Credit Rating Announcement

GCR revises Dangote Cement Plc's Long Term Issuer rating to AA+(NG) on group cap, following initial ratings recently assigned to Dangote Industries Limited, Stable Outlook.

Rating Action

Lagos, Nigeria, 29 April 2022 – GCR Ratings ("GCR") has revised Dangote Cement Plc's national scale long-term Issuer rating to AA+(NG), from AAA(NG) previously, and affirmed the short-term Issuer rating at A1+(NG), with the Outlook accorded as Stable. This followed a recent review of Dangote Industries Limited ("DIL" or "the Group"), the parent company, which created a group ratings cap at the AA+(NG). Concurrently, GCR has revised the national scale long-term Issue rating accorded to each of the existing Bonds Issues and the proposed N116bn Series 2 (Tranche A-C) Senior Unsecured Bonds to AA+(NG), with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Dangote Cement Plc	Long Term Issuer	National	AA+(NG)	Stable Outlook
	Short Term Issuer	National	A1+(NG)	-
N100bn Series 1 Senior Unsecured Bond	Long Term Issue	National	AA+(NG)	Stable Outlook
N3.64bn Series 1 Tranche A Senior Unsecured Bond	Long Term Issue	National	AA+(NG)	Stable Outlook
N10.45bn Series 1 Tranche B Senior Unsecured Bond	Long Term Issue	National	AA+(NG)	Stable Outlook
N35.91bn Series 1 Tranche C Senior Unsecured Bond	Long Term Issue	National	AA+(NG)	Stable Outlook
N4.269bn Series 2 Tranche A Senior Unsecured Bond	Long Term Issue	National	AA+(NG)(IR)*	Stable Outlook
N23.335bn Series 2 Tranche B Senior Unsecured Bond	Long Term Issue	National	AA+(NG)(IR)	Stable Outlook
N88.396bn Series 2 Tranche C Senior Unsecured Bond	Long Term Issue	National	AA+(NG)(IR)	Stable Outlook

*IR stands for Indicative Rating

Rating Rationale

The ratings reflect Dangote Cement Plc's ("DCP") competitive position as one of Africa's leading integrated cement manufacturers, translating to very strong earnings, robust cash flows and solid gearing metrics. However, the rating has been capped at the national scale long-term Issuer rating assigned to DIL, which reports an elevated debt level and currently high foreign currency exposure.

DCP's ability to penetrate new markets with large-scale, modern and energy-efficient factories continue to support strong competitive edge in the African market. Nevertheless, the business assessment is constrained by the very high concentration to the Nigerian market, accounting for about 89% of group EBITDA and over 65% of capacity at end-December 2021. In recent periods, DCP has increased focus on its export strategy within West and Central Africa, which should support the advancement of its competitive positioning across the African continent, albeit marginally offset by the higher risks in many of the countries it is targeting.

DCP's market dominance has translated into very strong earnings and cash flows, with the EBITDA margin registering at 47% over the last five years, well above the industry average. This has been supported by improved cement volumes across its key markets, and its cost control efforts with cheaper fuel mix and lower power costs. However, inflationary pressure and foreign currency shortages (particularly in Nigeria) are expected to continue to weigh adversely on production costs and operating expenses, but DCP's strong financial profile serves to moderate the impact of external shocks. The current headroom to ramp-up production volumes based on existing capacity across other market should drive strong earnings growth over the medium term, while sustaining strong margins.

Gross debt registered at N588bn at FY21 following additional debt to partly finance ongoing expansion projects and support working capital requirements. Despite the growth in debt, net debt to EBITDA registered at a low 0.4x, against 0.7x recorded at FY20, indicative of a strong credit protection. Similarly, EBITDA coverage of net interest was high at 12.6x, from an average of 11x between FY16 and FY20, and operating cash flow coverage of debt stood at 94%. DCP is in the process of raising N116bn from the debt capital market in Series 2 (Tranche A-C) Senior Unsecured Bond Issue under its N300bn Bond Issuance Programme. Notwithstanding the new amount, GCR expects DCP to continue to demonstrate strong financial flexibility, with net debt to EBITDA (including operating leases) expected to range between 40%-55% over the outlook period, and net interest cover projected between 10x and 15x. DCP's robust operating cash flow is a key mitigant against concerns of higher debt.

DCP's liquidity assessment is underpinned by expectation that cash flows will remain strong, along with about N340bn in cash at December 2021 and N150m in unutilised committed funding lines. Nevertheless, the assessment is somewhat constrained by the very high level of short-term debt, as well as the historically high dividend pay-out ratios. The uses vs. sources liquidity coverage is estimated at 1.5x over the 12 months to December 2022.

