

CREDIT OPINION

6 February 2023

Update



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RATINGS

Dangote Cement Plc

Domicile	Lagos, Nigeria
Long Term Rating	Caa1
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

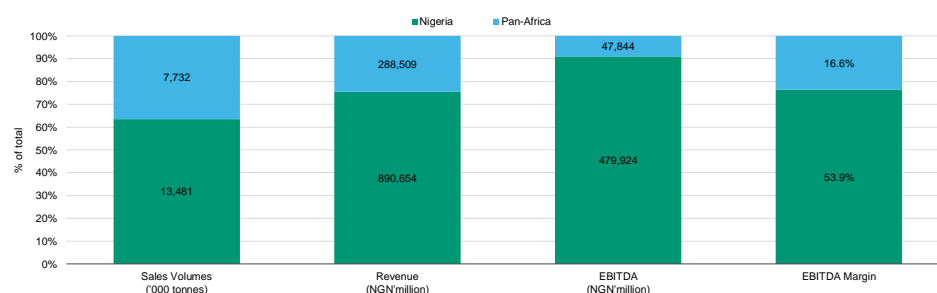
On 1 February 2023, [Dangote Cement Plc's](#) (DCP or the company) corporate family rating (CFR) was downgraded to Caa1 from B3 and probability of default rating was downgraded to Caa1-PD from B3-PD. The rating action directly followed the downgrade of the long term issuer rating of the [Government of Nigeria](#) to Caa1 from B3 and change of outlook to stable and the lowering of the foreign currency ceiling to Caa1 from B3. The company's national scale rating (NSR) has been repositioned to Baa3.ng from A3.ng. DCP's Caa1 CFR is constrained by DCP's sizable operational concentration in Nigeria that generated 76% of total revenue and 91% of total EBITDA in the nine months to September 2022 (YTD Sep-2022) which exposes the company to the heightened risks associated with the operating environment in the country.

DCP's Caa1 and Baa3.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 1.0x, as measured by gross debt/EBITDA, and high interest coverage of 8.7x, as measured by EBIT/interest expense, for LTM September 2022; 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 28.5 million tons (mt) for 2021; (2) single product exposure being cement; (3) a concentration of production in Nigeria (Caa1, 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 YTD September 2022. 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 representing 64% of production and 91% of EBITDA as of September 2022 creates sovereign rating linkage
- » Liquidity risks due to high short-term debt and an aggressive dividend policy

Rating outlook

The stable outlook is in line with the stable outlook of the Government of Nigeria rating reflecting DCP's close credit links to the Government of Nigeria and operational exposure to the country's political, legal, fiscal and regulatory environment.

Factors that could lead to an upgrade

The ratings of DCP could be upgraded if Nigeria's foreign-currency bond ceiling is raised. This would also require no material deterioration in the company's operating and financial performance, market positions and liquidity.

Factors that could lead to a downgrade

The ratings of DCP could be downgraded in case of a further downgrade of Nigeria's sovereign rating and a lowering of the foreign-currency bond ceiling. In addition, downward rating pressure could arise if there are signs of a deterioration in liquidity or if government imposed measures were to have an adverse impact on corporate credit quality.

Key indicators

Dangote Cement Plc	12/31/2018	12/31/2019	12/31/2020	12/31/2021	LTM 09/30/2022	FYE 2022(f)	FYE 2023(f)
Revenue (USD Billion)	\$2.5	\$2.5	\$2.7	\$3.4	\$3.7	\$3.4	\$3.4
Operating Margin	37.3%	33.5%	37.5%	42.0%	37.3%	38.5%	36.7%
EBIT / Avg. Assets	20.6%	17.8%	21.4%	26.9%	26.6%	23.9%	23.2%
Debt / Book Capitalization	25.4%	26.9%	32.9%	34.6%	41.9%	39.5%	39.8%
Debt / EBITDA	0.8x	0.9x	1.0x	0.8x	1.0x	1.0x	1.1x
EBIT / Interest Expense	7.9x	6.6x	9.1x	10.5x	8.7x	7.8x	7.6x
RCF / Net Debt	117.3%	14.3%	40.0%	84.9%	27.4%	31.6%	45.0%

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 51.6 Mtpa and approx. 60% share of the market in Nigeria, Africa's largest economy and population.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

For the last 12 months (LTM) ending 30 September 2022, the company reported revenues of NGN1,538 billion (\$3.4 billion) and EBITDA of NGN686 billion (\$1.5 billion). DCP has the largest market capitalisation on the Nigerian Stock Exchange at NGN4.55 trillion (\$9.9 billion) as at 31 January 2023 and is majority owned (85.75% equity stake) by Dangote Industries Limited.

