MOODY'S
INVESTORS SERVICE

CREDIT OPINION
10 August 2021

Update

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RATINGS

Dangote Cement Plc

Domicile	Lagos, Nigeria
Long Term Rating	B1 , Possible Downgrade
Type	LT Corporate Family Ratings
Outlook	Rating(s) Under Review

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Dangote Cement Plc

Update of key credit factors following review for downgrade

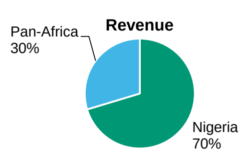
Summary

On 5 August 2021, Moody's placed the B1 corporate family rating (CFR), and the Aa2.ng national scale corporate family rating of Dangote Cement Plc (DCP) on review for downgrade. The review for downgrade was prompted by the increase in dollar debt in DCP's capital structure which was not initially contemplated in the B1 rating. This exposes DCP to increased currency risks because the majority of its cash flows are generated in naira and other African currencies and the fact that all the dollar debt is short term with maturities of less than a year. At the same time the B2 ratings assigned to the DMTN program and senior unsecured notes were affirmed.

DCP's B1 and Aa2.ng ratings are supported by the company's (1) strong market presence in Nigeria and other African markets in which it operates; (2) high gross margins of above 60% on a Moody's-adjusted basis; (3) low leverage of 0.8x, as measured by gross debt/EBITDA, and high interest coverage of 9.1x, as measured by EBIT/interest expense, for the last 12 months (LTM) ending 31 March 2021; and (4) prudent financial policies that ensure credit metrics remain strong through operating and project build cycles.

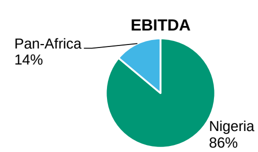
The ratings also factor (1) the relatively small scale level of cement production when compared to global peers, with production of 25.7 million tons (mt) for 2020; (2) single product exposure being cement; (3) a concentration of production in Nigeria, representing 70% of revenues for LTM 30 June 2021; (4) high reliance on short term debt funding exposing the company to liquidity risk; and (5) an aggressive dividend policy.

Exhibit 1
Geographical revenue mix as of LTM June 2021
Concentration of revenue in Nigeria constrains DCP's ratings



Excludes central administrative costs and eliminations.
Source: Company financials

Exhibit 2
Geographical EBITDA mix as of LTM June 2021



Excludes central administrative costs and eliminations.
Source: Company financials

Credit strengths

» Leading market position in Nigeria and sub-Saharan Africa's largest cement producer

» High operating margins, supported by vertically integrated and largely market protected production

» Strong credit metrics, which are maintained through conservative financial policies

» Capability to export cement and clinker to neighbouring countries

Credit challenges

» Status as a small-scale cement producer compared with its global peers we rate

» Concentration of operations in Nigeria

» Liquidity risks due to high short-term debt and an aggressive dividend policy

Rating outlook

The review will focus on DCP's long term capital structure target, liquidity profile and its ability to generate sizable dollar revenues. Moody's expects to conclude the review process within 3 months.

Factors that could lead to an upgrade

Factors will be updated following the conclusion of the review.

Factors that could lead to a downgrade

Factors will be updated following the conclusion of the review.

DCP's ratings are likely to be downgraded in the case of a downgrade of the Nigerian government rating. A downgrade could also occur if:

» DCP's liquidity does not improve;

» the Nigerian government introduces special taxes, levies or other punitive measures that negatively impact DCP's profit or cash flow, such that operating margins fall below 20% on a sustained basis and adjusted debt/EBITDA trends above 4.0x or adjusted EBIT/interest expense trends below 2.5x; and

» DCP moves away from its policy of matching the currency of its underlying cash flow with that of its debt.

