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Dangote Cement Plc

Nigeria Corporate Analysis **January 2020**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long term	National	AA+(NG)	Stable	November 2020
Short term	National	A1+(NG)		

Financial data:

(USD'm Comparative) ‡

	31/12/17	31/12/18
N/USD (avg.)	305.3	305.6
N/USD (close)	305.5	306.5
Total assets	5,432.2	5,509.0
Total debt	1,269.0	1,128.4
Total capital	2,536.8	3,199.5
Cash & equiv.	551.2	544.5
Turnover	2,014.8	2,636.3
EBITDA	1,268.8	1,412.3
NPAT	669.0	1,277.3
Op. cash flow	1,002.8	1,111.1
Market cap. °	USD7,784.7m	
Market share*	Nigeria:	64%
	Cameroon:	40%
	Senegal:	23%
	Ethiopia:	29%
	Zambia:	42%

‡ Central Bank of Nigeria exchange rates.
°As at 23/12/2019 @ N306.5/USD.
*Estimated percentage share of September 2019 cement sales in selected territories.

Rating history:

Initial rating (September 2016)

Long term: AA+(NG)

Short term: A1+(NG)

Rating outlook: Stable

Last rating (January 2019)

Long term: AA+(NG)
Short term: A1+(NG)
Rating outlook: Positive

Related methodologies/research:

Global master criteria for rating corporate entities, updated February 2018
Glossary of terms/ratios, February 2018
Dangote Cement Plc ("DCP", "Dangote Cement" or "the Group"), Issuer rating reports, 2016-19

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Summary rating rationale

- The ratings take cognisance of Dangote Cement Plc's substantial production capacity, its extensive distribution network, significant scale economies and position as the largest corporate on The Nigerian Stock Exchange ("NSE"). DCP is the cement market leader in Nigeria and five other markets, with a group-wide installed capacity of 45.6 million tonnes per annum ("mtpa") across ten countries. Nevertheless, DCP's geographic diversification is counterbalanced by single market concentration, with Nigeria accounting for 88% of group EBITDA and 64% of capacity at 9M FY19 (FY18: 89% and 64%).
- Dangote Cement remains profitable at 50% capacity utilisation because of its low fixed cost model, scale economies and clinker sufficiency in Nigeria. However, DCP implemented significant price discounting during 2H 2018 and 3Q 2019 to sustain its domestic market share, amid increased competition. Thus, the EBITDA margin narrowed to 44.5% at 9M FY19 (FY18: 47.9%) from 48.1% in FY17, albeit sound. GCR expects some margin pressure to persist over the rating horizon, amidst heightened competitive pressure in Nigeria in particular. The attainment of medium-term targets will also depend on improved economic conditions and improved earnings contribution the rest of Africa.
- DCP reports robust cash generation which peaked at N424.4bn in FY18 (FY17: N379.7bn) and supported operating cash flow coverage of total debt of 98% (FY17: 79%), despite ongoing expansion related working capital absorptions.
- The dividend distributions are incongruous with DCP's expansion plans, although GCR has noted demonstrated capital support, with related party loans accounting for 30% of total at 9M FY19. The Group's liquidity and capital structure are also supported by longstanding relationships with several domestic and international banks, N32bn in unutilised committed facilities currently on hand, and will be enhanced by a planned N300bn bond programme.
- Despite the N120bn increase in net debt during 9M FY19, gearing metrics remained moderate, with net gearing reported at 37% (FY18: 18%) and net debt to EBITDA at 78% (FY18: 42%). DCP expects to be in a net ungeared position by FY22. Net interest cover was firm at 10.1x for 9M FY19 (FY18: 11.1x) and is forecast to improve significantly over the medium term.

Factors that could trigger rating action may include

Positive change: A ratings uplift could be achieved if DCP returns to a net ungeared position combined with strong free operating cash flows and improved profitability from the rest of the Group's African operations.

Negative change: Competitive pressures that continued to constrain pricing flexibility could have a negative impact on earnings, and see DCP lose market share. In addition, earnings and cash flows could be negatively impacted by slower than anticipated economic growth in key territories and adverse foreign exchange rate movements.

Company profile

Dangote Cement Plc is Africa's leading integrated cement manufacturer, with 13 plants in 10 countries and a combined installed capacity of 45.6mtpa. Nigeria remains the Group's dominant area of operations, with a combined production capacity of 29.3mtpa (64% of the total), spread across three sites in Ibese (12mtpa), Obajana (13.3 mtpa) and Gboko (4mtpa), including 15,000 retail outlets, 48 depots and over 9,200 trucks (for cement distribution). DCP serves three export markets from Nigeria. Dangote Cement has 44 subsidiaries (FY17: 41), of which 37 (FY17: 34) are directly owned. DCP is a subsidiary of Dangote Industries Limited ("DIL"), a diversified multinational corporate with operations spanning building materials, packaging, logistics, real estate, fertilizer, oil and gas as well as food and beverages, *inter alia*. DCP listed on NSE in October 2010 and remains the most valuable public company, accounting for around 30% of NSE capitalisation as at November 2019. Dangote Cement is organised into two operating regions, namely, Nigeria and Pan-Africa.

