GCR upgrades Dangote Cement Plc's Long Term Issuer rating to $AAA_{(NG)}$, Stable Outlook.

Lagos, Nigeria, 1 March 2021 – GCR Ratings ("GCR") has upgraded the long-term Issuer rating of Dangote Cement Plc to $AAA_{(NG)}$, and affirmed the short-term Issuer rating of $A1+_{(NG)}$, with the Outlook accorded as Stable. Concurrently, GCR has upgraded the long-term Issue rating accorded to the existing N100bn Series 1 Senior Unsecured Bonds to $AAA_{(NG)}$.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Dangote Cement Plc	Long Term Issuer	National	$AAA_{(NG)}$	Stable Outlook
	Short Term Issuer	National	$A1+_{(NG)}$	
N100bn Series 1 Senior Unsecured Bonds	Long Term Issue	National	$AAA_{(NG)}$	

Rating Rationale

The ratings upgrade is underpinned by Dangote Cement Plc's ("DCP" or "the Group") competitive position as one of Africa's leading integrated cement manufacturers, evidenced by very strong earnings, robust cash flows and moderate gearing metrics.

DCP's ability to penetrate new markets with large-scale, modern and energy-efficient factories gives it a strong competitive edge in the African market. Nevertheless, the company profile is constrained by the very high concentration to the Nigerian market, accounting for 86% of group EBITDA and 64% of capacity at 9M FY20. 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 around 47% over the last five years, well above the industry average. This has been supported by cheaper fuel mix and lower power costs. 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 averaged N369bn over the four-year period to FY19, before rising to N450bn at 9M FY20 following additional debt. Despite the rise in debt, net debt to EBITDA still registered at a low 0.6x at 9M FY20 (FY19: 0.62x). Similarly, EBITDA coverage of net interest was high at 22x in 9M FY20, from an average of 11x between FY17 and FY19. Interest coverage is expected to trend comfortably within double-digit over the rating horizon as DCP continues to refinance its expensive debts with more favourable term debt. DCP's robust operating cash flows are a key mitigant against concerns of higher debt. In this regard, Operating cash flow (OCF) coverage of debt registered at 102% in 9M FY20, having been around 100% in most years under review.

The large proportion of USD debt facilities does present some risk to the funding profile, but this is somewhat mitigated by efforts to refinance much of the debt in Naira and by the group's broad access to funding facilities.

DCP's uses vs. sources liquidity coverage is estimated at 1.4x over the next 12 months. Liquidity is underpinned by expectation that cash flows will remain strong, along with N177m in cash and N153m in unutilised committed funding lines. Nevertheless, DCP's liquidity assessment is somewhat constrained by the very high level of short-term debt, as well as the historically high dividend pay-out ratios.

DCP is in the process of negotiating new debt facilities for its expansion projects in Nigeria, as well as to refinance its short term debt and working capital funding. Notwithstanding the new amounts to be raised, GCR expects the Group to continue to demonstrate strong financial flexibility, with net debt to EBITDA (including operating leases) expected to range between 55% – 65% over the outlook period, and net interest cover projected between 10x and 15x.

Outlook Statement

The Stable Outlook reflects GCR's view of DCP's robust earnings and strong cash flows, which serve to moderate the impact of external shocks and limit recourse to additional debt.

Rating Triggers

A national scale rating upgrade is not possible as DCP's long-term and short-term ratings are the highest possible ratings on GCR's national rating scale. However, downward ratings pressure could arise from protracted earnings pressure 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.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Nigeria Country Risk Scores, February 2021
GCR Nigeria Corporate Sector Risk Scores, February 2021
Dangote Cement Plc Issuer rating report (2016-20)

Ratings History

Dangote Cement Plc

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term Issuer	Initial	National	$AA+_{(NG)}$	Stable Outlook	September 2016
Short Term Issuer	Initial	National	$A1+_{(NG)}$		
N100bn Series 1 Bond Long Term Issue	Initial	National	$AA+_{(NG)}$	Stable Outlook	May 2020
Long term Issuer	Last	National	$AA+_{(NG)}$	Stable Outlook	December 2020
Short Term Issuer	Last	National	$A1+_{(NG)}$		
N100bn Series 1 Bond Long Term Issue	Last	National	$AA+_{(NG)}$		

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	**0.00**
Group support	0.00
Peer analysis	0.00
Dangote Cement Plc's Total Risk Score	**12.25**

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:

- 2019 audited annual financial statement, and prior four years annual financial statements;
- 9-month management accounts to 30 September 2020;
- 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;