Key indicators

Exhibit 3

Dangote Cement Plc

	12/31/2017	12/31/2018	12/31/2019	12/31/2020	LTM 03/31/2021	FYE 2021(f)	FYE 2022(f)
Revenue (USD Billion)	$2.4	$2.5	$2.5	$2.7	$2.9	$2.7	$2.8
Operating Margin	37.7%	37.3%	33.5%	37.7%	40.2%	34.7%	34.3%
EBIT / Avg. Assets	19.5%	20.6%	17.8%	21.5%	23.0%	18.8%	19.1%
Debt / Book Capitalization	31.8%	25.4%	26.9%	32.9%	27.7%	33.1%	30.9%
Debt / EBITDA	1.1x	0.8x	0.9x	1.0x	0.8x	1.0x	0.9x
EBIT / Interest Expense	6.0x	7.9x	6.6x	9.2x	9.1x	7.7x	8.1x
RCF / Net Debt	57.5%	117.3%	14.3%	40.0%	61.6%	42.7%	73.3%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (f) represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™ and Moody's Investor Service™

Profile

Headquartered in Lagos, Nigeria, Dangote Cement Plc is Africa's largest cement producer. The group operates nine fully integrated cement plants, a grinding plant and two import terminals across Africa, with a combined capacity of 48.6 Mtpa and approx. 61% share of the market in Nigeria, Africa's largest economy and population.

For the last 12 months (LTM) ending 30 June 2021, the company reported revenues of NGN1,248 billion ($3.0 billion) and EBITDA of NGN611 billion ($1.5 billion). DCP has the largest market capitalisation on the Nigerian Stock Exchange at NGN4.2 trillion ($10.3 billion) as at 3 August 2021 and is majority owned (85.75% equity stake) by Dangote Industries Limited.

Detailed credit considerations

Leading market share in Nigeria, Africa's largest population and economy

DCP's core market, Nigeria, which represented 70% of its revenue for LTM June 2021, offers an attractive cement market proposition as Africa's largest economy and most populous country with over 200 million inhabitants. Cement will continue to feature prominently in consumer spending, driven by an increasingly urbanised youth entering the housing market, where housing demand in metropolitan areas continues to significantly exceed supply. DCP is well positioned to benefit from the long term growth in construction and infrastructure spend in Nigeria as well as to supply neighbouring markets, given its significant installed capacity of 32.25 mtpa across four plants in Nigeria with a utilisation rate of 49% for 2020.

DCP's strong brand presence and leading market share at around 61% in Nigeria, supports the rating. The cement market in Nigeria is dominated by DCP and Lafarge Africa Plc, which make up around 81% of the local cement market. Despite the attractive demand growth characteristics of the Nigerian cement market, we view the risk of new entrants as limited. This is based on the Nigerian government's ban on cement imports, which limits competition to new onshore production entrants; and the very high capital equipment cost associated with cement plant construction to compete on the same level of scale and efficiency as domestic production plants.

Single product concentration with high operational exposure in Nigeria

DCP's ratings are constrained by its single product concentration in cement and high operational exposure to the Nigerian political, regulatory operating environment given DCP generates 70% of its group revenue and 86% of EBITDA from Nigeria. The low oil price environment combined with the global covid-19 outbreak in 2020 constrained local consumer demand during the second quarter of 2020 but improved during the second half as lockdowns eased, oil prices recovered and construction projects resumed. Growth in cement volumes are strongly correlated to Nigeria's GDP growth which we expect will increase by 2.8% and 3.0% for 2021 and 2022 respectively, supporting local demand for cement.

DCP has been expanding outside of Nigeria and in 2020 generated 30% of sales from nine other pan-African countries. We expect most of the groups revenue growth for 2021 and 2022 will mostly be driven by clinker exports from its port facilities in Apapa and

Onne. DCP competitive position in Africa will also benefit from the removal of import tariffs under the African Continental Free Trade Agreement signed between 44 African countries, which came into effect in 2021 however timing of when tariffs will be removed is not known.

With the exception of South Africa (Ba2 negative), we see the countries where DCP either has operations or is adding operations as mostly having commensurate or higher risk to that of Nigeria, such as in Ethiopia where DCP is currently experiencing difficulties in repatriating profits out of the country. As an african established company DCP has a robust track record when it comes to navigating high-risk operating jurisdictions. We see DCP's production and geographical expansion plan as largely de-risked as a result of (1) the fact that all the 16.3 Mtpa operations outside Nigeria are in operation; (2) stable and strong market shares outside of Nigeria; and (3) the completion of the port facilities in Apapa and Onne providing an export sea route.