Corporate governance and shareholding structure

Table 1: Corporate governance summary	
Board Composition	
Number of directors	16
• Independent non-executives	6
• Non-independent non-executives	8 (including the Chairman)
• Executives	2 (the Managing Director and ED, Finance)
Tenure of non-executives	Initial term of 3 years, and eligible for additional terms of three years each, subject to satisfactory performance.
Tenure of executives	Initial term of 3 years, and eligible for additional terms of three years each, subject to satisfactory performance and retirement age of 65 years.
Separation of the chairman	Yes
Frequency of meetings	Minimum of quarterly. The Board met seven times during FY18
Board committees	Finance and General Purpose Committee; Audit, Compliance and Risk Committee; Technical Committee; Remuneration & Governance Committee and Nomination Committee.
Internal control and compliance	Yes, reports to Audit Risk Management Committee.
Joint external auditors	Akintola Williams Deloitte and Ahmed Zakari & Co. Unqualified audit opinion on the 2018 financial statements and preceding four years.

DCP's corporate governance structure complies with the relevant requirements of the Companies and Allied Matters Act ("CAMA"), Securities and Exchange Commission ("SEC") Code of Corporate Governance for Public Companies in Nigeria, as well as NSE regulations. Mr. Aliko Dangote, an internationally renowned Nigerian industrialist and DIL's sole shareholder, is the Chairman of DCP. There were few changes in the composition of DCP's Board of directors in 2018. To enhance governance, the Board appointed two new independent non-executive directors thus doubling the number of independent directors. Joseph Makoju was appointed Group CEO following the resignation of Onne van de Weijde. Following a 45-year career, Mr Makoju will retire effective 31 January, 2020. DCP has announced his replacement as Mr. Michael Puchercos, the Managing Director of Lafarge Africa Plc ("LAP"), who has recently tendered his resignation from LAP effective 17 January, 2020.

Board members have extensive experience in diverse sectors of the economy. The Board provides strategic direction and oversight of financial, operational, corporate governance, compliance and risk management processes through a full board and board committees. DIL and Mr. Dangote have shareholding of 85.1% and 0.16% respectively in DCP while the remaining shares are held by the investing public.

Industry overview and competitive position

Nigeria

As barriers to entry remain high due to the capital intensive nature of cement production, the industry remains dominated by DCP and LAP, which together account for 90% of volumes and revenue. BUA Group[1] contributes about 9% of the industry sales while a few small players make up for the balance. Nevertheless, industry pricing remains very competitive with large promotional campaigns and customer incentives being implemented by the DCP during 2H 2018 and 3Q 2019. This resulted in some price erosion in the sector during the respective periods. While there are several expansion plans to be completed in the medium term, the industry's immediate focus is on capacity utilisation.

Table 2: Competitive position - Dangote Cement Plc vs Lafarge Africa Plc		
FY18* (N'm)	**DCP**	**LAP**
Revenue	901,213	308,425
EBITDA#	**431,551**	**47,912**
Op. Income#	335,348	25,128
Net interest income/(expense)	(30,343)	(35,808)
NPBT	**300,806**	**(19,508)**
*Equity***	*980,644*	128,347
Total debt	**345,853**	**301,488**
Cash (excluding restricted balances)	166,896	11,473
Current assets	428,838	93,360
Current liabilities	495,506	212,650
Total assets	1,688,494	534,542
Cement capacity in Nigeria	*29.3mtpa*	*10.5mtpa*
*Nigeria cement sales****	*13,378kt*	*4,841kt*
Total cement capacity	*45.6mtpa*	*14.1mtpa*
Ratios (%)		
Estimated market share in 2018 (%) ***	64.7	23.4
Revenue growth	11.9	3.1
EBITDA margin	47.9	15.5
Operating margin	37.2	8.1
Net gearing	18.2	226.0
Net debt : EBITDA	41.5	605.3

#excludes fair value gains and losses as well as non-core operating income
**measured on a net tangible basis
*** Estimated percentage share of FY18's domestic cement sales.

Following an 18% contraction in 2017, industry volumes increased by 11% to 20.7mt in 2018, albeit off a low base. Demand was adversely affected due to flooding and heavy rainfall in some regions and depressed sales between August and November 2018. While industry growth picked up during 1Q 2019, it declined in 2Q 2019 due to economic conditions and elections (which dominated the first half of the year). According to NBS[2] data, the cement sector's GDP grew from 1.6% in 2Q 2019 (1Q 2019: 2.8%) to 6.9% in 3Q 2019 (3Q 2018: 8.1%). Strong demographics and infrastructural deficit will continue to underpin industry

[1] Includes subsidiaries namely Cement Company of Northern Nigeria Plc and Kalambaina Cement Company Limited

[2] National Bureau of Statistics

growth. Competitive pressures should intensify over the medium term, as capacity utilisation is ramped up at BUA Group's new plants. Industry challenges include erratic electricity supply, poor distribution network, high interest rates, substantial power and fuel costs, *inter alia*.

