

DANGOTE SUGAR REFINERY PLC

Margins to recover, but downside risk remains

BLOOMBERG: DANGSUGAR NL

SELL

Target Price: N56.49

Ref Price: N60.00

Dangote Sugar Refinery Plc (NGX: DANGSUGAR) experienced significant margin expansions in H1'25, driven by better-than-expected revenue increase and easing cost pressures, admit moderating inflation and relative FX stability. Nevertheless, our outlook remains cautious due to the company's heavy dependence on short-term borrowings for working capital and its substantial exposure to imported raw materials. Although we raise our 12-month Target Price (TP) to N56.49 from N35.81, we still maintain a SELL rating on the stock.

Net loss to materially taper in FY'25

We have revised our FY'25E revenue forecast upward to N919.3 billion (from N883.9 billion previously), reflecting stronger-than-expected topline performance in H1'25, driven by price adjustments. We anticipate further revenue momentum in H2'25, consistent with the company's historical trend of stronger second-half performance on the back of seasonal demand gains.

Meanwhile, supported by an improving macro backdrop, characterised by moderating inflation and a relatively stable FX environment, we have revised our FY'25 cost-to-sales ratio to 87.5% (compared to our previous estimate of 94.0% and 95.3% in FY'24). As a result, we now forecast FY'25 gross and EBIT margins of 12.5% and 9.6%, respectively (vs 6.0% and 3.0% in our earlier estimates, and 4.7% and 1.9% in FY'24). This implies an expected operating profit of N88.3 billion for FY'25 (compared to N38.1 billion already achieved in H1'25).

That said, the company's reliance on short-term borrowings to finance working capital is likely to keep finance costs elevated, offsetting operating gains. As such, we project a full-year net loss of N27.4 billion (vs. a net loss of N185.0 billion in FY'24).

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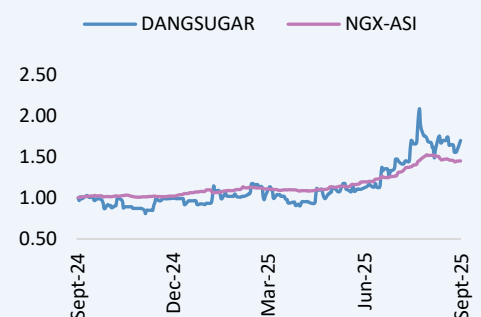
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Market Data	DANGSUGAR
Market Cap (N' billion)	728.81
Last close price (N)	60.00
52-week high/low price (N)	75.60/28.55
Avg 3M daily volume (million)	4.49

1-year price performance rebased



Source: Bloomberg, CardinalStone Research

Figure 1: Revenue should improve by 38.1% in FY'25 (N'billion)

