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Equity Research Report — NIGERIA

Cement Company of Northern Nigeria Plc: Interim Result – Q3'08

December 23, 2008 | **BUY** | **Fair Value: NGN 8.84** | **Current Price: NG₦5.08**

Valuation/Analyst Recommendation

In arriving at a fair value for **CCNN**, we estimated **TO**, **Earning Before Interest Tax Depreciation and Amortization (EBITDA)** and **PAT** for December 2008. We project a **TO** of **N9.01bn,** based on a growth of **12%,** over the previous year. We project **EBITDA** of **N1.58bn** based on EBITDA margin of **17.5%** and a **PAT** of **N1.22bn** based on a PAT margin of **13.5%.** We used **1.256bnn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earning Per Share **(FEPS)** generates **N0.97k**. We estimated the Dividend Per Share **(DPS)** of **N0.82k** (having paid an interim of **45k** we expect a final of **37k**) based on a dividend payout of **85%.** Applying Enterprise Value EV/EBITDA multiple of **7.5x,** a P/E multiple of **9x**, we arrived at **N8.97k** per share using EV/EBITDA multiple and **N8.71k** per share using price earnings multiple. A simple average of the two values generates **N8.84k** which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **10.95%** and **9.31%** respectively. **We therefore place a BUY on Cement Company of Northern Nigeria stock at the current market price for both capital appreciation and dividend.**

Business Description

CCNN's principal activities are the manufacturing and sale of cement to the general public.

Ticker	**CCNN**
Sector	Building Materials
Date of Incorporation	1962
Date of Listing	October 04, 1993
Year End	December
No of Ordinary Shares	1,256,677,766
Capitalisation	₦ 6,082,320,387
% of Market Capitalisation	0.09%
52-Week High	₦24.00
52-Week Low	₦4.59
YTD Return	(81.87)%
52-Week Avg. Trade	315,344
Beta Value	0.54
Current EPS	₦ 0.77
Current PE	6.58x

Becoming More Efficient:

The unaudited Q3'08 result of **Cement Company of Northern Nigeria Plc (CCNN)** for the period ended September, 2008 showed that its Turnover (TO) increased by **10.14%** to **N7.6bn**, compared with **N6.9bn** in the corresponding period of 2007. As a result of the improved efficiency of the management of CCNN the Profit Before Tax (PBT) leaped by **492.1%** between 2007 and 2008 to **N1bn** from N168.9mn in the corresponding period of 2007. The company's provision for tax which increased by 33.6% between 2007 and 2008 to N70mn from N52.4mn in 2007 brought about a Profit After Tax (PAT) of **N948.6mn** as against N116.60mn in 2007, representing a significant growth of **713.55%**.

Looking at the company's profit margins, the costs associated with a unit sale decreased significantly between Q3 '07 and Q3 '08 and also decreased over the position as at the end of the financial year in 2007. The PBT margin increased substantially to **13.16%** in Q3 '08 from 2.45 **%** as at Q3 '07, and up from **2.15%** as at the end of the financial year in December, 2007. This shows that the company's total cost as a percentage of TO stood at **86.84%** in Q3 '08, down from **97.55**% in the corresponding period of 2007. PAT margin currently stands at **12.48%**, up from **1.69%** in the corresponding period of 2007 and up from **1.72%** as at FY '07.

The result also indicates that the percentage of the TO, PBT, and PAT in the Q3 '08 to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: **94.49%**, **578.54%** and **684.07%** respectively. The impressive Q3 result is due to the replacement of a segment of its Kiln shell during the first quarter of 2008 and the resolution of its energy problems. The company now looks forward to achieving good financial performance for the rest of 2008 and to improve further in 2009.

With construction activities increasing in Nigeria, the cement industry is struggling to meet demand. Currently, the combined capacity of cement producers is about 7mn tonnes, while total demand in the country is over 12mn tonnes. Meanwhile, the four main producers in the Nigerian cement market – West African Portland Cement Company **(WAPCO),** Benue Cement Company **(BCC),** Cement Company of Northern Nigeria **(CCNN)** and Ashaka Cement Company **(AshakaCem)** are operating at close to full capacity. Therefore, the need for importation to bridge supply gap. The major problems facing the industry players are that of energy, power, bad road network – all of which adds to production and distribution costs.

Although, CCNN's working capital position as at December 31, 2007 was negative, it showed a marked improvement compared with the preceding period of 2006. The current assets increased to N4.66bn in 2007 by 7.57% over the position of N3.92bn as at FY '06. In another development, the current liabilities stood at N5.57bn as at FY 07, a decrease of 9.44% over N6.16bn as at FY '06. The relationship between the current assets and the current liabilities led to a working capital of (N911.63mn) as at FY '07 from (N2.23bn) as at FY '06. The positive growth in current assets, compared with the negative growth in current liabilities between the two years resulted to an increase in the current ratio which stood at 0.84:1 in FY '07 from 0.64:1 as at FY 06. In a similar development, the quick ratio stood at 0.30:1 in 2007, up from 0.24:1 in 2006.