Competitive position – Rest of Africa

According to African Economic Outlook Report 2018, Africa's real GDP growth increased by 3.6% in 2018 (2017: 3.5%) and is projected to be around 4% in 2019 and 2020. Although a mixed performance is anticipated within the respective domestic economies, Nigeria is expected to benefit from stronger oil prices. Significant opportunities abound for African producers to expand, replace imports, especially in West Africa, much of which lacks limestone. Cement demand will be driven by large population, rapid urbanisation (which requires housing and infrastructure) and higher disposable incomes (due to an expanding middle-income class and growing work force). DCP leverages off its ability to penetrate new markets with large-scale, modern and energy-efficient factories which give it a strong competitive edge in the African market. Table 3 provides an overview of DCP's larger African operations and respective cement consumption, GDP growth, as well as DCP's market share and main competitors.

Table 3: Cement – DCP's African markets	Ghana	Senegal	Cameroon	Ethiopia	Zambia	Tanzania
Population 2018 (m)	29.8	15.9	25.2	109.2	17.4	56.3
Per capita utilisation (kg/person)	213	235	120	84	100	88
2018 GDP (%Δ)	6.3	6.8	3.9	6.8	3.8	5.2
Sales vol., FY18 (mt)	0.8	1.4	1.2	2.1	1.0	0.6
Sales vol. 9M FY19 (mt)	0.4	1.1	0.9	1.4	0.8	0.8
DCP market share Sep. 2019 (%)	10	23	40	29	42	17
DCP main Competitors	WACEM, Ghacem, Savannah, Diamond	Soccocim, Coments du Sahel	Cimencam, Cimaf	Mugher, Messabo Derba Midroc, National Cement, Ethio Cement	Lafarge, Scirocco, Zambesi Portland Cement	TPCC, Tanga Cement, Lafarge ARM Cement

Source: United Nations Population Division, World Bank estimates, Global Cement Report estimates and DCP estimates.

Earnings diversification

Table 4: Geographic diversification (N'bn)	2017		2018		9M FY19	
	Nigeria	Pan Africa	Nigeria	Pan Africa	Nigeria	Pan Africa
Revenue	552.4	258.4	618.3	283.3	467.9	213.2
EBITDA	360.8	36.0	397.4	49.1	275.9	37.8
Operating profit	316.8	(2.2)	345.6	2.5	236.0	4.6
Net finance cost*	36.3	(35.4)	56.8	(91.2)	n.a	n.a
Net result	265.5	(12.8)	491.6	(87.9)	214.9	(65.0)
Total assets	1,640.0	853.7	1,770.5	865.3	1,822.5	835.7
Capacity (mtpa)	29.3	16.3	29.3	16.3	29.3	16.3
Sales volume (mt)	12.7	9.4	14.2	9.4	10.8	7.1
EBITDA margin (%)	65.3	13.9	64.3	17.3	59.0	17.7
Op. margin (%)	57.4	(0.9)	55.9	0.9	*50.4*	*2.1*
Asset turnover (x)	0.4	0.3	0.4	0.3	*0.3*	*0.3*

Note: numbers are inclusive of intercompany balances.
*includes foreign exchange gains

Nigeria

Cement demand increased in the domestic market thus, average capacity utilisation across Nigerian plants rose to 48% in FY18 (industry average: 43%), from 43% in FY17. Nigeria contributed 60% of DCP's production volumes and 69% of its revenue in FY18 (FY17: 58% and 68% respectively). In a bid to sustain market share, DCP embarked on various sales incentives between July and September 2018, as such pricing was lower compared with FY17[3]. DCP's cement kilns at Obajana and Ibese can use coal and gas interchangeably, thus eliminating the need for expensive low pour fuel oil ("LPFO") and moderating production costs. Overall, EBITDA increased 10% to N397.4bn in FY18, albeit at a lower 64.3% margin (FY17: 65.3%), a function of lower pricing during the second half of the year. Nigeria contributed 89% of the Group's EBITDA in FY18 (FY17: 91%).

Table 5: Fuel Mix - Nigeria (%)	Obajana		Ibese	
	FY17	FY18	FY17	FY18
Gas	60	53	61	72
Coal	38	47	38	28
LPFO	2	-	1	-
Total	**100**	**100**	**100**	**100**

During 3Q 2019, DCP resumed its nationwide promotional drive and offered sales incentives (to both distributors and retail customers) to mitigate competitive pressures arising from BUA's cement's new 4.5mtpa capacity. Overall, domestic cement volumes increased by 0.6% y/y increase to 10.8mt in 9M FY19 while turnover declined 0.7% y/y to N467.9bn. EBITDA margin reduced to 59% in 9M FY19 (9M FY18: 65%) as a result of combined impact of reduced selling prices and elevated input and distribution costs. DCP also lost around 180,000 tonnes in export sales due to the closure of land borders.