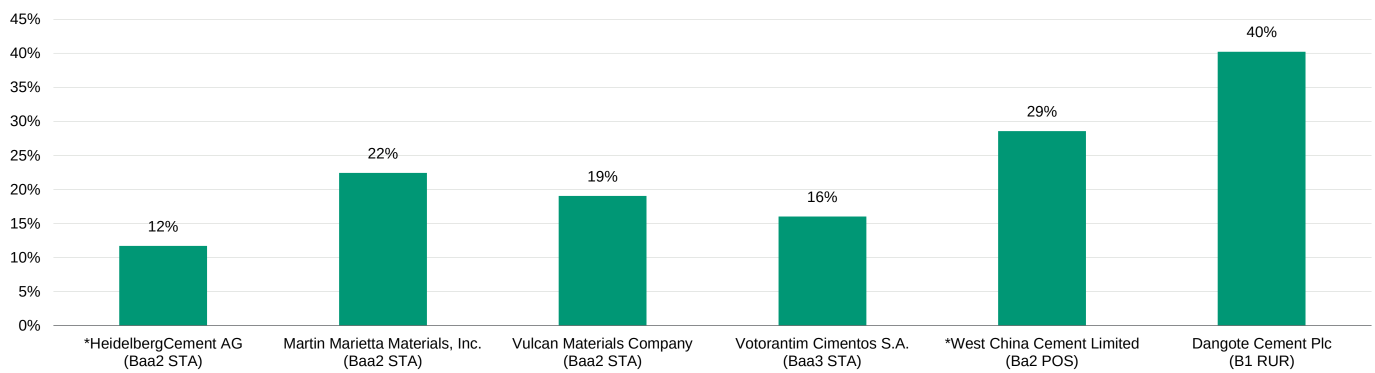
High operating margins supported by vertically integrated business model

DCP's operating margin of 40% on a Moody's-adjusted basis for LTM 31 March 2021 is the highest of the cement producers that we rate globally. This is largely because of its vertically integrated business model from sourcing raw material to processing and production, and then onto end delivery, which allows DCP to capture the entire margin across the value chain.

Exhibit 4

DCP has the highest operating margins out of all the cement producers that we rate globally

Operating margin of DCP compared with that of its peers



All figures are as of LTM March 2021, except [*] as of FYE December 2020

Source: Moody's Financial Metrics™

DCP's portfolio of plants are comparable with the most efficient and modern plants in the industry using dry process technology. Energy makes up close to half of the cement production costs and is supplied by coal or gas. While gas remains a key source of energy across its Nigerian plants, coal has become predominant. DCP's parent DIL owns and operates coal mines as an additional component to DCP's vertically integrated operations, which provides cheap feedstock for kiln fuel. At the same time, DCP benefits from its ownership of on-site mining operations, giving it access to cheap and vast limestone reserves. Furthermore, the company has a vast network of warehouses and trucks, which support a broad footprint for convenient low-cost delivery of cement to its customer base. We consider DCP to have a broad customer base, with the top 10 customers accounting for 28% of total sales in Nigeria, much of which is ordered on behalf of smaller distributors.

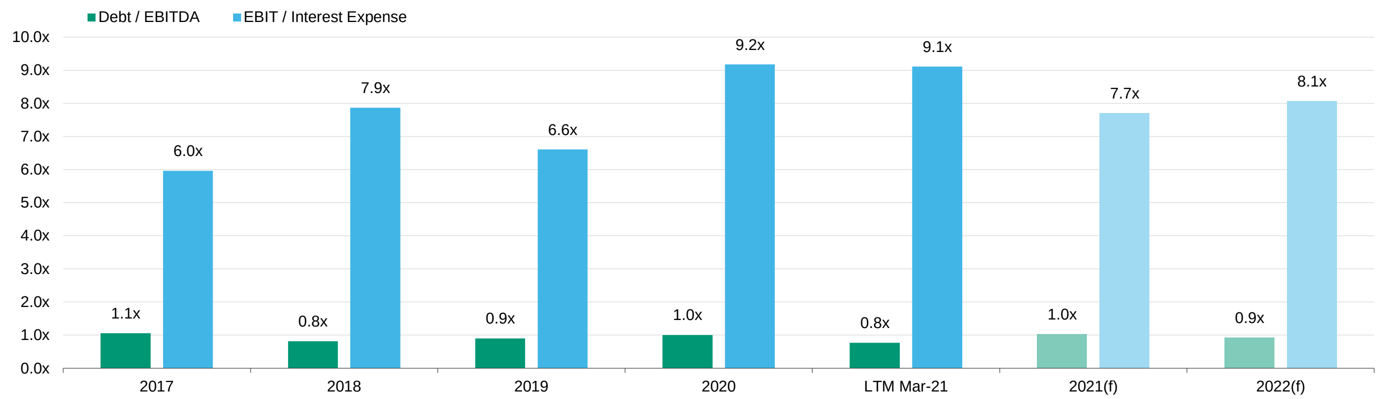
DCP high margin provides flexibility to respond to local price competition and protect market share. During 2020 DCP was able to maintain its market share above 60% and increase its operating margin to 40% for LTM 31 March 2021 from 37.7% for 2020 through increased fixed cost absorption, good cost control and strong marketing campaigns. We expect operating margins for 2021 to benefit from higher plant utilisation as exports grow, balanced by continued pricing pressure from local competitors.