In 2007, CCNN sold 342,548 tonnes of cement and clinker with a TO of N8.04bn as against 313,486 tonnes and TO of N6.37bn in 2006. The output sold represents 9.3% increase, while the TO represents 26.18% increase. The management was able to achieve a higher growth in TO than cost of sales leading to an increase of 29.83% in Gross Profit (GP) to N2.28bn from N1.76bn. The operating profit stood at (N182mn) in 2007 from (N220.95mn) in 2006. PBT increased significantly by 1,755.4% to N172.85mn due to Other Income of N742mn recorded in 2007. Its capital employed increased significantly in 2007 by 85.56% to N3.54bn from N1.91bn in 2006, whilst its shareholders' funds increased substantially by 103.87% to N3.15bn over the previous year of N1.54bn. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 15.8% and 4.40% respectively in 2007. The company gave a dividend of **10 kobo** as benefit to its shareholders for the FY '07.

Looking at the shareholding structure as at 31 December, 2007 **Scancem International ANS**, **Norway** held **50.72%, Nasdal Bap Nig. Ltd.** held **11.63%, Dantata Inv. & Security Coy**. held **4.99%** of the shares, **Kebbi**, **Sokoto**, **Kaduna, Kano**, **Jigawa & Katsina state Governments** held **10.22%** of the shares, **Ferostal A.G.** held **0.09%** , while the balance of **22.36%** was held by the **Nigerian Public.** Meanwhile, **Damnaz Cement Company Ltd**. recently took over the shares of **Scancem**, thereby becoming the new Core Investor in the company with **50.72%** shareholding.

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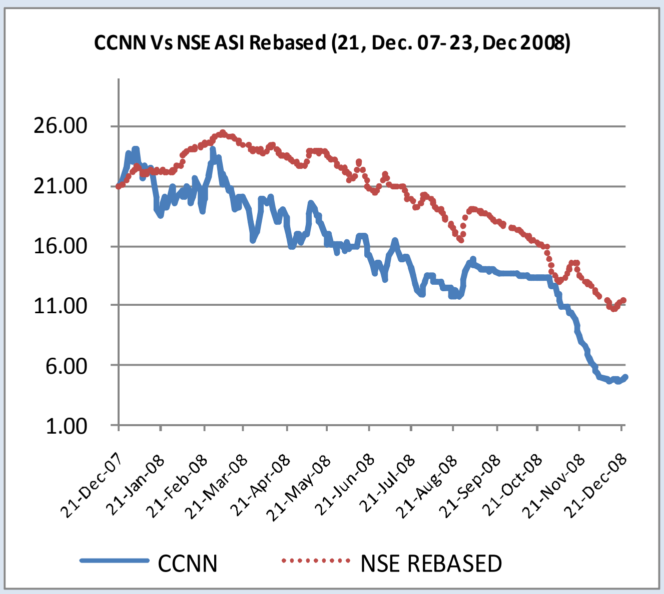
Industry Analysis (Nmn)							
Company	**TO**	**PBT**	**PAT**	**PAT Margin (%)**	**ROE (%)**	**EPS***	**PE***
CCNN	8,042.95	173.85	139.66	0.002	4.40	0.77	6.58
Benue Cement	5,473.44	1,870.30	1,252.23	22.88	13.03	1.30	12.63
AshakaCem	16,473.00	2,514.00	1,603.00	9.73	14.95	0.81	19.16
WAPCO	38,664.8	12,536.43	10,678.65	27.62	32.55	3.62	6.90

Source: Company Annual Reports as at FY '07, NSE FACTBOOK.

Financial Performance (Nmn)							
	Q3 '08	**Q3 '07**	**%Δ**	**FY 2007**	**FY 2006**	**%Δ**	**FY 2008E**
Turnover	7,600	6,900	10.14	8,042	6,374	26.18	9,008
PBT	1,000	168.90	492.07	172.85	(10.44)	1,755.36	1,605
PAT	948.60	116.60	713.55	138.67	(34.95)	496.73	1,216
PBT Margin (%)	13.16	2.45	10.71	2.15	(0.16)	2.31	17.82
PAT Margin (%)	12.48	1.69	10.79	1.72	(0.65)	2.37	13.50



Directors as at December 31st, 2007

Name	Position	Holding
Engr. Dr. I. A. Gobir, MFR	Chairman	1,061,573
Mr. Alf Karlsen	Mgr. Director	Nil
Mr. Atle Holmas	Director	Nil
Mr. Jean-Marc Junon	Director	Nil
Alh. Tajudeen Dantata	Director	99,808
Mr. T. Waerp	Director	Nil
Alh. B. Yari Sifawa	Director	Nil
Mal. A. Ahmed Bida	Director	Nil
Alh. B. Umar Argungu	Director	Nil
Alh. Iro A. Safana	Director	Nil

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