Equity Research Report

NIGERIA

Dangote Sugar Refinery Plc: Interim Results – Q3'08

November 07, 2008 **BUY** **Fair Value: NG₦ 39.70** **Current Price: NG₦ 14.10**

Ticker	Dangote Sugar
Sector	Food and Beverages
Date of Incorporation	January 04, 2005
Date of Listing	March 08, 2007
Year End	December
No of Ordinary Shares	12,000,000,000
Capitalisation	₦ 169,200,000,000
% of Market Capitalisation	2.28
52-Week High	₦ 51 .00
52-Week Low	₦ 13.98
YTD Return	(56.29)%
52-Week Avg. Trade	6,890,535
Beta Value	1.26
Current EPS	₦ 1.85
Current PE	7.63x

Meeting Essential Needs of Life:

The unaudited Q3'08 result of **Dangote Sugar Refinery Plc (Dangote Sugar)** for the period ended 26 September, 2008 showed that its Turnover grew marginally by **2.11%** to **N63.357bn**, compared with N62.042bn in the corresponding period of 2007. Profit Before Tax (PBT) grew by **3.92%** between 2007 and 2008 to **N24.738bn** from N23.805bn. The company's provision for tax which increased by **3.92%** between 2007 and 2008 to **N6.184bn** from N5.951bn in 2007 brought about a Profit After Tax (PAT) of **N18.553bn** as against N17.854bn in 2007, representing a growth of **3.92%**.

A cursory look at the company's profit margins reveals that Dangote Sugar achieved marginal improvement over the corresponding period in 2007and FY'07. The PBT margin increased marginally to **39.05%** in Q3'08 from **38.37**% as at Q3'07 and up from **38.02%** as at the end of the financial year in December, 2007. This shows that the company's total cost as a percentage of Turnover stood at 60.95% in Q3'08 down marginally from 61.63% in the corresponding period in 2007. PAT Margin currently stands at **29.28%,** up marginally from 28.78% and 26.63% in the corresponding period of 2007 and as at FY '07 respectively. The results also indicate that the percentage of the Turnover, PBT, and PAT in the Q3 '08 result to the Full Year Audited Turnover, PBT and PAT for the period ended December, 2007 was: **78.56%**, **80.68%** and **86.38%** respectively. This suggests that the company may likely surpass both its top-line and bottom-line at the current run-rate.

Looking at the Audited result of the company in 2007, the cost of goods sold decreased in 2007 over 2006 by 24.27% to N48.18bn. The decrease was higher than the decrease in TO which was down marginally by 3.72% to N80.65bn, thereby leading to a significant increase of 61.16% in gross profit to N32.47bn. This resulted in an increase in the gross profit margin from 24.05% in 2006 to 40.25% in 2007. The operating profit grew significantly by 74.70% in 2007 to N30.66bn, while PAT increased by 28.92% to N21.48bn.

Dangote Sugar's working capital position as at December 31, 2007 shows that it was in a good position to meet its short term obligations as at when due. The current assets stood at N36.09bn in 2007, a growth of 45.92% over the position of N24.73bn as at FY, 06. In another development, the current liabilities stood at N21.82bn as at FY 07, an increase of 101.81% over N10.811bn as at FY 06. The relationship between the current assets and the current liabilities led to a positive working capital of N14.27bn as at FY 07 up from N13.92bn as at FY, 06. The lower proportionate growth in current assets than the current liabilities between the two years resulted to a reduction in the current ratio which stood at 1.65:1 in FY 07 from 2.29:1 as at FY 2006. In a similar development, the quick ratio stood at 1.47:1 in 2007 down from 1.98:1 in 2006.

The capital employed increased marginally by 0.42% to N28.306bn while the shareholders' funds decreased by 7.23% to N25.96bn from the previous year's figure of N27.98bn. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 108.32% and 82.75% respectively in 2007. The company paid a total dividend of N1.70k and a bonus of 1 for 5 as benefits for its shareholders in 2007 financial year end.

Analysis of TO of Dangote Sugar Refinery as at December, 2007 indicates that the **N80.61bn** (representing 99.95%) was derived from sale of sugar, N42mn (representing 0.05%) was derived from the sale of Molasses. **Other Income** of **N1.40bn** was derived as follows: **Interest Income**: N1.20bn (representing 85.16%); **Supply of Power to Other Companies**: N174mn (representing 12.14%); and **Insurance Claim**: N34.12mn (representing 2.43%). Looking at the shareholding structure as at December, 2007, 0.27% of the 99,629 shareholders of the company held 88.64% of the company's shares totaling **10,000,000,000. Collectively 69% of the issued and paid up shares were held by Dangote Industries Limited as at December31, 2007 while the remaining 31% were held by the Nigerian Public.**