Table 6: Cement capacity by country	Type	Current capacity (mta)	Operations start date
Nigeria	Integrated	29.3	2007
South Africa	Integrated	2.8	2014
Senegal	Integrated	1.5	2014
Ethiopia	Integrated	2.5	2015
Zambia	Integrated	1.5	2015
Tanzania	Integrated	3.0	2016
Republic of Congo	Integrated	1.5	2017
Cameroon	Grinding	1.5	2015
Ghana	Import terminal	1.5	2011
Sierra Leone	Import terminal	0.5	2017
Total		**45.6**	

Pan-African operations

Pan-Africa cement volumes remained at 9.4mt in line with FY17 level as performance was mixed across the continent. The region contributed a lower 40% of the Group's sales volume in FY18 (FY17: 42%) due to operational challenges in some countries. DCP reported strong performance in Cameroon, Senegal and especially Zambia (where sales volumes increased by 0.2mt to 1mt in FY18). Cement production at the new Congo plant was ramped up by around 7x to 0.2mt in FY18. Overall, this offset volume weakness in Tanzania and Ethiopia. Tanzania faced gas supply shortages, production disruptions and experienced delays with respect to installation of gas turbines[4] while

[3] Overall, there were four price increases in FY17 that underpinned the 31% growth in revenue, despite a 16% reduction in sales volumes to 12.7mt.

[4] which had been anticipated to be fully operational in 2017

Ethiopia witnessed civil unrests. In addition, DCP reduced imports into Ghana (from Nigeria) due to substantial haulage costs incurred on road transportation. Dangote Cement intends to build a grinding plant in Ghana over the medium term, with clinker to be supplied from Nigeria plants by sea. Underpinned by higher selling prices, regional turnover increased 10% to N283.3bn, EBITDA margin was up by 2.5 percentage points to 17.3%, while EBITDA increased 28% to N49.1bn in FY18, translating to a higher 11% (FY17: 9%) of the Group's total. DCP expects EBITDA contribution from Pan-African operations to exceed 20% in the medium term.

Pan-African cement volumes for 9M FY19 increased by 2% to 7,144kt while revenue reduced to N213.2bn (9M FY18: N214.3bn) attributable to depressed economic conditions and increased competitive pressures, especially in South Africa and Ethiopia. Overall, the EBITDA margin reduced to 17.7% (9M FY18: 18.3%) while EBITDA declined 4% y/y to N37.8bn. DCP confirmed that gas turbines have been installed in November 2018 and expects Tanzanian operations to report positive earnings in FY19, with significant 106% volume growth reported as at September 2019. The political situation has improved in Ethiopia with the appointment of the new prime minister. Efficiency initiatives have been implemented in operations including the back haul by cement delivery trucks and outsourcing of coal deliveries from Djibouti to improve supply to the plant.

There is significant headroom to ramp up production volumes for Pan-African operations as capacity utilisation in Tanzania (3mt), Congo (1.5mt) and Sierra-Leone (0.5mt) is less than 30% respectively while Zambia and Ghana were less than 60% each for the period ended 30 September, 2019. DCP is constructing a dual coal and gas power station in Tanzania with expected completion date of 1Q 2021. These initiatives should support enhanced profitability in the medium term.

Financial performance

A five-year financial synopsis and the unaudited interim results to September 2019 are appended to this report, while commentary follows. Audited financial statements are prepared in accordance with IFRS, as well as the requirements of CAMA and the Financial Reporting Council of Nigeria Act, 2011.

Supported by higher volumes in Nigeria, DCP's revenue increased by around N100bn to peak at N901.2bn in FY18. Revenue is anticipated to increase significantly in FY19 on the back of strong domestic demand and stable production in Tanzania and the rest of the continent. In recent years, the impact of inflation and currency have weighed on production costs, especially raw material and energy costs. Positively, the increased stability in gas supply and reliance on locally mined coal in Nigeria kept fuel and power costs at moderate levels (FY18: 15% of revenue; FY17: 14% of revenue) were well managed. Excluding plant depreciation, the normalised gross margin increased to 64.6% from 57% in FY17, while gross profit rose to N582.4bn (FY17: N513.9bn).

Selling and distribution expenses increased by around N30bn to N136.9bn mainly due to a spike in haulage costs[5], and staff costs resulting from larger operations[6] and increased sales activity. Nevertheless, the higher revenue and robust gross margin combined to see EBITDA rise 11% to N431.6bn in FY18 albeit at a lower 47.9% margin. In order to enhance distribution capabilities and improve turnaround times, DCP added around 2,000 new trucks in FY18. Consequently, depreciation charge increased by around 15% to N96.2bn. Although, operating margin declined to 37.2% it remains strong and ahead of levels reported by global cement leaders. DCP anticipates an average operating margin of 40% over the medium term.

