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CREDIT OPINION
2 December 2021

Update

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RATINGS

Dangote Cement Plc

Domicile	Lagos, Nigeria
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Stable

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 Sovereign Rating Action

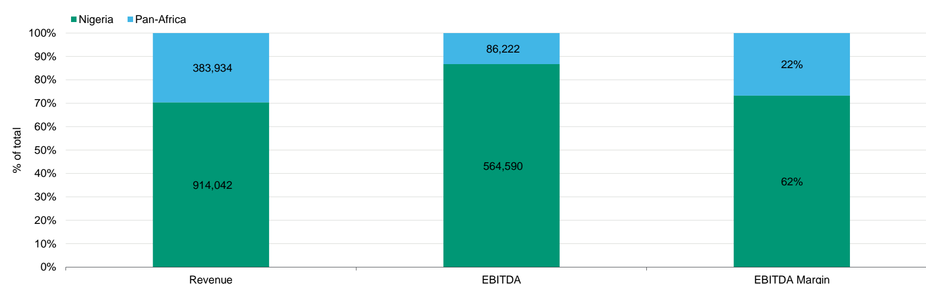
Summary

On 1 December 2021, we changed Dangote Cement Plc's (DCP) ratings outlook to stable following a change in outlook to stable and affirmation of the B2 rating of the Government of Nigeria on 29 November 2021. DCP's B2 CFR is constrained by DCP's sizable operational concentration in Nigeria that generated 87% of total EBITDA in the last twelve months to 30 September 2021 (LTM Sep-2021) which exposes the company to the heightened risks associated with the operating environment in the country.

DCP's B2 and Aa3.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 0.9x, as measured by gross debt/ EBITDA, and high interest coverage of 10.8x, as measured by EBIT/interest expense, for LTM Sept-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 (Government of, B2 stable); (4) high reliance on short term debt funding exposing the company to liquidity risk; and (5) an aggressive dividend policy.

Exhibit 1
Concentration of revenue and EBITDA in Nigeria constrains DCP's ratings



Revenue and EBITDA mix and EBITDA margin as of LTM Sept 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 stable ratings outlook reflects our expectation that DCP will continue to maintain its strong market positon in Nigeria and grow the business while continuing to observe conservative financial policies. It further assumes DCP maintains sufficient liquidity to cover its short term debt obligations and high annual dividend payments over a rolling 12 to 18 month period.

Factors that could lead to an upgrade

A rating upgrade is unlikely, because DCP's B2 rating is constrained by the Nigerian government's foreign currency ceiling of B2. Because of the high revenue contribution from its domestic operations, there is a strong link between DCP's rating and the sovereign rating, which prevents DCP from being rated higher than the foreign currency ceiling. If the sovereign rating or foreign currency ceiling were to be upgraded, DCP would need to demonstrate a track record of good liquidity management for an upgrade to be considered.

Factors that could lead to a downgrade

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

- DCP's liquidity weakens;
- 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

	12/31/2017	12/31/2018	12/31/2019	12/31/2020	LTM 09/31/2021	FYE 2021(f)	FYE 2022(f)
Revenue (USD Billion)	$2.4	$2.5	$2.5	$2.7	$3.1	$3.3	$3.4
Operating Margin	37.7%	37.3%	33.5%	37.7%	41.9%	41.1%	39.1%
EBIT / Avg. Assets	19.5%	20.6%	17.8%	21.5%	26.5%	27.2%	25.4%
Debt / Book Capitalization	31.8%	25.4%	26.9%	32.9%	35.4%	32.6%	30.2%
Debt / EBITDA	1.1x	0.8x	0.9x	1.0x	0.9x	0.8x	0.7x
EBIT / Interest Expense	6.0x	7.9x	6.6x	9.2x	10.8x	11.3x	11.1x
RCF / Net Debt	57.5%	117.3%	14.3%	40.0%	52.6%	50.4%	98.4%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months. (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 Investors 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 September 2021, the company reported revenues of NGN1,294 billion ($3.1 billion) and EBITDA of NGN638 billion ($1.5 billion). DCP has the largest market capitalisation on the Nigerian Stock Exchange at NGN4.76 trillion ($11.6 billion) as at 26 November 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 Sept-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 87% 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 3.5% for 2021 and 2022 respectively, supporting local demand for cement.

DCP has been expanding outside of Nigeria and for LTM Sept-2021 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 and cement exports from its port facilities in Apapa and Onne in Nigeria. 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. 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 Nigerian port facilities in Apapa and Onne providing an export sea route.