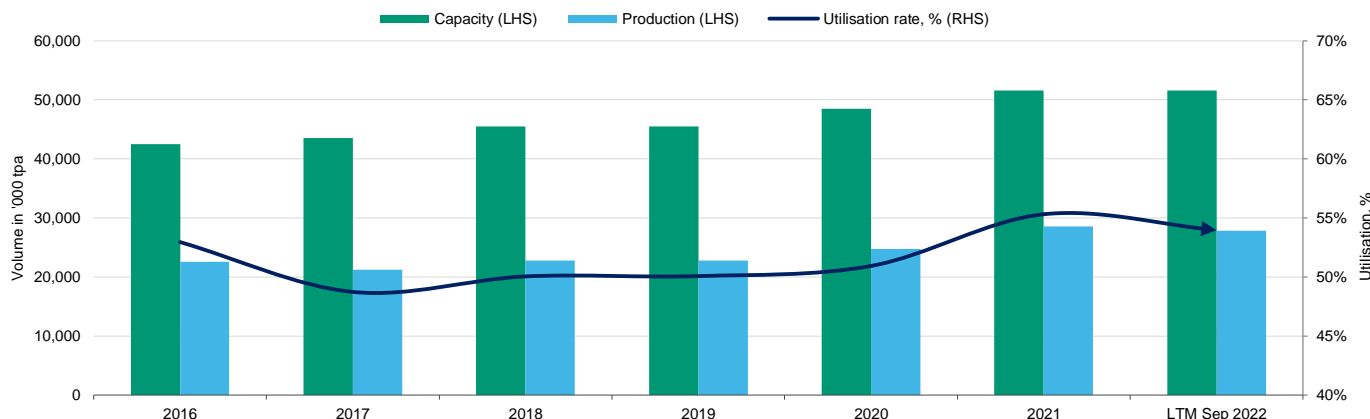
Detailed credit considerations

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

DCP's core market, Nigeria, which represented 76% of its revenue for YTD Sep-2022, offers an attractive cement market proposition as Africa's largest economy with strong demographics and societal trends as the most populous country in the African continent with over 200 million inhabitants with a material housing deficit and growing need for infrastructure spending. 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 55% for 2021.

Exhibit 3

DCP to continue improving utilisation rates, benefitting from construction and infrastructure markets DCP's absolute capacity and production levels between 2016 and LTM Sep 2022



Source: Company financials

DCP's strong brand presence and leading market share at around 60% in Nigeria, supports the rating. The cement market in Nigeria is dominated by DCP, Lafarge Africa Plc and BUA Group, which control the majority of the local cement market. Despite the attractive demand growth characteristics of the Nigerian cement market and strong pricing momentum, 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. Additionally, 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, limits new market entrants.

Single product concentration with high operational exposure in Nigeria remains a challenge

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 generated 71% of its group revenue and 87% of EBITDA from Nigeria in 2021. Following a weak consumer demand in 2020 due to the Covid-19 pandemic, oil prices recovered and construction projects resumed in Nigeria driving higher volumes and prices during 2021. However, during 2022 production volumes have decreased in Nigeria because of gas supply disruptions and in the international business because of plant maintenance and supply chain challenges which has put positive pressure on cement pricing due to limited product availability. Growth in cement volumes are strongly correlated to Nigeria's GDP growth which we expect will increase by 3% for 2022 and 2023 respectively, supporting local demand for cement.