Table 7: Income statement (N'bn)	**FY17**	**FY18**	**%Δ**	**9M FY18**	**9M FY19**	**y/y %Δ**
Revenue	805.6	901.2	11.9	685.3	679.8	(0.8)
EBITDA	**387.4**	**431.6**	**11.4**	**337.3**	**302.5**	**(10.3)**
Depreciation	(83.9)	(96.2)	14.6	(70.4)	**(71.7)**	1.9
Op. Profit	**303.4**	**335.3**	10.5	**266.9**	**230.7**	**(13.5)**
Net interest*	(43.6)	(30.3)	(30.4)	(21.3)	(22.8)	6.7
Other op. inc/exp†	0.8	3.4	325.7	(0.2)	0.8	(435.3)
Forex mvmt.	26.8	(8.1)	(130.3)	2.1	(11.0)	(632.8)
Share of loss of ass.	2.2	0.6	(74.0)	(0.0)	(0.0)	n.a
NPBT	**289.6**	**300.8**	**3.9**	**247.4**	**197.7**	**(20.1)**
Key ratios (%)						
Gross margin**	56.4	57.5	-	58.0	57.3	-
EBITDA margin	48.1	47.9	-	49.2	44.5	-
Op. margin	37.7	37.2	-	38.9	33.9	-
Net int. cover (x)	7.0	11.1	-	12.5	10.1	-

*Excludes amounts included in cost of qualifying assets and forex gain/losses
†Includes insurance claim, adjustments to recognise concessionary interest rate of government loan per IFRS requirements and provision for defined benefit obligation
**Excludes plant depreciation

DCP's turnover reduced marginally to N680bn at 9M FY19 and was attributed to challenging economic climate and lower pricing in Nigeria, South Africa and Ethiopia. The impact of sales discounting in Nigeria and higher input and logistics costs weighed on profitability, with earnings margins both below full year FY19 targets and FY17 levels. Operating margin fell to a review period low of 33.9% while operating profit reduced by 14% to N230.7bn. According to management there has been a price increase during 4Q 2019 in the domestic market, while the operating challenges in the Pan-African region have been largely resolved. Thus earnings margins are expected to remain strong for FY19 and beyond. The ramp up in Tanzania's production should result in enhanced margins for DCP as a whole.

DCP anticipates robust revenue growth in FY19. This will be largely underpinned by increased demand driven by economic recovery in Nigeria and increased production across the continent. DCP has significant headroom to ramp-up production volumes across its plants. The benefits accruing from operating efficiencies, cheaper fuel mix and improved logistics should sustain strong profitability margins over the medium term.

[5] Includes haulage costs on Nigerian exports
[6] Congo and Sierra-Leone had the first full year of operations in FY18.

The gross interest cost reduced 21% to N41.7bn in FY18 following repayment of maturing debt obligations while finance income (on interest earning bank accounts) witnessed a 24% uptick, both contributing to a 30% overall reduction in net finance charge. Underpinned by the strong operating profit, gross and net interest cover registered higher at 8x and 11x respectively (FY17: 5.8x and 7x). Although, debt expanded by around N60bn during 9M FY19, the additional borrowings were obtained between June and August 2019, thus, the net finance charge increased moderately by around 7% to N22.8bn. Net interest cover registered at 10.1x at 9M FY19.

The substantial N26.8bn net exchange gain reported in FY17 did not repeat in FY18 rather DCP registered a net foreign exchange loss of N8.1bn. Overall, pre-tax earnings rose by N11.2bn to N300.8bn in FY18. NPBT decreased by 20% y/y to N197.7bn as at September 2019. Although earnings were somewhat short of GCR's expectations, DCP evidenced positive growth and anticipates a strong performance for FY19, underpinned by increased demand in the fourth quarter combined with the impact of higher pricing in Nigeria.

Cash flows

Cash generation has been very substantial and has trended in line with EBITDA, barring adjustments for unrealised losses, impairments and other provisions. Bolstered by robust earnings, cash generated by operations peaked at N424.4bn in FY18 (FY17: N379.7bn) before declining 10% y/y to N304.6bn at 9M FY19. Working capital requirements typically increase following commissioning of additional plant capacity. DCP maintains sufficient inventory of critical machine spares (minimum of one-year supply), which inflates its inventory and makes substantial deposits/prepayments for supplies, rent and insurance *inter alia*. The accumulation and unwinding of creditors to fund trading assets also adds to variability of working capital. In line with higher traded volumes and production ramp-up across various countries, DCP reported a net working capital absorption of N37.9bn in FY18 (FY17: N31.1bn).