Strong credit metrics being maintained through conservative financial policies

DCP benefits from conservatively positioned credit metrics, as shown by our adjusted debt/EBITDA of 0.8x and EBIT/interest expense of 9.1x for the last 12 months (LTM) ending 31 March 2021. These metrics compare favourably with its global peers we rate, which face a high degree of capital intensity given the nature of cement production. Despite the ongoing expansion plan to increase production capacity with up to 54 Mtpa by 2022, we expect DCP's debt/EBITDA to remain around 1.0x. This is well within management's conservative board-approved maximum net debt/EBITDA level of 2.0x.

Exhibit 5

DCP is expected to maintain its track record of conservative leverage and interest coverage
Debt/EBITDA and EBIT/interest expense



(f) represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

DCP generates strong operating cash flows with a high EBITDA cash conversion of between 80% and 100% which has historically been sufficient to cover the company's working capital, capital expenditure and expansion projects needs. DCP however has a track record of high dividend payouts (on average 80% of net income) and paid NGN273 billion in 2020 which resulted in small negative free cash flow of NGN12 billion ($31 million). For 2021 we expect strong operating cash flows and lower capex of around NGN125 billion will lead to positive free cash flow despite the high NGN273 billion dividend paid in May 2020.

ESG considerations

The cement industry is energy intensive and the mining and manufacturing process for cement production consume large amounts of coal, electricity and water. DCP's production meets domestic emission standards and the company has implemented measures to increase energy efficiency; we therefore view environmental risks as low.

In terms of corporate governance, the company is listed on the Nigeria Stock exchange with a premium board listing indicating that it meets the Exchange's most stringent governance and listing standards. It has oversight from its parent, DIL which is owned by its founder and chairman, Aliko Dangote. This does present key man risk, given the fact that Aliko Dangote continues to play a pivotal part in the fortunes of the company. Despite its conservative leverage, DCP pays material dividends to its shareholders which we consider as a risk in light of its reliance on short term debt.

Liquidity analysis

DCP's liquidity profile is weak because it relies on the roll-over of short term debt equal to NGN355 billion, representing 64% of total debt as of 30 June 2021. Combined with sizable annual dividends payments of NGN272 billion paid in May 2021 reduced the company's cash balance to NGN151.7 billion that provides a liquidity buffer against any non-rollover of short term debt liabilities and exposes the business to refinance risk. In Moody's view, DCP has limited flexibility to reduce its annual dividends because its main shareholder, Dangote Industries Limited (DIL) which owns 85.75% of DCP, is reliant on these funds to help complete its oil refinery project which Moody's understands is 80% complete.

Moody's recognizes that DCP has a good track record of accessing the local funding market given its low leverage, blue chip corporate status in Nigeria and strong local banking relations. Furthermore, its main shareholder DIL could support DCP, if required as done in the past.

Structural considerations

The (P)B2 and Aa3.ng ratings assigned to the DMTN program and B2/Aa3.ng ratings to the company's proposed series 1 unsecured notes reflect our position that the current notching considerations are no longer appropriate because of the low secured debt in the capital structure, sustainably low group leverage and high unencumbered asset base in Nigeria that provide sufficient recovery protection for senior unsecured lenders.

Rating methodology and scorecard factors

The following table shows DCP's scorecard-indicated outcome using our global Building Materials methodology (published May 2019), with data as of March 31, 2021, and on a forward-looking basis. DCP scores a Baa2 on both the current credit metrics grid and the forward looking grid. The large deviation of the CFR from the scorecard-indicated outcome is explained by the concentration of assets and cash flow generation to Nigeria, and therefore DCP's rating is constrained by the rating of the Government of Nigeria.