Valuation/Analyst Recommendation

In placing a fair value on **Dangote Sugar**, we have adjusted our parameters to reflect current market developments based on its latest result. We estimated **TO**, **Earning Before Interest Tax Depreciation and Amortisation (EBITDA)** and **PAT** for December 2008. We project a **TO** of **N84.68bn,** based on a growth of 5**%,** over the previous year. We project **EBITDA** of **N33.16bn** based on EBITDA margin of **39%** and a **PAT** of **N22.55bn** based on a PAT margin of **26.63%.** We used **12bn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earning Per Share **(FEPS)** generates **N1.88**. We estimated the Dividend Per Share **(DPS)** of **N1.50** (both interim and final) based on a dividend payout of 80%. Having paid an interim dividend of 85kobo per share, we expect a final dividend of 65kobo. Applying Enterprise Value EV/EBITDA multiple of **13.20x,** a P/E multiple of **22.84x**, we arrived at **N36.47** per share using EV/EBITDA multiple and **N42.92** per share using price earnings multiple. A simple average of the two values generates **N39.70** which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **4.73%** and **3.79%** respectively. **We therefore place a BUY on Dangote Sugar Stock at the current market price both for capital appreciation and dividend payment.**

Business Description

Dangote Sugar's principal activities are refining raw sugar into edible sugar and sale of refined sugar.

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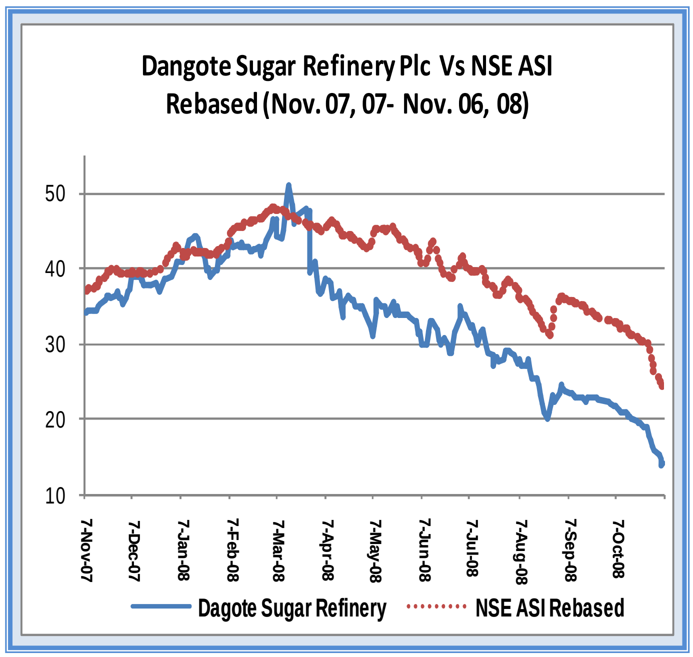
Industry Analysis (Nmn)							
Company	**TO**	**PBT**	**PAT**	**PAT Margin (%)**	**ROE (%)**	**EPS***	**PE***
Dangote Sugar	80,649	30,661	21,475	26.63	82.75	1.85	7.63
Nestle	44,027	8,463	5,441	12.36	87.26	8.59	24.94
Flour Mills	105,600	9,792	7,400	7.07	32.97	4.53	11.34
7-Up	27,309	1,961	1,219	4.47	19.42	3.14	13.71
NBC	68,529	4,346	3,172	4.63	13.88	2.74	14.84

Source: Company Annual Reports as at FY '07, NSE FACTBOOK. * Current. 7-Up and Flour Mills have different Year End

Financial Performance (Nmn)							
	Q3 '08	**Q3 '07**	**%Δ**	**FY 2007**	**FY 2006**	**%Δ**	**FY 2008E**
Turnover	63,357	62,046	2.11	80,649	83,768	(3.72)	84,681
PBT	24,738	23,805	3.92	30,661	16,657	84.07	29,769
PAT	18,553	17,854	3.92	21,475	16,657	28.92	22,552
PBT Margin (%)	39.05	38.37	0.01	38.02	19.88	18.13	35.15
PAT Margin (%)	29.28	28.78	0.01	26.63	19.88	6.74	26.63

Directors' Shareholding as at December, 2007

Name	Position	% Holding
Alh. Aliko Dangote	Chairman	326,688,896
Alh. Sani Dangote	Director	514,125
Engr. Abdullahi Sule	M. Director	38,580
Mr. Suleiman Olarinde	Director	Nil
Mr. Olakunle Alake	Director	5,000,000
Ms. Bennedikter Moloku	Director	Nil
Dr. Koyinsola Ajayi (SAN)	Director	275,000
Mr. Uzoma Nwankwo	Director	4,160,308
Alh. Abdu Dantata	Director	Nil



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