Trade debtors have little impact on working capital movements as sales are mainly made on cash basis prior to dispatch of goods, with a few large wholesalers allowed up to 15 days' credit, if a bank guarantee is in place. In comparison, the average credit period on DCP's trade payables in FY18 was 105 days (FY17: 84 days). Despite the absorption, DCP's operating cash flows increased 11% to a review period high of N339.5bn in FY18 and by an annualised 8% to N274bn as at September 2019.

Robust discretionary cash flows have been generally sufficient to fund dividend payments and capex. However, the significant N272.6bn[7] dividend pay-out in June 2019 saw net debt increase considerably by c.N120bn in 9M FY19 (FY18: N28.7bn decrease). Overall, DCP has paid 77% (N835bn) of its cumulative 5-year net income as dividends. While no quantified guidance is given as regard DCP's dividend policy, management indicated that the Group's dividend cover is set after taking into account operational and expansionary capital expenditure requirements.

Due to ongoing foreign currency control restrictions in Nigeria, DCP has scaled down its expansion plans in recent years. Major ongoing projects are the dual power plant in Tanzania and an import/export terminal in Nigeria. Both projects are expected to be completed by end-June 2020, with committed capex being USD187m. Total capex amounted to N253.1bn in the 21-month period to September 2019. Despite the considerable rise in net debt, operating cash coverage of total debt remained strong at 90% in September 2019 (FY18: 98%). While the substantial dividend distributions are incongruous with DCP's increased working capital requirements and expansion plans, it does imply that shareholders will be willing to extend existing loans or plough in additional debt when required to sustain robust credit protection metrics.

Funding and gearing profile

DCP's business is fixed capital intensive, with property, plant and equipment having averaged 77% of total assets over the review period. Operations remain well-capitalised, with tangible equity having increased from N588.2bn at FY15 to N980.6bn at FY18 (FY17: N775bn) and averaged 54% of DCP's funding over the review period. Dangote Cement made significant payments to suppliers and contractors during FY18, thus, creditors reduced to 21% of total liabilities (FY17: 30%). Following the large dividend payout in June, equity accounted for a reduced 52% of funding at 9M FY19 (FY18: 58%) while creditors and debt accounted for an almost proportionate mix of total liabilities.

DIL loans and related party loans have historically accounted for around 50% of total debt, reflecting strong shareholder support. To diversify its funding base, DCP registered a N150bn Commercial Paper Programme in June 2018, of which N125bn has been issued in five series during FY18 (N100bn) and 9M FY19 (N25bn). As part of the proceeds were used to repay DIL loans, related party loans reduced to 34% of debt at FY18. DCP obtained an additional N140bn in June 2019, of which N89.5bn had been drawn as at September 2019. The Group also utilised several overdraft facilities to meet short term financing needs across it operations. Overall, total debt increased by around N60bn to peak at N405.5bn in September 2019. The Group has a mix of Naira and foreign currency denominated loans across major banks in Africa. Naira denominated loans represented 60% of outstanding debt as at 9M FY19, while USD and ZAR denominated loans accounted for 13% and 7% of total respectively. The remainder of loans are denominated in West African CFA Francs, Central Africa CFA Francs and Ghanaian Cedis. The term loans are secured by a debenture on all fixed and floating assets[8] of DCP.

[7] A N16 dividend per share was recommended on FY18's net income (FY17: N10.5/per share).

[8] Loans obtained by subsidiaries are secured against subsidiary assets.

Table 8: Debt Profile	Loan type	Interest rate (%)	FY18 (N'bn)	9M FY19 (N'bn)	Maturity
Dangote Industries Ltd	LT	14	57.0	89.5	On demand
Dangote Oil & Gas	Intl Trade	Libor + 5	42.8	11.6	On demand
Bulk Commodities Ltd. (related co.) & other small loans	WC (USD)	6-8.5	17.8	19.3	On demand, 2021
BOI/GTB/Access	Power Intervention Loan (Term Loan)	7	7.8	6.0	2021
Bank (Various)	Overdraft (various ccy.)	6.5-27	7.9	21.5	On demand
Bank (Various)	LT (CFA)	8.5	25.0	28.9	2021
Bank (Various)	ST (USD)	6.5	62.6	44.2	On demand
Nedbank	Project Finance (ZAR)	Jibar*+ 4.5	35.3	29.6	2022
Capital market	CPs	12.4-12.65	79.3	131.3	2019-2020
Leases^	LT/ST		0.0	10.5	
Interest payable	n.a	n.a	10.6	13.3	n.a
Total			**345.9**	**405.5**	

*Johannesburg Interbank Average Rate
**LT is long term, ST is short term, WC is working capital.
^The leases relate to land, warehouses and trucks and reported as per the requirements of IFRS 16.