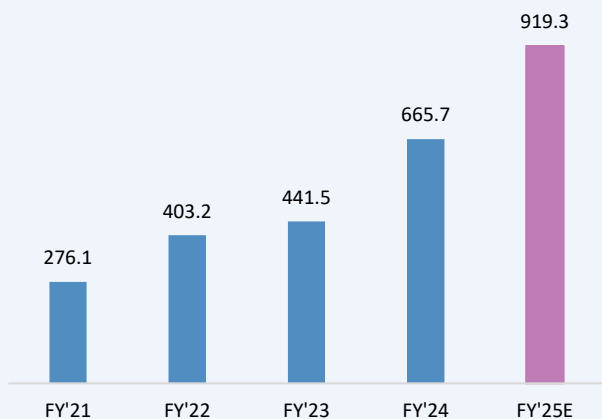


Figure 2: Half year revenue contribution trend

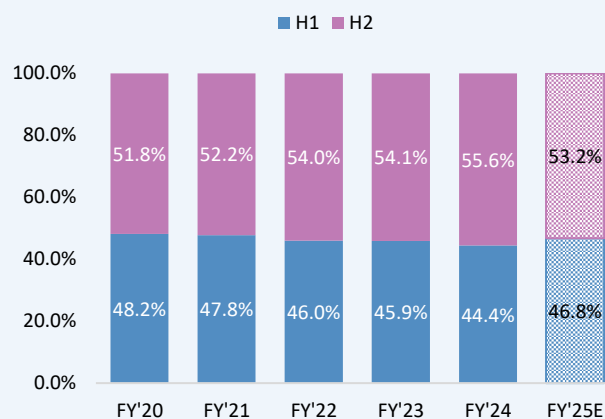


Figure 3: Cost-to-sales ratio to maintain a downward trend

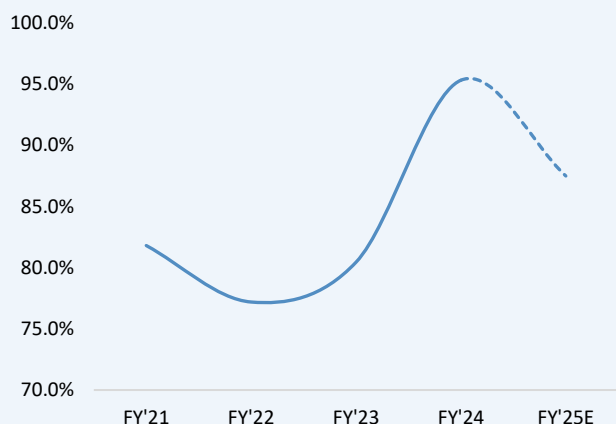
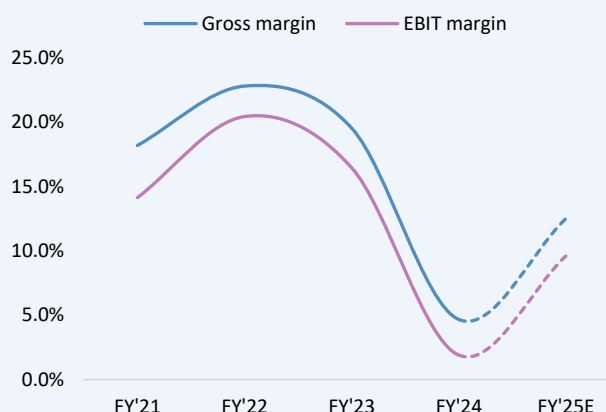


Figure 4: Margins improvement to linger in FY'25E

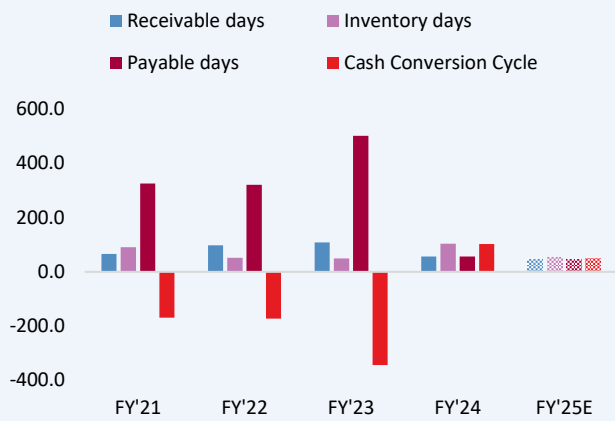


Source: Company financials, CardinalStone Research

In H1'25, DANGSUGAR delivered a notable improvement in working capital efficiency, with its Cash Conversion Cycle (CCC) improving to 50 days (vs. 75 days in H1'24 and 103 days in FY'24), supported by decline in receivable days to 45 days (vs. 52 days in H1'24 and 56 days in FY'24), while inventory days fell significantly to 52 days (vs. 87 days in H1'24 and 103 days in FY'24).

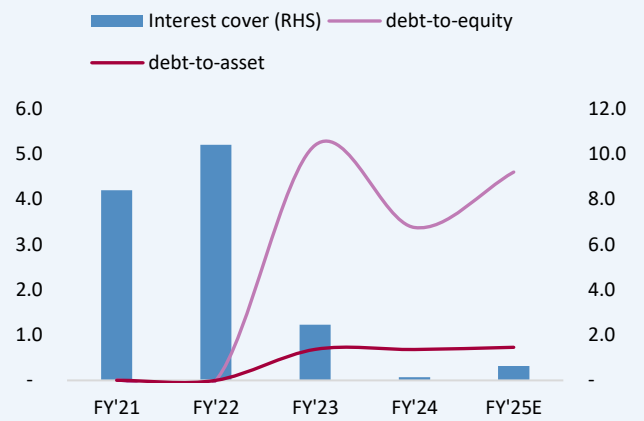
Despite recent efficiency gains, the company's CCC remains positive, well above its 5-year average of negative 134 days, reflecting reduced supplier financing. This has contributed to the company's elevated leverage profile, with debt-to-equity and debt-to-assets currently settling above historical levels (see Figure 6). In the near term, we expect reliance on short-term borrowings to persist as a key source of working capital funding. However, over the medium to long term, we see scope for operational improvements and stronger cash generation to reduce this dependence and support working capital financing gradually.