Dangote's single product operations and predominantly Nigerian operations exposes the company to operational and legal risks such as the Obajana factory closure in Kogi state. The Obajana factory with a capacity of 16.5 mtpa represents almost one third of Dangote's

total capacity and around 50% of the capacity in Nigeria. The Kogi state based factory was sealed off by Kogi State Internal Revenue Service (KGIRS) on 5 October 2022 following acquisition controversy dating back to 2002 and 2003. The factory was reopened a day later, although not at full optimal levels, following federal state requirements to amicably resolve the issue either through a court process or out of court settlement while the factory remains open.

DCP has been expanding outside of Nigeria and for YTD Sep-2022 generated 36% of sales volumes from nine other pan-African countries. We expect most of the groups revenue growth for 2023 to 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 uncertain.

With the exception of [South Africa](#) (Ba2 stable), we see the countries where DCP either has operations or is adding operations as mostly having commensurate or higher risk to that of Nigeria. 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 is largely de-risked as a result of (1) the fact that all the 19.3 Mtpa capacity outside Nigeria are in active operations; (2) stable and strong market shares outside of Nigeria; (3) construction of new grinding plants in Ghana and Cote d'Ivoire on track; and (4) the completion of the Nigerian port facilities in Apapa and Onne providing an export sea route.

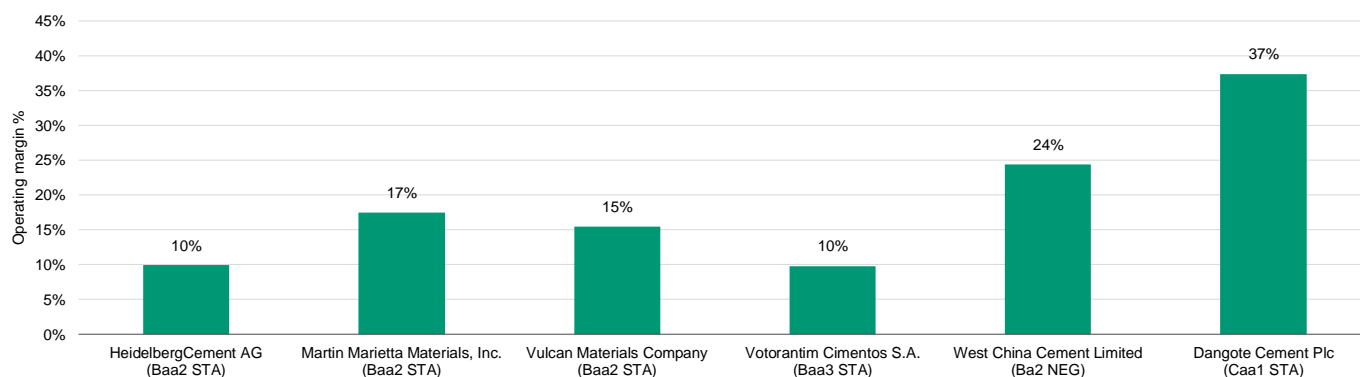
High operating margins supported by vertically integrated business model

DCP's operating margin of 37% on a Moody's-adjusted basis for LTM Sep-2022 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 September 2022.

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. During 2022, Nigeria has faced gas supply disruption which has subsequently affected DCP's local production volumes. However, although gas remains a key source of energy across the company's 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.

Dangote Cement also 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 no single customer representing more than 10% of the groups revenue because much of the cement is ordered on behalf of smaller distributors.

DCP's high margin provides flexibility to respond to local price competition and protect market share. During 2021 and YTD Sep-2022 DCP has been able to maintain its market share of 60% with relatively stable operating margins of 37% for LTM Sep-2022, down from 42% in 2021 due to inflationary pressures and freight costs in the international business partly offset by increased fixed cost absorption and good cost control measures. We expect operating margins for 2022 and 2023 to remain under pressure due to energy supply disruptions and scheduled plant maintenance, balanced by a higher plant utilisation rate to promote exports growth from Nigeria.