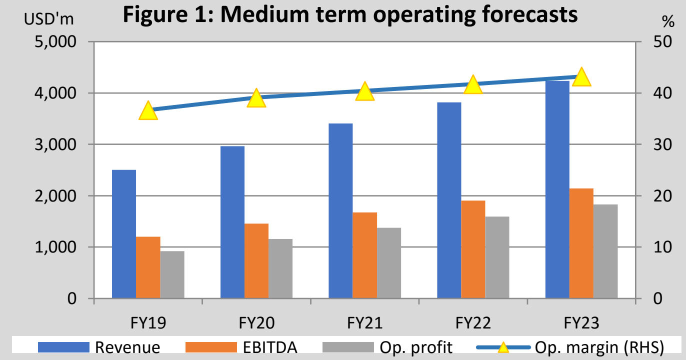
DCP faces foreign exchange and repricing risks in respect of its foreign currency denominated loans, especially when the reporting currencies weaken against the USD. According to management, DCP receives foreign currency from export proceeds, international businesses and also through bids in the interbank market. This does provide a natural hedge, however, the proportion of hard currency earnings is modest, with Pan-African operations accounting for 11% of the Group's EBITDA at FY18 (FY17: 10%). Overall, DCP had unutilised committed facilities totalling N32bn as at November 2019 (November 2018: N48bn). DCP's funding flexibility has been further enhanced by the Board's recent approval of a N300bn bond programme. The timing of the first issuance is likely to be during 1H 2020, however, DCP has yet to provide specific details including Series 1 Amount, tenor and issue date. As noted in DCP's 2018 annual report, the bond proceeds will be used for capex, working capital and general development purposes. The proposed bond issuance would improve DCP's maturity profile.

Despite the substantial increase in debt during the current year, gearing metrics are moderate with net gearing reported at 37% at 9M FY19 (FY18: 18%) and net debt to EBITDA at 78% at September 2019 (FY18: 42%).

Outlook

Dangote Cement's strategic vision is to be a global leader in cement production. DCP's anticipated double-digit revenue growth will be underpinned strong domestic performance, increased exports from Nigeria, production ramp-up from Pan-African operations. GCR expects some margin pressure to persist over the rating horizon, amidst heightened competitive pressure in Nigeria in particular. Operating profit is projected to grow at a 19% CAGR by FY23. Net interest cover is anticipated to reach 14x by FY20 and improve annually to a long term level of 30x, over the medium term. Overall, NPBT is anticipated to grow at a 23% CAGR over the medium term (five-year historical CAGR: 13%).

Figure 1: Medium term operating forecasts



Based on DCP's performance as at 9M FY19, full year earnings may remain in line with FY18 levels. The impact of the resolution of some challenges in Pan-African operations on financial performance will be largely evident from FY20. The attainment of medium term budgets will be dependent on improved economic conditions, sustained operating efficiencies, effective cost management and positive earnings contribution across Pan-African operations. Capex will be significant in the medium term and will be funded mainly by internal cash. DCP expects to be in a net ungeared position by FY22, following completion of major development capex in FY21. Sustenance of moderate gearing metrics will be dependent on attainment of the robust earnings forecasts in line with expectations.

DCP's operations remain susceptible to external factors (including gas and foreign currency shortages), and vagaries of the economy. This notwithstanding, the strong financial profile, serves to moderate the impact of external shocks.

Dangote Cement Plc

(Naira in millions except as noted)

