GLOBAL NETWORK FOR
ADVANCED MANAGEMENT

DANGOTE
SUGAR

The Concord Team

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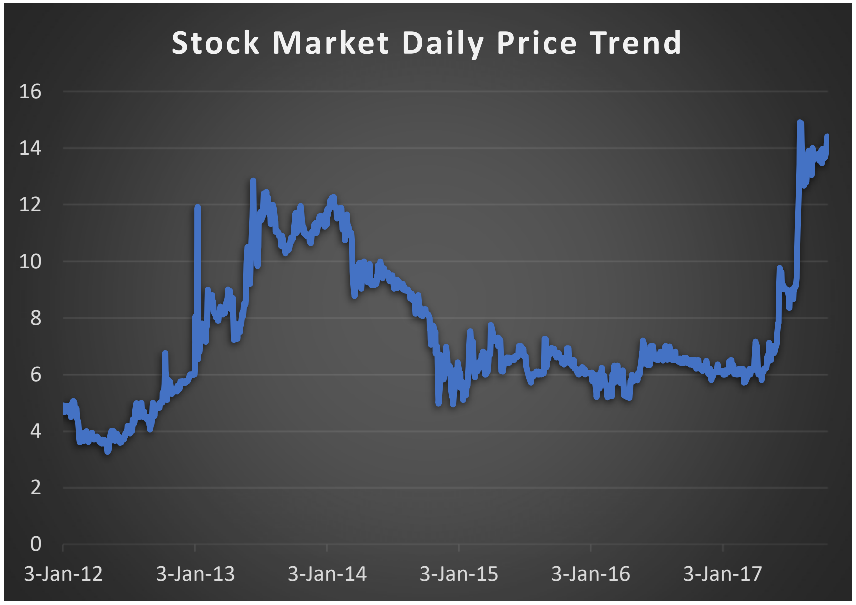
Dangote Sugar Refinery- Overview



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 clime.
- 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.

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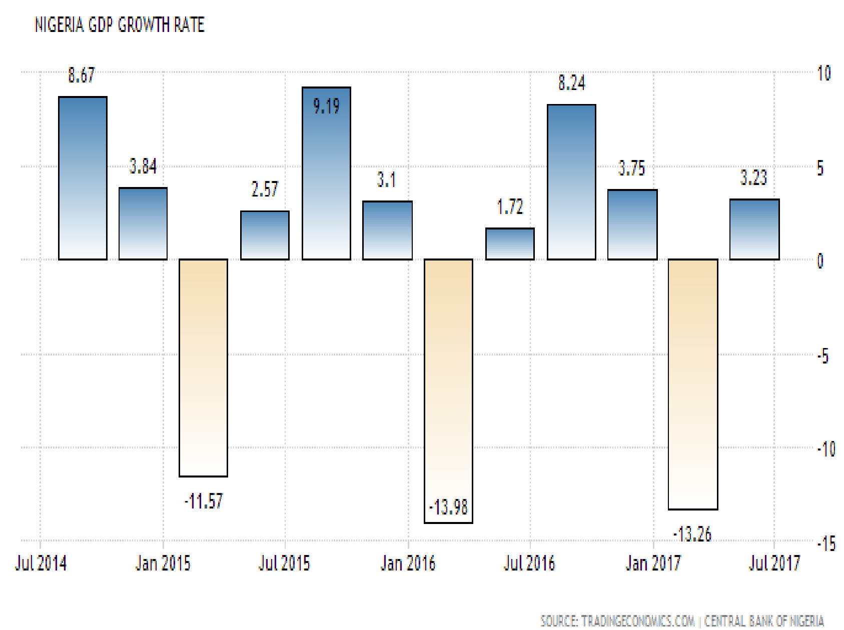
Nigerian Economic Highlight

- 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



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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

** DSR- Dangote Sugar Refinery ** GSC- Golden Sugar Company **BSR- Bua Sugar Refinery

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Government & Regulatory Initiatives