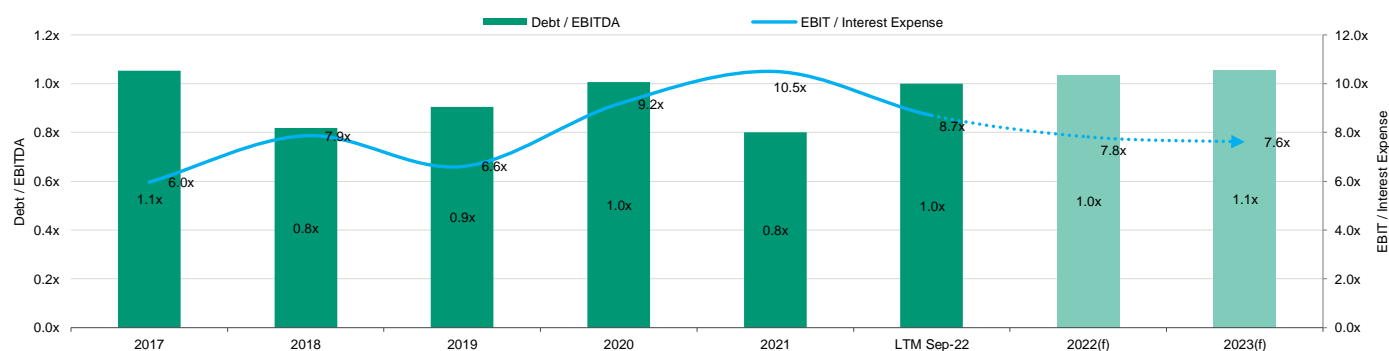
Strong credit metrics supported by pricing tailwinds and conservative financial policies

DCP benefits from conservatively positioned credit metrics, as shown by our adjusted debt/EBITDA of 1.0x and EBIT/interest expense of 8.7x for LTM Sep-2022. 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 projects in Ghana and Cote d'Ivoire we expect DCP's debt/EBITDA to remain around 1.0x in 2023. This is well within DCP's maximum net debt/EBITDA covenant 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 75% 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% to 90% of net income) and paid NGN337 billion in the second quarter of 2022 which has resulted in negative pressure in Moody's adjusted free cash flow although it remained positive at NGN24 billion (\$51 million) for LTM Sep-2022. For 2023 we expect operating cash flows to remain strong supporting by pricing tailwinds in the cement business despite challenges to increase sales volumes. Dangote will also benefit from lower capex below NGN90 billion which will lead to positive free cash flow despite continued high dividend payments.

ESG considerations

Dangote Cement Plc's ESG Credit Impact Score is Neutral-to-Low CIS-2

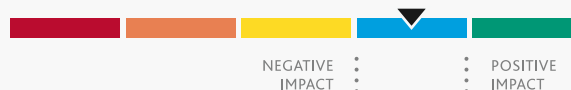
Exhibit 6

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Dangote Cement's ESG Credit Impact Score is neutral-to-low (**CIS-2**), where its ESG attributes are overall considered not to have a material impact on the current rating, which is constrained by the sovereign rating of Nigeria (Caa1 stable). The high environmental and governance risk exposures for the cement industry are not having a pronounced impact on the rating, given DCP's strong market position in Nigeria, conservative leverage and track record of managing environmental and social risks.

Environmental

Dangote Cement's environmental risks are considered to be highly negative (**E-4**), reflecting the company's cement production which is highly energy and carbon intensive as well as the high risks associated with natural capital which mostly pertains to product replacement. This is partly mitigated by the company's commitment to reduce its carbon emissions by using natural gas as a energy source, where available.

Social

Dangote Cement's social risks are considered to be moderately negative (**S-3**), primarily reflecting health & safety risks of operating heavy machinery and working with high temperatures in kilns, balanced by strong construction fundamentals in Africa, a good track record of high employee safety rates and low accidents.

Governance

G-3 (moderate). Governance related risks mainly reflects company's concentrated family ownership and reliance on short term debt and track record of high dividend payments, despite a conservative balance sheet.

Liquidity analysis

DCP's liquidity profile is adequate and is exposed to ongoing refinancing risks because of the large portion of short term debt equal to NGN326 billion, representing 55% of total debt as of 30 September 2022. While DCP has strong cash generation with a cash balance of NGN217 billion, it pays large dividends (NGN337 billion in Q2 2022) 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, has historically been reliant on these funds to help complete its oil refinery project which Moody's understands is 97% complete and is expected to start operating by mid-2023.

