

PUBLIC CREDIT RATING NOTIFICATION

GCR assigns Dangote Industries Funding Plc's N112.4bn Series 2 Senior Unsecured Bonds an Issue rating of AA+(NG); Outlook Stable.

Rating Action

Lagos, 16 January 2023– GCR Ratings ("GCR") has assigned a national scale long-term Issue rating of AA+(NG) to Dangote Industries Funding Plc's N112.4bn Series 2 Senior Unsecured Bonds, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook
N112.4bn Series 2 Senior Unsecured Bonds	Long Term Issue	National	AA+(NG)	Stable

Rating Rationale

The Issue rating assigned to Dangote Industries Funding Plc's N112.4bn Series 2 Senior Unsecured Bonds reflects the long-term rating of the Sponsor, Dangote Industries Limited ("DIL"), a leading conglomerate in Africa. GCR assigned a national scale long-term Issuer rating of AA+(NG) to the Sponsor with a Stable Outlook in April 2022. The rating weighs the Sponsor's strong competitive position due to its size, the systemic importance of its ongoing projects, the leading market positions held by its major subsidiaries and relatively diversified business lines, which have translated into a sound earnings trajectory. This is somewhat offset by elevated debt and the currently high foreign currency ("FCY") exposure. Please see GCR's DIL Rating Announcement for more details on the rating action.

The Issuer, Dangote Industries Funding Plc has registered a N300bn Bond Issuance Programme ("the Programme") with Securities and Exchange Commission, under which it has raised N112.4bn in Series 2 Bonds (having recently raised a cumulative N187.6bn under Series 1 Tranches A & B). The Series 2 Bonds will have a tenor of ten years (terminating on 5 December 2032) from the issue date and have coupon rate of 16.75%. The principal redemption will be payable in full upon maturity, while coupon payments will accrue from the issue date and be due and payable semi-annually in arrears, up to the maturity date.

The Series 2 Bonds constitute direct, unconditional, senior, unsubordinated, and unsecured obligations of the Issuer and rank *pari passu* among themselves and rank at least *pari passu* with all other unsecured and unsubordinated obligations assumed by the Issuer other than those mandatorily preferred by law and are of general application to companies. The Issuer may at any time and from time to time purchase the Series 2 Bonds through the market or by tender (available to all Series 2 Bondholders) but not otherwise, provided that any Bonds purchased will be cancelled and will not be available for re-issue in accordance with the Programme Trust Deed.

The Issuer, Co-Obligors (namely, Dangote Industries Limited, Dangote Oil Refining Company Limited, and Dangote Fertiliser Limited), and the Bond Trustees shall enter an undertaking, pursuant to which the Co-Obligors, absolutely, irrevocably, and unconditionally guarantees the prompt and full payment of all debt and obligations owed by the Issuer under the Programme. Pursuant to a Deed of Undertaking, the Co-Obligors or any single Co-Obligor undertakes that if the Issuer does not pay any of the obligations, it will immediately perform the payment obligations of the Issuer as if it were the principal Co-Obligor and payments shall be in accordance with the Series 2 Trust Deed. The Co-obligors are jointly and severally liable for the repayment obligation of the Programme.

Given that the Sponsor offers timely and full coverage of all payments due to the bondholders, under the Series 2 Senior Unsecured Bonds through the Deed of Undertaking, the Bonds bear the same default risk as its Sponsor and would

reflect similar recovery prospects to the senior unsecured creditors in the event of a default. As such, the long-term rating for the Series 2 Bonds is equivalent to DIL's long term senior unsecured rating. Accordingly, any change in the Sponsor's long-term credit rating would impact the issue rating.

Outlook Statement

The Stable Outlook reflects GCR's expectation that DIL's oil refinery project will be commissioned according to schedule, and that strong earnings and cash flow projections will materialise as forecast. This will allow for the debt balance to be reduced over the rating horizon and mitigate the foreign currency mismatch.

Rating Triggers

A rating upgrade for DIL and thus the Series 2 Bonds, is contingent upon the successful completion of the refinery project, which translates to significant earnings growth, and a meaningful reduction in debt and FCY exposure. Specifically, upward migration to the ratings could follow a reduction in the net debt to EBITDA below 1.5x, interest coverage strengthening to 10x-15x and OCF to debt registering around 50%-60%.

A downward rating movement could result 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 adverse foreign currency movement that results in escalation of debt balance would also be negative to the ratings. In addition, aggressive dividend decision amid the large capex and investment commitments could constrain the liquidity assessment and result in a rating downgrade.

Any factors that impact the performance of Dangote Cement Plc could also impact the broader group, given that it underpins current earnings.

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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 2022
GCR Country Risk Scores, December 2022
GCR Nigeria Corporate Sector Risk Scores, April 2022
Dangote Industries Limited Rating Announcement, April 2022

Ratings History

Dangote Industries Funding Plc's N112.4bn Series 2 Senior Unsecured Bonds

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issue	Initial/last	National	AA+(NG)	Stable	January 2023

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
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.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
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
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
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.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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 rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Dangote Industries Funding Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Dangote Industries Funding 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 Industries Funding Plc and other reliable third parties to accord the credit rating included:

- Executed Programme Trust Deed;
- Draft Series 2 Trust Deed;
- Draft Series 2 Deed of Undertaking;
- Draft Series 2 Pricing Supplement;
- Draft Transaction Implementation Agreement.

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