Figure 5: Gradual improvements in working capital



Source: Company financials, CardinalStone Research

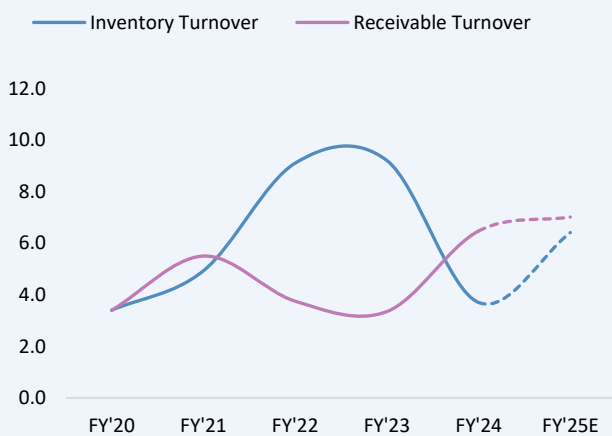
Figure 6: Leverage ratio still strained by elevated borrowings (x)



Operational efficiency gains support recovery story

Operating metrics improved significantly in H1'25, with receivables turnover increasing to 44.3x and inventory turnover to 5.3x (compared to a 5-year average of 38.9x and 4.5x, respectively). These gains were driven by price-induced revenue growth and reductions in receivable and inventory days. The results indicate better asset utilisation and greater operational agility, highlighted by faster conversion of inputs into finished goods and sales. For FY'25, we anticipate continued strength in turnover ratios, supporting the company's longer-term recovery.

Figure 7: Stronger turnover ratios signal agility

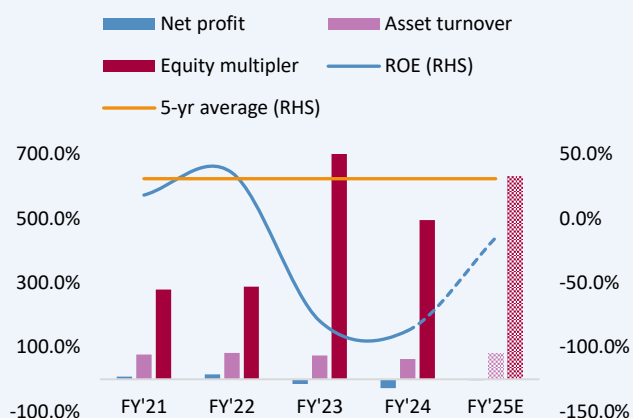


Source: Company financials, CardinalStone Research

ROE set to turn the corner post-FY'25

Over the past two years, DANGSUGAR has posted negative Returns on Equity (ROE) due to sustained net losses. For FY'25, we see ROE remaining submerged at negative 14.9%, stemming from elevated finance costs. However, from FY'26 onwards, we expect a recovery, with ROE projected to average 31.0% between 2026 and 2029, driven by stronger earnings momentum.

Figure 8: ROE to remain negative in FY'25

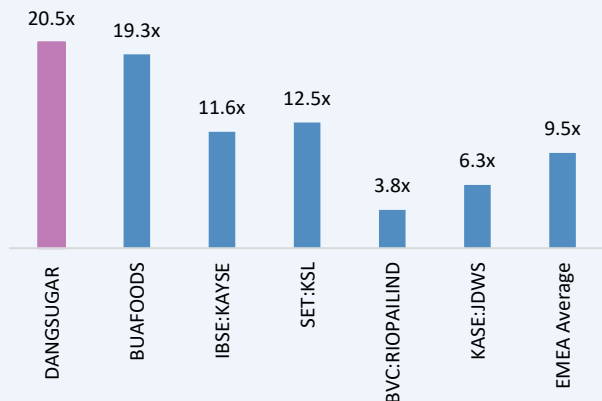


Source: Company financials, CardinalStone Research

Valuation and recommendation

Adjustments to our model yielded a new 12-month TP of N56.49, implying a downside potential of 5.86% and a SELL recommendation. Currently, DANGSUGAR is trading at an EV/EBITDA multiple of 20.5x versus its EMEA peer of 9.5x and its 5-year average of 9.0x.