Exhibit 6

Rating factors

Dangote Cement Plc				
Building Materials Industry Scorecard [1][2]	**Current LTM 3/31/2021**		**Moody's 12-18 Month Forward View As of 7/27/2021 [3]**	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.9	Ba	$2.7 - $2.8	Ba
Factor 2 : Business Profile (15%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (20%)				
a) Operating Margin	40.2%	Aaa	34% - 35%	Aa
b) Operating Margin Stability	Ba	Ba	Ba	Ba
c) EBIT / Avg. Assets	23.0%	Aa	19%	Aa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / Book Capitalization	27.7%	Aa	30% - 33%	A
b) Debt / EBITDA	0.8x	Aa	0.9x - 1x	Aa
c) EBIT / Interest Expense	9.1x	A	7.7x - 8.1x	A
d) RCF / Net Debt	61.6%	Aa	43% - 73%	Aa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa2
b) Actual Rating Assigned				B1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of LTM March 2021.
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™ and Moody's Investor Service™

Ratings

Exhibit 7

Category	Moody's Rating
DANGOTE CEMENT PLC	
Outlook	Rating(s) Under Review
Corporate Family Rating	B1
Senior Unsecured -Dom Curr	B2

Source: Moody's Investors Service

Appendix

Exhibit 8
Peer comparison

(in USD million)	Dangote Cement Plc B1 Rating(s) Under Review			Vulcan Materials Company Baa2 Stable			Votorantim Cimentos S.A. Baa3 Stable			West China Cement Limited Ba2 Positive		
	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-18	FYE Dec-19	FYE Dec-20
Revenue	$2,465	$2,712	$2,861	$4,929	$4,857	$4,876	$3,308	$3,281	$3,334	$895	$1,050	$1,034
EBITDA	$1,111	$1,294	$1,394	$1,303	$1,352	$1,391	$752	$688	$790	$434	$486	$454
Operating Margin	33.5%	37.7%	40.2%	17.9%	18.7%	19.0%	10.5%	13.2%	16.0%	32.8%	31.6%	28.6%
Oper. Margin Volatility	13.7%	10.4%	10.8%	4.9%	5.0%	5.2%	30.5%	26.5%	41.9%	57.3%	50.8%	29.0%
ROA - EBIT / Avg. Assets	17.8%	21.5%	23.0%	8.4%	8.0%	8.5%	5.6%	6.3%	7.6%	17.3%	18.7%	13.4%
EBIT / Int. Exp.	6.6x	9.2x	9.1x	5.8x	5.8x	6.0x	2.4x	2.9x	3.8x	9.1x	12.8x	11.2x
Debt / EBITDA	0.9x	1.0x	0.8x	2.6x	2.8x	2.4x	4.0x	3.5x	3.2x	1.1x	0.8x	1.2x
Total Debt / Capital	26.9%	32.9%	27.7%	35.0%	35.8%	32.3%	47.7%	45.2%	46.7%	28.4%	23.4%	26.0%
RCF / Net Debt	14.3%	40.0%	61.6%	30.1%	35.2%	35.2%	10.8%	23.5%	24.3%	86.5%	120.7%	76.8%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end; LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 9
Moody's-adjusted debt breakdown

(in USD million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Mar-21
As Reported Debt	**1,132**	**1,034**	**922**	**993**	**1,249**	**1,014**
Pensions	0	0	0	0	9	9
Operating Leases	8	16	31	0	0	0
Non-Standard Adjustments	191	115	49	9	0	0
Moody's-Adjusted Debt	**1,330**	**1,165**	**1,002**	**1,002**	**1,258**	**1,023**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 10
Moody's-adjusted EBITDA breakdown

(in USD million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Mar-21
As Reported EBITDA	**1,218**	**1,288**	**1,214**	**1,078**	**1,336**	**1,436**
Pensions	0	0	0	0	1	1
Operating Leases	3	5	4	0	0	0
Unusual	-169	-83	14	35	-44	-43
Non-Standard Adjustments	0	-7	-2	-2	0	0
Moody's-Adjusted EBITDA	**1,052**	**1,203**	**1,231**	**1,111**	**1,294**	**1,394**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

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