

## 2008FY, Q109 Results

## Our Initial Reaction

### Dangote Sugar Refinery Plc (DSR)

DSR is a market leader in the Nigerian Sugar industry with operations spanning over 7 years. The Company is primarily into refining, marketing and distribution of raw sugar for both domestic and industrial consumptions. DSR has an installed capacity of 1.44million metric tons production facility, operates at near 75 per cent of its installed capacity and controls about 70 per cent of the Nigerian sugar market (by sales revenue). DSR recently concluded maiden export of its first consignment of 1500 tons of sugar to Ghana and similar concerted efforts are being made to grow revenue base by expansion to North and West African coasts. If pursued aggressively, this strategic initiative is expected to boost optimization of the installed capacity and subsequently increase current production frontier by about 79 per cent in the next couple of years to 2.5 million metric tons p.a.

#### 2008 FY Results vs. Meristem forecasts: Where did the Company miss target?

- Prior to the release of the FYE 2008 results, we did project a ROaE of 81.2% and net profit margin of 26.63%. However, the Company's performance reveals a **ROaE** of 74.7% (6.5% less than our forecasts) while net profit margin stood at 21.95% compared to 26.63% projected (a shortfall of 4.7%).
- Similarly, the Company's per share statistics declined accordingly with earnings per share (EPS) of N1.82k as against our forecast of N2.06k, implying 11% less than we anticipated.
- However, on a book value basis, DSR surpassed our expectation due largely to lower payout than we envisaged: 2008: 65% vs. 2009: 79%. The Company closed the year with a book value per share (BVPS) of N3.09k, 20% higher than our estimate of N2.58k.

#### Q109 results: A hint on performance drags...

A much worse results were also posted by the Company for its Q109 a day after the release of its FY08 results. Revenue plummeted by 8.7% while growth in earnings before tax waned by 37.3%. This represents the Company's worst results so far in its 7-8 years history and it underscores the extent of vulnerability of its operations to **business risk** (from rise in raw sugar prices in international market) and **forex risk** as well as its impact on performance and ultimately shareholders value. Meanwhile, in the interim, a few clues from the Company's executive director, Finance, attributed the dismal performance to inability of the Company to pass on price increases to consumers and foreign exchange loss owing to depreciation in Naira.

While the Company's management has not made public its comprehensive results for the FY2008, a probable cause of the performance slow down in bottom line may not be unconnected with unexpected jump in naira costs of input (raw sugar) worsened by sudden **currency depreciation** in the last quarter of 2008. Similarly, we see the slow down in turnover possibly as a reflection of demand contraction or a challenge to the Company's dominant market position.



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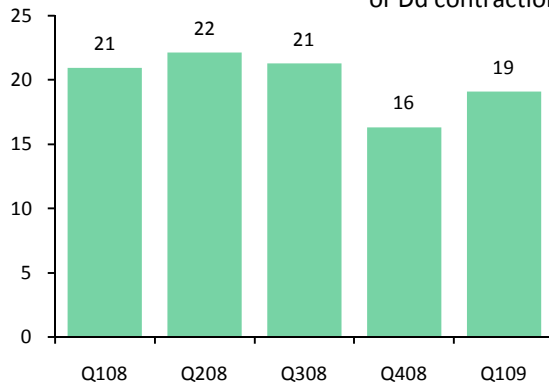
### Valuation impact and investor reaction

The current performance drag has weakened the Company's short term valuation metrics. The shares now trade at a 12-month trailing P/E of 11.2x and P/BV of 6.11x. This valuation level, however, still compares favourably with industry average P/E of 17x. Pending the release of full blown performance accounts for a comprehensive valuation review, we still maintain a medium to long term bullish stance on the stock.

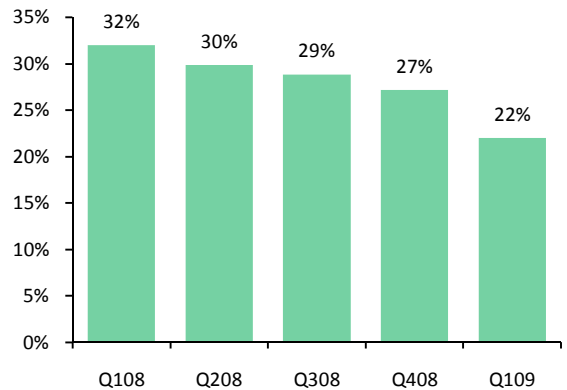
From investors' perspective, the **lower-than-expected** final cash dividend of 35k to complement 85k interim dividend earlier paid out, is a likely determinant of the 22% capital loss the share price has suffered since the release of the results a week ago.

NIGERIA EQUITY MARKETPLACE

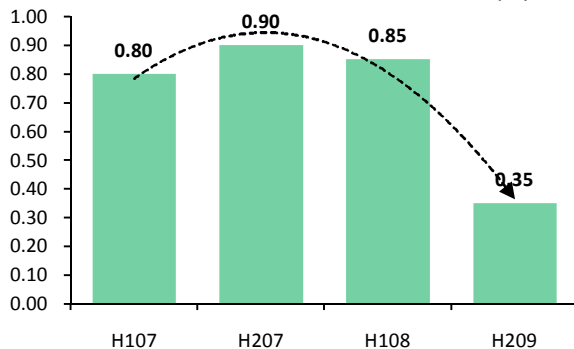
... drag on QoQ revenue growth suggests a probable loss of market share or Dd contraction



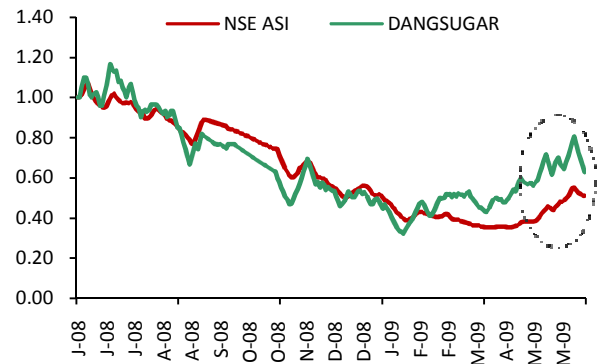
... though unlevered, DSR profit margins nose-dived consecutively QoQ, suggesting adverse biz & forex risks



...begetting lower-than-expected final cash payout



... price plummets faster than market as investors dump Dangsugar shares in anger



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