

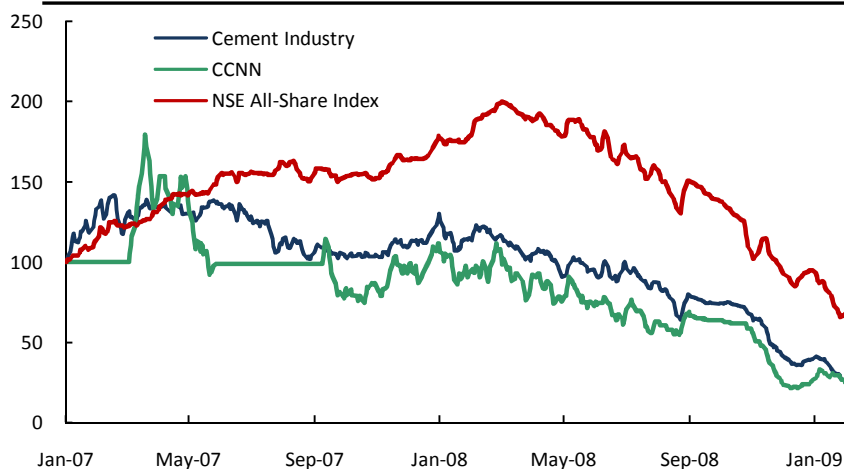
Update: Cement Company of Northern Nigeria Plc

6.6% Dividend Yield: A possibility?

Investment thesis

- Cement Company of Northern Nigeria Plc (“The Company”)[NSE Ticker: CCNN] is a cement manufacturer with plant located on a pure limestone belt of over 200 million tonnes, providing a sustainable competitive advantage for the Company given the current installed capacity of 500,000 metric tonnes of cement production p.a.
- Due largely to acute energy challenge (energy cost accounting for \approx 50% of total cost), the Company has operated at a 6-year average of 56% capacity utilization, rising from 30% in 2002 to 68% in 2007. Premised on the Company’s completed Power Project in 2007 (combined capacity of 12 MW) and the deployment of less expensive biomass to replace 30% of heavy oil consumption, we expect capacity utilization to stabilize at an average of 70% in the next 2 years resulting in an average annual production of 347,500 metric tonnes p.a. This should also impact positively on operational efficiency.
- The Company’s flagship product remains SOKOTO Cement with geographic market advantage in prime market areas in 6 States of the North-West Zone of Nigeria, namely: - Sokoto, Kebbi, Zamfara, Katsina, Kano, and Kaduna States.
- The Company has a new core investor, Damnaz Cement Company Limited (DCC), following the divestment in March 2008 by Scancem International ANS (A member of Heidelberg Cement Group) of Norway of its 50.7% stake. The new core investor, a Nigerian company established in May 2007 as a special purpose vehicle (SPV), currently holds the divested interest of Scancem in both CCNN and Société Nigérienne de Cimenterie in Niger.

Relative Price Performance: Jan '07 - Feb '09



Basic Metrics

Share Float	0.24bn units (18.2%)
Beta (5-year)	0.383
YTD return	27.70%
Share Price (N) (Feb 19, 2009)	6.81
52-Week high	24.00 (Feb 28, 2008)
52-Week low	4.59 (Dec 11, 2008)
Trailing EPS (Q3-2008) (N)	0.77
Trailing P/E (x) (Q3-2008)	8.84 x
BVPS (2007FYE) (N)	2.51
2008e EPS (N)	0.86
2009e EPS (N)	0.97
2009e BVPS (N)	3.34
Forward P/E (x)	7.01 x
Forward P/BV (x)	2.04 x
Current Div. Yield (FYE '07)	1.47%

Investment thesis (cont'd)

- Our investment case for CCNN is based on 4 key investment catalysts:
 - a. **Margin and ROaE rebound:** 2007: 1.7% and 5.91% vs. 2008e: 12.1% and 31.7%
 - b. **Improved liquidity position and deleveraged capital structure**
 - c. **Undervaluation of current price at fundamental P/E and P/BV levels.**
 - d. **Expected dividend yield of 6.6%:** Since 2001, CCNN had declared dividend 3 times as shown in the table below.

In the face of improved operational performance of the Company but capital depreciation suffered by its shareholders, a 50% payout of the expected earnings of 0.86k might not be overly generous! Hence, we see the expected dividend of 43k as a potential catalyst for the share price to run.

Meanwhile, the possibility of a bonus issue seems slim given the additional shares from the exercise by holders of the company's 15% Convertible Debenture stock in 2005 and the issuance of 173m shares in 2007 from right issue to shareholders. These make the outstanding shares stand at 1.26 bn units.

CCNN Corporate Benefit History

Year	2001	2002	2003	2004	2005	2006	2007	2008e
EPS	(146.60)	(93.20)	(11.15)	85.12	20.70	(3.20)	11.00	0.86
Bonus	-	-	-	1 for 10	-	-	-	?
Dividend	-	-	-	10.00	10.00	-	10.00	?
Payout	0.00%	0.00%	0.00%	11.75%	48.31%	0.00%	90.91%	?