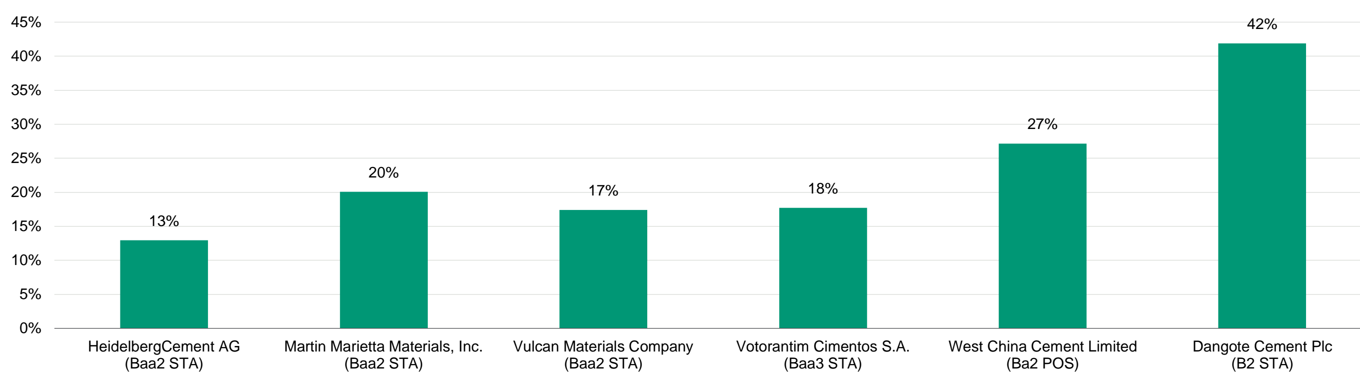
High operating margins supported by vertically integrated business model

DCP's operating margin of 41.9% on a Moody's-adjusted basis for LTM Sept-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 3

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 June 2021, except for Dangote Cement , Martin Marietta Materials, Inc., and Vulcan Materials Company figures are as of LTM Sept-2021.
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 41.9% for LTM Sept-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.

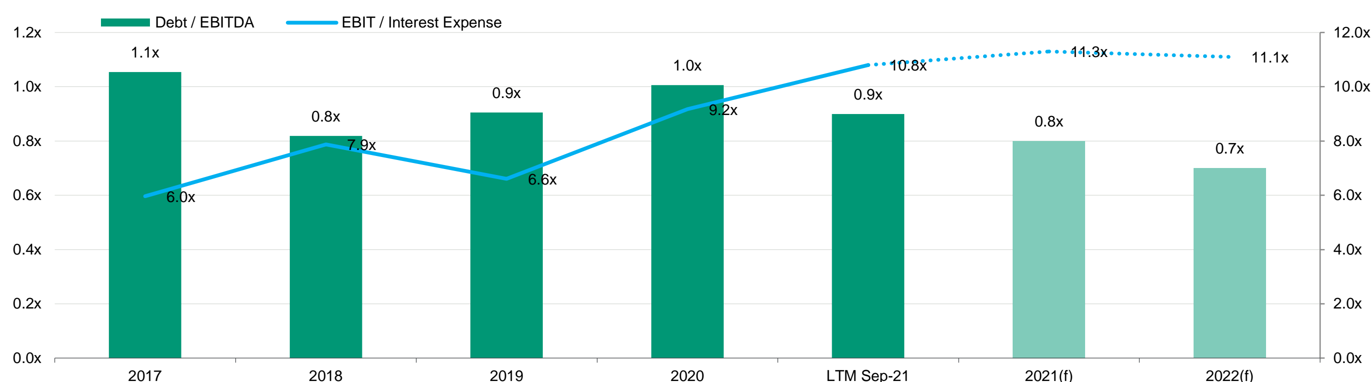
Strong credit metrics being maintained through conservative financial policies

DCP benefits from conservatively positioned credit metrics, as shown by our adjusted debt/EBITDA of 0.9x and EBIT/interest expense of 10.8x for LTM Sept-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 below 1.0x. This is well within DCP's maximum net debt/EBITDA covenant level of 2.0x.

Exhibit 4

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 the strong operating cash flows and lower capex of around NGN125 billion will lead to positive free cash flow despite the high NGN272 billion dividend paid in May 2021.

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. While DCP's operations are exposed to high environmental risks, its production meets domestic emission standards and the company has implemented measures to increase energy efficiency and transition to cleaner natural gas and alternative fuels for its power needs.

