformed the NSEASI of +41%
- 4.4% ↑ in EPS YoY (2015-2016)
- 1.5% ↑ in DPS YoY (2015-2016)
- 2.1% ↑ in P/B YoY (2015-2016)
- 2.5% ↑ in EV/EBITDA YoY (2015-2016)
- 2.9% ↓ in ROA YoY (2015-2016)
- 2% ↓ in Gross Margin YoY (2015-2016)



## Financial Analysis – Cont.

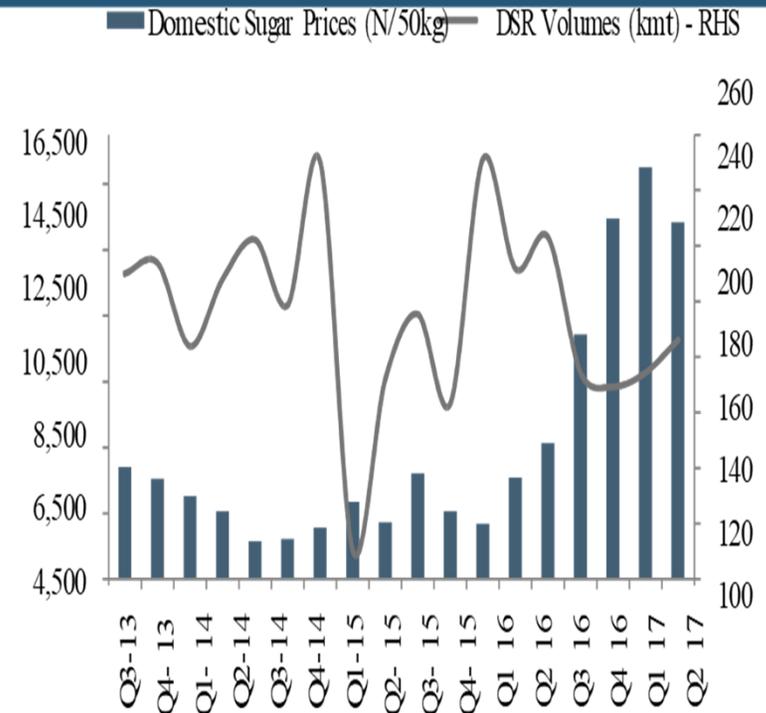
Despite a 10% QoQ contraction in refined sugar prices, DSR reported its highest quarterly gross margin of 32.2% (QoQ: +19pps, YoY: +13pps) in Q2 17.

### Reasons

- The gross margin expansion reflected sizable moderation in previously elevated COGS in the wake of FX gains and downtrend in global raw sugar prices
- lower raw sugar prices (-22% QoQ)
- Weather-induced expansion in global production, drove average raw material cost (83% of COGS) 15.2% lower QoQ to ₦189,000/metric ton.
- Revenue fell more modestly (-0.6% QoQ to ₦59.1 billion) largely reflecting recovery in volumes (+6.7% QoQ to 186.1kmt)

### KEY

DSR – Dangote Sugar Refinery





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### Our Forecast

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#### Positive factors

- Rising population
- Focus strategy on food segment in Nigeria
- Cost management initiatives
- Strong demand for products at all levels
- Existing taste and preference for products by customers

#### Negative factors

- Increase in raw sugar prices
  - May affect EBITDA margins
- Weak consumer spending power
- Security challenges in some parts of the country
- Slow down in consumer sentiments
- Unfavorable FX fluctuation

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- Considering the medium and long term outlook of the company and the aforementioned factors, we expect that the impact of the positive factors will be higher on revenue and profitability than the impact of the negative factors.
  - We expect operational efficiency would keep OPEX in check (+14.5% YoY to N7.9 billion) over FY 17 while we project a net finance income of N843 million (vs. net finance expense of N88 million) on the back of elevated finance income reported in Q1 171 (N1.6 billion). Overall, reflecting higher pricing and lower input cost, we expect FY 17 earnings to print at N35.9 billion, which translates to 150% YoY increase (EPS: N2.99). Using a dividend payout ratio of 50% (five year average: 53%), we expect the company to pay a final dividend of N1.00 bringing the total dividend for the year to N1.50.

#### KEY

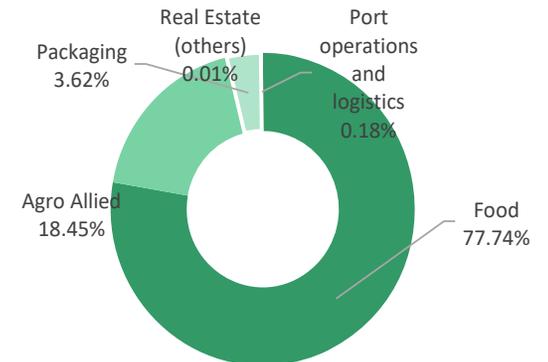
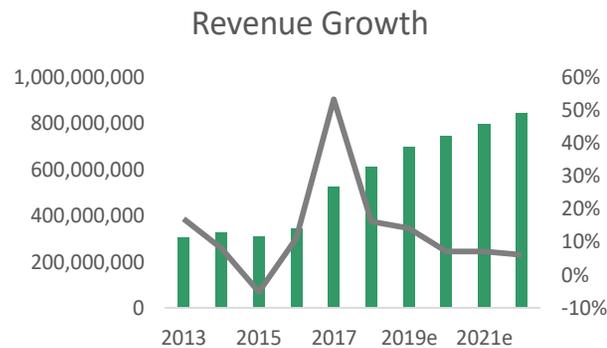
DSR – Dangote Sugar Refinery