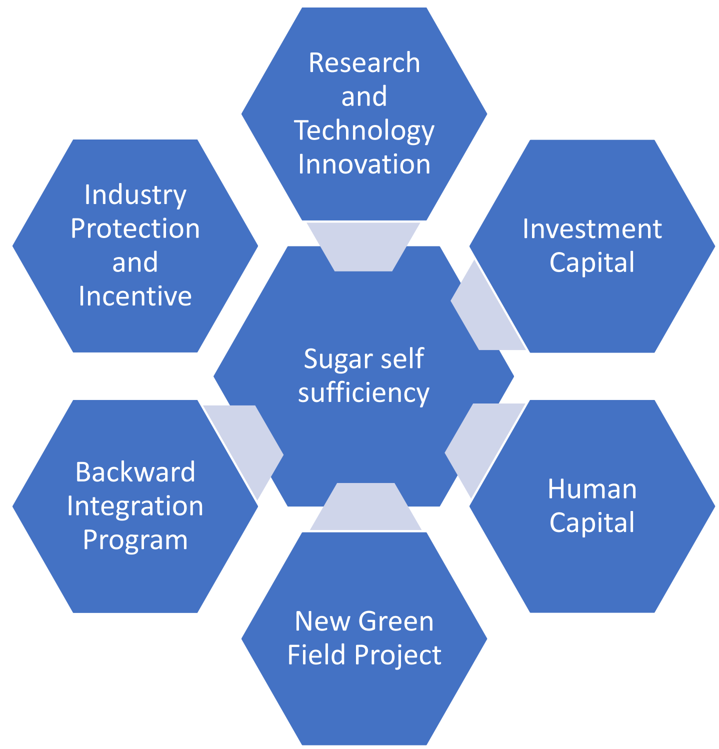
Nigerian Sugar Development Council (NSDC)

- 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



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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

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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)

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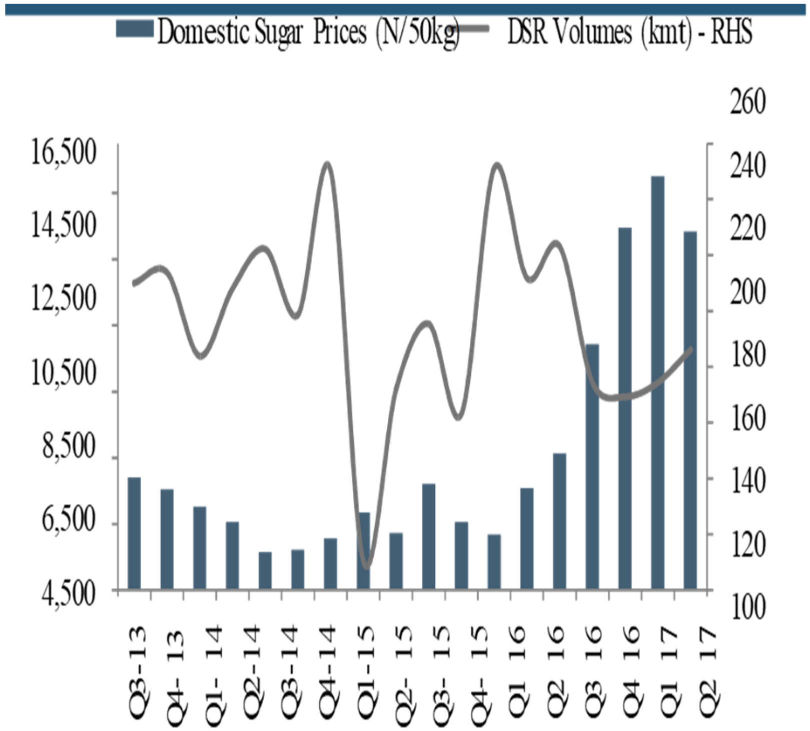
Financial Analysis – Cont.

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

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

- 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

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Conclusion

Dangote Sugar Refinery remains a **Strong buy at ₦ 17.75k**

Dangote Sugar Refinery currently trade at a P/E of 6.5x vs.
16.4x for Bloomberg Middle East & Africa peers.
We have a STRONG BUY rating on the stock

THANK YOU

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