Year end: 31 December						
Statement of comprehensive income	**2014**	**2015**	**2016**	**2017**	**2018**	**9M 2019**
Turnover	391,639	491,725	615,103	805,582	901,213	679,791
EBITDA	**222,720**	**261,931**	**256,778**	**387,360**	**431,551**	**302,472**
Depreciation	(36,266)	(54,626)	(74,750)	(83,939)	(96,203)	(71,741)
Operating income	**186,454**	**207,305**	**182,028**	**303,421**	**335,348**	**230,731**
Net finance charge	(14,902)	(31,778)	(42,719)	(43,575)	(30,343)	(22,779)
Forex and reserving	12,873	12,250	41,155	26,790	(8,112)	(11,023)
Share of net income/(loss) from associate	0	0	0	2,167	563	0
Other operating income/(expense)	264	517	465	787	3,350	751
Net Profit Before Tax	**184,689**	**188,294**	**180,929**	**289,590**	**300,806**	**197,680**
Taxation charge	(25,188)	(6,971)	(38,071)	(85,342)	89,519	(43,330)
Net Profit After Tax	**159,501**	**181,323**	**142,858.0**	**204,248.0**	**390,325**	**154,350**
Statement of cash flows						
Cash generated by operations	**241,933**	**275,395**	**243,865**	**379,701**	**424,416**	**304,625**
Utilised to increase working capital	(26,359)	26,356	35,857	(31,113)	(37,905)	(5,315)
Net interest paid	(13,461)	(23,308)	(36,367)	(39,222)	(35,808)	(20,468)
Taxation paid	(226)	(2,234)	(1,128)	(3,213)	(11,163)	(4,884)
Cash flow from operations	**201,887**	**276,209**	**242,227**	**306,153**	**339,540**	**273,958**
Maintenance capex‡	(36,266)	(54,626)	(74,750)	(83,939)	(96,203)	(71,741)
Discretionary cash flow from operations	**165,621**	**221,583**	**167,477**	**222,214**	**243,337**	**202,217**
Dividends paid	(119,284)	(102,243)	(136,324)	(144,844)	(178,925)	(272,648)
Retained cash flow	**46,337**	**119,340**	**31,153**	**77,370**	**64,412**	**(70,431)**
Net expansionary capex	(158,816)	(102,466)	(44,091)	(24,014)	(35,638)	(49,479)
Investments and other	(1,596)	(298)	(745)	(1,639)	0	0
Proceeds on sale of assets/investments	1,487	0	0	0	0	0
Shares issued	0	0	0	0	0	0
Cash movement: (increase)/decrease	53,747	(25,062)	(71,110)	(54,648)	2,335	69,999
Borrowings: increase/(decrease)	58,842	8,486	84,176	2,931	(31,109)	49,911
Net increase/(decrease) in debt	**112,588**	**(16,576)**	**13,066**	**(51,717)**	**(28,774)**	**119,910**
Statement of financial position						
Ordinary shareholders interest	584,025	648,345	734,308	762,375	969,158	841,094
Outside shareholders interest	4,161	(6,235)	(12,925)	12,630	11,486	10,105
Pref. shares and convertible debentures	0	0	0	0	0	0
Total shareholders' interest	**588,186**	**642,110**	**721,383**	**775,005**	**980,644**	**851,199**
Current debt	117,263	47,275	220,300	144,783	220,128	231,875
Non-current debt	131,942	208,329	152,475	242,894	125,725	173,660
Total interest-bearing debt	**249,205**	**255,604**	**372,775**	**387,677**	**345,853**	**405,535**
Interest-free liabilities	143,630	210,619	430,801	496,846	361,997	382,040
Total liabilities	**981,021**	**1,108,333**	**1,524,959**	**1,659,528**	**1,688,494**	**1,638,774**
Property, Plant and Equipment	827,285	926,306	1,168,907	1,208,241	1,208,247	1,235,469
Investments and other non-current assets	16,633	16,047	52,888	40,988	51,409	48,143
Cash and cash equivalent	20,593	40,792	115,693	168,387	166,896	91,827
Other current assets	116,510	125,188	187,471	241,912	261,942	263,335
Total assets	**981,021**	**1,108,333**	**1,524,959**	**1,659,528**	**1,688,494**	**1,638,774**
Ratios						
Cash flow:						
Operating cash flow : total debt (%)	81.0	108.1	65.0	79.0	98.2	90.1
Discretionary cash flow : net debt (%)	72.4	103.2	65.1	101.3	136.0	85.9
Profitability:						
Turnover growth (%)	1.4	25.6	25.1	31.0	11.9	0.6
Gross profit margin (%)	63.5	59.0	47.4	56.4	57.5	57.3
EBITDA : revenues (%)	56.9	53.3	41.7	48.1	47.9	44.5
Operating profit margin (%)	47.6	42.2	29.6	37.7	37.2	33.9
EBITDA : average total assets (%)	25.7	25.8	20.7	26.7	28.6	26.3
Return on equity (%)	28.3	29.4	20.7	27.3	45.1	22.7
Coverage:						
Operating income : gross interest (x)	10.3	6.2	4.0	5.8	8.0	8.0
Operating income : net interest (x)	12.5	6.5	4.3	7.0	11.1	10.1
Activity and liquidity:						
Trading assets turnover (x)	33.6	35.5	39.6	33.6	26.4	33.6
Days receivable outstanding (days)	5.1	3.9	6.6	7.3	6.4	7.3
Current ratio (:1)	0.6	0.8	0.6	0.8	0.9	0.7
Capitalisation:						
Net debt : equity (%)	38.9	33.5	35.6	28.3	18.2	36.9
Total debt : equity (%)	42.4	39.8	51.7	50.0	35.3	47.6
Net debt : EBITDA (%)	102.6	82.0	100.1	56.6	41.5	77.8
Total debt : EBITDA (%)	111.9	97.6	145.2	100.1	80.1	100.6

‡Depreciation used as a proxy for maintenance capex expenditure
*unaudited nine-month interim financial statements to September 2019

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument. The ratings expire in November 2020.

Dangote Cement Plc participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Dangote Cement Plc.

The information received from Dangote Cement Plc and other reliable third parties to accord the credit ratings included:
- the 2018 audited annual financial statements and audited comparative results for the preceding four years,
- revised financial forecasts spanning 2019 to 2025,
- unaudited management accounts to September 2019,
- a completed rating questionnaire containing additional information on Dangote Cement Plc,
- Insurance schedule for Dangote Cement Plc,
- breakdown of facilities available and related counterparties.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.