## Flour Mills of Nigeria Plc

Relative Metrics	
Current Price	34
P/E Trailing	7.61x
P/B	0.83x
Div. Yield	2.94%
Fundamental Metrics	
Trailingn EPS	4.47
BVPS	41.09
Net Margin	3.13%
ROAE	8.89%
ROAA	2.11%
Financial Leverage	3.76
Mkt. Cap (N'mn)	77.97
Key Price Metrics	
YtD Return	83.88%
52-Week Hi	35.47
52-Week Lo	16.2
Year Hi	35.47
Year Lo	17.2
Beta	0.86

- Incorporated in Nigeria, on the 29<sup>th</sup> of September 1960
- Publicly listed on the Nigerian Stock Exchange in 1978.
- A conglomerate, consists of vertically integrated supply chain of food, agro-allied, packaging, real estates and logistics and support businesses.
- Wheat milling serves as the financial backbone of the company with a grinding capacity of 500 metric tonnes of wheat per day with a milling complex of 8,000 MT per day, largest in the world.
- 8th most capitalized stock in the consumer goods sector, with the counter having returned 83.88% year-to- date, as at the 10th of November 2017





## OKOMU OIL Plc

### Relative Metrics

Current Price	40.11
P/E	10.51x
P/B	2.03x
Forward P/E	9.03x
Div. Yield	2.49%
52-Wk av. Vol(mn)	0.217

### Fundamental Metrics

EPS	2.76
BVPS	10.01
DPS(NGN)	0.1
Net Margin	25%
ROAE	24.29%
ROAA	13.88%
Mkt. Cap (N'bn)	38.261

### Key Price Metrics

Today's Return	0.00%
WtD Return	0.00%
MtD Return	5.55%
QtD Return	5.55%
YtD Return	32.83%
52-Week Return	40.43%
52-Week Hi	40.11

### About

- Okomu Oil Palm Plc develops oil palm plantation, mills palm oil, and processes palm kernel. The company also develops rubber tree plantation.

### Investment drivers

- Capital investment to cultivate additional 8,000ha of oil palm almost double the current size.
- Increase in commodity prices (Rubber and CPO- Crude Palm Oil)
- CBN's ban on importation of crude palm oil
- Decline in company's cost to sales ratio to 35.32% in FY2015 compared with 44.95% in prior period, as a result of reduction in production overhead.





## Presco Plc

		Company	Industry
Return on Equity	TTM	10.30%	13.07%
Return on Equity	5YA	-	26.60%
Return on Assets	TTM	5.79%	5.24%
Return on Assets	5YA	-	9.47%
Return on Investment	TTM	6.66%	9.98%
Return on Investment	5YA	-	19.34%
EPS(MRQ) vs Qtr. 1 Yr. Ago		6.04%	-81.44%
EPS(TTM) vs TTM. 1 Yr. Ago		-42.51%	-44.64%
5 Year EPS Growth		-	-6.55%
Sales (MRQ) vs Qtr. 1 Yr. Ago		11.75%	-2.30%
Sales (TTM) vs TTM. 1 Yr. Ago		-17.83%	5.56%
5 Years Sales Growth		-	9.58%
5 Years Capital Spending Growth		-	36.34%
Quick Ratio		0.42	0.54
Current Ratio		0.75	0.91
LT Debt to Equity		18.16%	9.43%
Total Debt to Equity		19.89%	95.29%

### About Company

- Presco Plc produces specialty fats and oils. The company specializes in the cultivation of oil palm and in the extraction, refining and fractioning of crude oil into finished products. It possesses oil palm plantations, a palm oil mill, a palm kernel crushing plant and a vegetable oil refining plant in Nigeria

### Investment drivers

- Increased demand due to encouraging government policy on crude palm oil imports
- 14,400 hectares of rubber plantation to diversify revenue streams
- 16,470 hectares of oil palm plantation with approximately 11,590 mature hectares
- Approximately 14.34% revenue growth since 2015 with a fairly stable cost to sales ratio compared with previous years.





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## Lafarge Plc

		Company	Industry
Return on Equity	TTM	47.19%	29.01%
Return on Equity	5YA	28.09%	38.25%
Return on Assets	TTM	9.90%	16.32%
Return on Assets	5YA	8.01%	22.15%
Return on Investment	TTM	22.20%	22.10%
Return on Investment	5YA	12.96%	28.63%
EPS(MRQ) vs Qtr. 1 Yr. Ago		-195.98%	-17.25%
EPS(TTM) vs TTM. 1 Yr. Ago		275.36%	1.12%
5 Year EPS Growth		3.78%	22.71%
Sales (MRQ) vs Qtr. 1 Yr. Ago		28.22%	11.44%
Sales (TTM) vs TTM. 1 Yr. Ago		8.54%	7.15%
5 Years Sales Growth		28.54%	18.01%
5 Years Capital Spending Growth		10.47%	55.10%
Quick Ratio		0.22	0.46
Current Ratio		0.45	0.67
LT Debt to Equity		179.86%	17.70%
Total Debt to Equity		696.71%	38.88%

### About Company

- Lafarge Africa Plc provides cement products and solutions. The company offers concrete, aggregate, admixture, store fronts, and other related products as well as building and construction materials for landmark projects. Lafarge Africa serves customers in Nigeria and South Africa.

### Investment drivers

- Foreign exchange market stability
- Management cost efficiency



## Conclusion

We recommend a strong Buy for the under listed stock based on the analysis above.

SN	Stock	Symbol
1	Dangote Sugar Refinery Plc	DANGSUG
2	Flourmills of Nigeria Plc	FLOURMIL
3	Presco Oil Plc	PRESCO
4	Okomu Oil Palm Plc	OKOMUOIL
5	Lafarge Africa Plc	WAPCO

**THANK YOU**