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 as done in the past, if required.

Structural considerations

The (P)Caa1 and Baa3.ng ratings assigned to the DMTN program and Caa1/Baa3.ng ratings to the company's 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 September 2021), with data as of 30 September 2022, and on a forward-looking basis. DCP's scorecard-indicated outcome is a Baa2 on a 12 to 18 month forward view. The large deviation of the Caa1 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 7

Rating Factors

Dangote Cement Plc			Moody's 12-18 Month Forward View	
Building Materials Industry Scorecard [1][2]			As of 2/2/2023 [3]	
	Current LTM 9/30/2022			
Factor 1 : Scale (10%)	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$3.7	Ba	\$3.3 - \$3.4	Ba
Factor 2 : Business Profile (15%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (20%)				
a) Operating Margin	37.3%	Aa	36.5% - 37.5%	Aa
b) Operating Margin Stability	Ba	Ba	Ba	Ba
c) EBIT / Avg. Assets	26.6%	Aaa	22.5% - 23.5%	Aa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / Book Capitalization	41.9%	Baa	39% - 40%	A
b) Debt / EBITDA	1.0x	Aa	1x - 1.1x	A
c) EBIT / Interest Expense	8.7x	A	7.5x - 7.8x	A
d) RCF / Net Debt	27.4%	Baa	35% - 45%	A
Factor 5 : Financial Policy (15%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				Caa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 9/30/2022(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 8

Category	Moody's Rating
DANGOTE CEMENT PLC	
Outlook	Stable
Corporate Family Rating	Caa1
Senior Unsecured -Dom Curr	Caa1/LGD4

Source: Moody's Investors Service

Appendix

Exhibit 9

Peer comparison

	Dangote Cement Plc			Vulcan Materials Company			Votorantim Cimentos S.A.			West China Cement Limited		
	Caa1 Stable			Baa2 Stable			Baa3 Stable			Ba2 Negative		
(in USD million)	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE Dec-20	FYE Dec-21	LTM Jun-22
Revenue	\$2,712	\$3,377	\$3,681	\$4,857	\$5,552	\$7,190	\$3,281	\$4,140	\$4,837	\$1,034	\$1,241	\$1,228
EBITDA	\$1,296	\$1,698	\$1,723	\$1,352	\$1,504	\$1,770	\$754	\$957	\$965	\$461	\$518	\$489
Debt / Book Capitalization	32.9%	34.6%	41.9%	35.8%	38.0%	37.8%	47.2%	44.5%	45.2%	26.0%	43.7%	41.9%
Operating Margin	37.5%	42.0%	37.3%	18.7%	17.8%	15.4%	13.3%	14.4%	9.8%	28.9%	26.1%	24.4%
EBIT / Int. Exp.	9.1x	10.5x	8.7x	5.8x	5.6x	5.9x	3.4x	4.1x	3.4x	11.5x	6.0x	4.4x
Debt / EBITDA	1.0x	0.8x	1.0x	2.8x	3.2x	2.8x	3.5x	3.0x	3.0x	1.2x	2.7x	2.8x
RCF / Net Debt	40.0%	84.9%	27.4%	35.1%	21.3%	23.2%	26.6%	29.4%	17.3%	76.8%	34.7%	31.5%

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 10

Moody's-adjusted debt breakdown

(in USD million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Sep-22
As Reported Debt	1,034	922	993	1,249	1,390	1,590
Pensions	0	0	0	9	8	7
Operating Leases	16	31	0	0	0	0
Non-Standard Adjustments	115	49	9	0	31	0
Moody's-Adjusted Debt	1,165	1,002	1,002	1,258	1,429	1,597

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA breakdown

(in USD million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Sep-22
As Reported EBITDA	1,288	1,214	1,078	1,336	1,701	1,553
Pensions	0	0	0	3	-3	-3
Operating Leases	5	4	0	0	0	0
Unusual	-83	14	35	-44	0	173
Non-Standard Adjustments	-7	-2	-2	0	0	0
Moody's-Adjusted EBITDA	1,203	1,231	1,111	1,296	1,698	1,723

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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