- With 5-year beta of 0.38, CCNN presents a play of a **defensive stock in a cyclical cement industry**. So much as the current operational performance looks strong; we are compelled to express our investment concerns about how transient this could be save the management intensifies effort to strengthen the current **cost-effective strategies**.

In our opinion, the current installed capacity 500,000 metric tonnes p.a. is too paltry for a strong competitive position in the industry. Hence, we see capacity expansion as a "must-do" strategy to ensure near to long term growth and transit the Company into a true national player in the industry.

- Overall, we are **OVERWEIGHT** on CCNN with a target price of **N9.47** (vs. current price of **N6.65**).

Valuation

Giving cognizance to the current market meltdown, benchmarking stock price determination against industry and or market multiples is very much likely to **be bias and may yield spurious results**. To this end, we employed **2 variants of justified price multiples based on forecasted fundamentals**.

Justified P/E and P/BV Valuations: We arrived at 2008FYE **revenue growth of 12%** premised on 350,000 tonnes of cement (**70% of installed capacity vs. 68% in 2007**) and average per tonne price of N 25,898. A full year net profit margin of 12% (vs. 12.48% in Q3-2008) translates into an EPS of 86k, **representing a growth of 680% over 2007 EPS of 11k**. This super-growth in earnings is a dive to normalcy as we forecast a sustainable earnings growth of 15.8% and a slide in ROaE to 30% in 2009.

Premised on this, CCNN justified P/E stands at 12x 2008e EPS and should fundamentally be priced at 2.83x 2008e BVPS of N2.94.

Valuation 1: Justified P/E Model	
2008e EPS (N)	0.86
Payout	50.0%
ROaE	22.96%
Sustainable growth rate "g _t "	11.48%
Required return	15.53%
Justified P/E	12.34
Estimated intrinsic value (N)	10.63

Valuation 2: Justified P/BV Model	
Sustainable ROaE	22.96%
Cost of Equity	15.53%
Sustainable growth rate "g _t "	11.48%
Justified P/BV (x)	2.83
2008e BVPS (NGN)	2.94
Estimated intrinsic value (N)	8.32

Based on the above, we value CCNN at **12.34x 2008 EPS and 2.83x 2008e BVPS** translating into an average target price of **N9.57**. We therefore reiterate our **BUY** rating for the stock.

Historical Performance	2003	2004	2005	2006	2007
Liquidity					
Current Ratio	0.59	0.84	0.83	0.64	0.84
Quick ratio	0.22	0.48	0.42	0.24	0.30
Operating cycle (days)	122.20	114.62	153.06	171.32	158.77
Cash conversion cycle (days)	64.83	50.68	73.02	22.55	1.23
Financial leverage and solvency					
Debt-Equity ratio	1.85	0.79	0.70	0.60	0.18
Capitalization ratio*	0.47	0.32	0.24	0.24	0.13
Interest coverage	0.76 : 1	3.46 : 1	2.15 : 1	0.97 : 1	1.45 : 1
Efficiency and profitability					
ROaE	-226.13%	79.44%	14.89%	-2.22%	5.91%
ROaA	-3.15%	18.35%	3.84%	-0.49%	1.61%
Net Margin	-3.28%	14.95%	3.79%	-0.55%	1.72%
Gross Margin	45.91%	43.86%	40.82%	27.60%	28.39%
Cost-to-sales	54.09%	56.14%	59.18%	72.40%	71.61%
Expenses-to-sales	37.36%	35.29%	35.81%	31.06%	30.66%

*Capitalization ratio: Measures the proportion of long term debt to equity.

Forecast Model Extract	2007	2008e	2009f
Production Assumptions			
Installed Capacity	500,000	500,000	500,000
Capacity Utilisation	68.51%	70.00%	68.00%
Production (mt)	342,548	350,000	340,000
Price/tonne (N)	23,480	25,828	28,411
Financials: Extracts (Naira)			
Turnover	8,042,945,852	9,039,708,750	9,659,574,493
Cost of Sales	5,759,222,736	5,604,619,425	6,085,531,931
Gross Profit	2,283,723,116	3,435,089,325	3,574,042,563
Operating Expenses	2,465,736,208	2,711,912,625	2,683,300,395
Other Income	741,998,634	813,573,788	869,361,704
Interest Expense	387,137,218	183,950,488	193,191,490
PBT	172,848,324	1,352,800,000	1,566,912,382
Tax	34,184,478	270,560,000	313,382,476
Profit after tax	138,663,846	1,082,240,000	1,253,529,906
Per share data (N)			
Sales per share	6.40	7.19	7.69
Earnings Per Share	0.11	0.86	1.00
Net Asset Per Share	2.51	2.94	3.43
Growth and Profitability			
Revenue Growth	26%	12.4%	6.9%
Earning Growth		680.5%	15.8%
Net Asset Growth	103.9%	17.2%	17.0%
Net Margin	1.7%	12.0%	13.0%
ROaE	5.91%	31.65%	31.32%

ROaE= Return on Average Equity

ROaA= Return on Average Assets

Appendix

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- BUY:** Fair value of the stock is above the current market price by at least **20 percent**
- HOLD:** Fair value of the stock ranges between **-20 percent and 20 percent** from the current market price.
- SELL:** Fair value of the stock is more than 20 percent below the current market price.

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