In addition to the existing N100bn Series 1 Bonds, DCP registered a N300bn Multi-Instrument Bond Programme ("the MIB Programme") with the Securities and Exchange Commission in May 2021, and subsequently raised an initial N50bn in Series 1 (Tranche A-C) Senior Unsecured Bonds. An additional N116bn is expected to be raised in Series 2 (Tranche A-C) Fixed Rate Senior Unsecured Bonds Issue under the MIB Programme in Q2 2022. The existing N100bn Series 1, and the N50bn Series 1 Bonds and the proposed N116bn Series 2 (Tranche A-C) Bonds (together, "the Bonds") constitute direct, unconditional, senior, unsubordinated, and unsecured obligations of the Issuer. Being senior unsecured debt, the Bonds will rank pari passu with all other senior unsecured creditors of DCP. As such, the Bonds will bear the same national scale long term rating as that accorded to DCP. Accordingly, any change in DCP's long term corporate rating would impact the Bonds rating.

A negative adjustment has been applied to align DCP ratings with the relatively weaker creditworthiness of DIL, as GCR considers DCP to be a core part of the Group, accounting for about 78% of group revenue in FY20. The high debt at DIL has largely been utilised to fund the Group's fertilizer and refinery projects, which should begin to contribute meaningfully to group income from FY23. Accordingly, GCR expects the metrics to gradually improve over the outlook period, as earnings and cash flows from the fertilizer plant and refinery materialize, allowing DIL to materially reduce debt level.

Outlook Statement

The Stable Outlook reflects GCR's view that DCP will continue to maintain robust earnings and strong cash flows, which serves to moderate the impact of external shocks.

Rating Triggers

Given that DCP's ratings are capped at the level of DIL's ratings, a rating upgrade is contingent upon an upgrade to the DIL rating. This in turn is dependent on the successful completion of ongoing projects at DIL, which translates to significant earnings growth, and a meaningful reduction in debt and foreign currency exposure.

A downward rating movement could result from protracted earnings pressure at DCP or greater competition emerging from major international cement manufacturers. The aggressive dividend policy could result in materially higher than anticipated leverage and adversely impact GCR's view of liquidity. At the DIL level, negative action could derive from the inability to timeously complete the ongoing project, leading to lower-than-expected earnings and cash flows, and potentially an escalation in debt. Any factor that leads to a decrease in the rating assigned to DIL will directly affect DCP.

Analytical Contacts

Primary analyst	Femi Atere	Senior Analyst
Lagos, Nigeria	femi@GCRratings.com	+234 1 9049462
Committee chair	Matthew Pirnie	Group Head of Ratings
Johannesburg, ZA	Matthewp@GCRratings.com	+27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Corporate Entities, January 2022
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, December 2021
GCR Nigeria Corporate Sector Risk Scores, April 2022
Dangote Cement Plc Issuer rating report (2016-21)
Dangote Industries Limited Rating Announcement, April 2022

Ratings History

Dangote Cement Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long term Issuer	Initial	National	AA+(NG)	Stable	September 2016
Short Term Issuer	Initial	National	A1+(NG)		September 2016
N100bn Series 1 Bond Long Term Issue	Initial	National	AA+(NG)	Stable	May 2020
Long term Issuer	Last	National	AAA(NG)	Stable	July 2021
Short Term Issuer	Last	National	A1+(NG)	-	July 2021
N100bn Series 1 Senior Unsecured Bond	Initial/Last	National	AAA(NG)	Stable	July 2021
N3.64bn Series 1 Tranche A Senior Unsecured Bond	Initial/Last	National	AAA(NG)	Stable	July 2021
N10.45bn Series 1 Tranche B Senior Unsecured Bond	Initial/Last	National	AAA(NG)	Stable	July 2021
N35.91bn Series 1 Tranche C Senior Unsecured Bond	Initial/Last	National	AAA(NG)	Stable	July 2021
Up to N250bn Series 2 (Tranche A-C) Bonds	Initial/Last	National	AAA(NG)(IR)	Stable	March 2022

RISK SCORE SUMMARY

Risk score	
Operating environment	**5.25**
Country risk score	3.50
Sector risk score	1.75
Business profile	**2.50**
Competitive position	2.50
Management and governance	0.00
Financial profile	**4.50**
Earnings	2.00
Leverage & capital structure	2.50
Liquidity	0.00
Comparative profile	**(2.25)**
Group support	(2.25)
Peer analysis	0.00
Dangote Cement Plc's Total Risk Score	**10.00**

Glossary

Credit Rating	See GCR Rating Scales, Symbols and Definitions.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Rating horizon	The rating outlook period, typically 18 to 24 months.
Risk Management	The process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to Dangote Cement Plc. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Dangote Cement Plc participated in the rating process *via* tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Dangote Cement Plc and other reliable third parties to accord the credit ratings included:

- 2021 audited annual financial statement, and four years annual financial statements;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;