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 adequate but is exposed to ongoing refinancing risks because of the large portion of short term debt equal to NGN343 billion, representing 64% of total debt as of 30 September 2021. While DCP has strong cash generation with a cash balance of N179.1 billion, it pay large dividends (N272 billion in May 2021) which temporarily weakens its liquidity. 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 90% complete and is expected to start commissioning in the first half of 2022.

Moody's recognises 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 as done in the past, if required.

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 low secured debt in the capital structure, sustainably low group leverage and high unencumbered asset base in Nigeria 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 30 September 2021, and on a forward-looking basis. DCP's scorecard-indicated outcome is a Baa1 on a 12 to 18 month forward view. The large deviation of the B2 CFR from the scorecard-indicated outcome is explained by the concentration of assets and cash flow generation within Nigeria, which constrains DCP's rating to the rating of the Government of Nigeria.

Exhibit 5
Rating Factors

Scorecard Factors				
Dangote Cement Plc				
Building Materials Industry Scorecard [1][2]	Current LTM 9/30/2021		Moody's 12-18 Month Forward View As of 11/24/2021 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$3.2	Ba	$3.3 - $3.5	Ba
Factor 2 : Business Profile (15%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (20%)				
a) Operating Margin	41.9%	Aaa	39% - 41%	Aa
b) Operating Margin Stability	Ba	Ba	Ba	Ba
c) EBIT / Avg. Assets	26.5%	Aaa	25% - 27%	Aa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / Book Capitalization	35.4%	A	29% - 31%	A
b) Debt / EBITDA	0.9x	Aa	0.7x - 0.8x	Aa
c) EBIT / Interest Expense	10.8x	A	10x - 12x	A
d) RCF / Net Debt	52.6%	Aa	50% - 90%	Aa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned				B2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2021(L); Source: Moody's Financial Metrics™
[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 Investors Service™

Ratings

Exhibit 6

Category	Moody's Rating
DANGOTE CEMENT PLC	
Outlook	Stable
Corporate Family Rating	B2
Senior Unsecured -Dom Curr	B2/LGD4

Source: Moody's Investors Service

Appendix

Exhibit 7

Peer comparison

	Dangote Cement Plc B2 Stable			Vulcan Materials Company Baa2 Stable			Votorantim Cimentos S.A. Baa3 Stable			West China Cement Limited Ba2 Positive		
(in USD million)	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21
Revenue	$2,465	$2,712	$3,216	$4,929	$4,857	$5,121	$3,308	$3,281	$3,706	$1,050	$1,034	$1,262
EBITDA	$1,111	$1,294	$1,588	$1,303	$1,352	$1,372	$752	$688	$994	$486	$454	$519
Debt / Book Capitalization	26.9%	32.9%	35.4%	35.0%	35.8%	38.4%	47.7%	45.2%	42.3%	23.4%	26.0%	31.8%
Operating Margin	33.5%	37.7%	41.9%	17.9%	18.7%	17.4%	10.5%	13.2%	17.8%	31.6%	28.6%	27.2%
EBIT / Int. Exp.	6.6x	9.2x	10.8x	5.8x	5.8x	5.4x	2.4x	2.9x	5.2x	12.8x	11.2x	9.5x
Debt / EBITDA	0.9x	1.0x	0.9x	2.6x	2.8x	3.5x	4.0x	3.5x	2.4x	0.8x	1.2x	1.5x
RCF / Net Debt	14.3%	40.0%	52.6%	30.1%	35.2%	19.8%	10.8%	23.5%	32.1%	120.7%	76.8%	56.4%

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 8

Moody's-adjusted debt breakdown

(in USD million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Sep-21
As Reported Debt	**1,132**	**1,034**	**922**	**993**	**1,249**	**1,308**
Pensions	0	0	0	0	9	9
Operating Leases	8	16	31	0	0	0
Non-Standard Adjustments	191	115	49	9	0	55
Moody's-Adjusted Debt	**1,330**	**1,165**	**1,002**	**1,002**	**1,258**	**1,371**

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

Exhibit 9

Moody's-adjusted EBITDA breakdown

(in USD million)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Sep-21
As Reported EBITDA	**1,218**	**1,288**	**1,214**	**1,078**	**1,336**	**1,628**
Pensions	0	0	0	0	1	1
Operating Leases	3	5	4	0	0	0
Unusual	-169	-83	14	35	-44	-41
Non-Standard Adjustments	0	-7	-2	-2	0	0
Moody's-Adjusted EBITDA	**1,052**	**1,203**	**1,231**	**1,111**	**1,294**	**1,588**

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

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REPORT NUMBER 1311813

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