Figure 9: DANGSUGAR is trading above its peer average EV/EBITDA



Source: Capital IQ, CardinalStone Research

Figure 10: DANGSUGAR summary of financials

Income Statement (Nm)	2023A	2024A	2025E	2026F
Revenue	441,453	665,690	919,268	1,235,496
COGS	(355,149)	(634,580)	(804,359)	(1,056,349)
Gross profit	86,304	31,109	114,908	179,147
Other Income	1,233	2,213	1,839	1,235
OPEX and impairment	(14,852)	(20,651)	(28,497)	(35,829)
EBIT	72,686	12,671	88,250	144,553
Net Interest	(191,104)	(293,665)	(128,604)	(78,340)
Change in fair value of biological assets	9,496	10,100	-	-
PBT	(108,922)	(270,894)	(40,355)	66,213
Tax	35,162	78,277	12,913	(21,188)
PAT	(73,760)	(192,617)	(27,441)	45,025
EPS	(6.1)	(15.9)	(2.3)	3.7
DPS (NGN)	-	-	-	-
Payout ratio	0.0%	0.0%	0.0%	0.0%
Shares outstanding (million)	12,147	12,147	12,147	12,147

Cash Flow Statement (Nm)	2023A	2024A	2025E	2026F
Cash flow from operating activities	62,807	(372,095)	194,921	214,374
o/w Depreciation & amortization	10,268	12,598	39,481	40,448
o/w Changes in working capital	54,470	(267,336)	45,085	44,384
Cash flow from investing activities	(8,955)	(22,300)	(41,367)	(55,597)
o/w Capital expenditure	(19,515)	(29,935)	(41,367)	(55,597)
as % of sales	4.4%	4.5%	4.5%	4.5%
Cash flow from financing activities	(20,334)	225,248	(4,121)	(71,961)
o/w Dividends paid	(18,220)	-	-	-
o/w Debt issued/(repaid)	(339)	(11,141)	-	-
Net change in cash	33,518	(169,147)	149,433	86,816
Cash & cash equivalents at beginning of year (incl FX diff)	171,245	204,763	108,167	257,599
Cash & cash equivalents at end of the year	204,763	35,616	257,599	344,415
Overdraft	-	72,551	-	-
Cash & cash equivalent at balance sheet	204,763	108,167	257,599	344,415

Balance Sheet (Nm)	2023A	2024A	2025E	2026F
Cash and cash equivalents	204,763	108,167	257,599	344,415
Accounts receivable	131,804	102,763	113,334	152,321
Inventories	47,917	179,825	114,594	121,552
Other current assets	16,078	35,202	50,898	50,898
Current assets	400,562	425,957	536,425	669,187
PP&E	167,083	616,645	618,531	633,681
Deferred tax assets	33,145	8,231	8,231	8,231
Non-current assets	200,228	624,876	626,763	641,912
Total assets	600,790	1,050,833	1,163,188	1,311,099
Short-term borrowings	412,021	680,254	851,183	863,740
Payables	76,127	98,678	103,575	193,905
Other short-term liabilities	33,066	19,867	18,141	18,141
Current liabilities	521,214	798,798	972,899	1,075,786
Long-term debt	246	37,254	0	0
Lease liability	84	2,553	5,502	5,502
Non-current liabilities	330	39,807	5,502	5,502
Total liabilities	521,544	838,605	978,401	1,081,288
Shareholders' equity	79,246	212,228	184,787	229,811
Total liabilities & equity	600,790	1,050,833	1,163,188	1,311,099
BVPS	6.5	17.5	15.2	18.9
Net debt/(cash)	207,504	609,341	593,584	519,324

Ratio Analysis	2023A	2024A	2025E	2026F
Gross Margin	19.5%	4.7%	12.5%	14.5%
EBITDA Margin	18.8%	3.8%	13.9%	15.0%
EBIT Margin	16.5%	1.9%	9.6%	11.7%
Net Profit Margin	-16.7%	-28.9%	-3.0%	3.6%
OPEX/Sales	3.2%	3.0%	3.1%	2.9%
ROE	-93.1%	-90.8%	-14.9%	19.6%
ROA	-12.3%	-18.3%	-2.4%	3.4%
ROIC	-15.0%	-20.7%	-2.6%	4.1%
Net debt/Equity (x)	2.6	2.9	3.2	2.3
Net debt/EBITDA (x)	2.5	24.1	4.6	2.8
Sales/Assets (x)	0.7	0.6	0.8	0.9
Assets/Equity (x)	7.6	5.0	6.3	5.7
Interest cover (x)	0.4	0.0	0.7	1.8
Tax Rate	NM	NM	NM	32.0%
Revenue y/y Growth	9.5%	50.8%	38.1%	34.4%

Valuation	2023A	2024A	2025E	2026F
P/E (x)	NM	NM	NM	16.2
P/BV (x)	9.2	3.4	3.9	3.2
EV/EBITDA (x)	1.5	5.1	1.0	0.7
Dividend Yield	-	-	-	0.0

Source: Company Financials; CardinalStone Research

Fiscal year ends in December. o/w - out of which

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Dangote Refinery Plc	v

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