GCR RATINGS

Credit Rating Announcement

GCR assigns national scale long and short term issuer ratings of AA+(NG)/ A1+(NG) to Dangote Industries Limited, with the Outlook accorded as Stable.

Rating Action

Lagos, 25 April 2022 - GCR Ratings ("GCR") has assigned national scale long-term and short-term Issuer ratings of AA+(NG) and A1+(NG) respectively to Dangote Industries Limited, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook
Dangote Industries Limited	Long Term Issuer	National	AA+(NG)	Stable
	Short Term Issuer		A1+(NG)	--

Rating Rationale

The ratings of Dangote Industries Limited ("DIL" or "the Group") weighs its strong competitive position due to its size, and systemic importance of the 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.

The competitive position is a positive rating factor, underpinned by DIL's position as one of the leading conglomerates in Africa, with operations concentrated in Nigeria but extending into 10 countries. The Group has 11 distinct business lines, but the cement business currently contributes 77.5% of group earnings, with sugar (16.1%) and salt (2.1%). These key subsidiaries are industry leading players with strong brand values, underpinned by long operational track record, diverse customer base, ongoing investments in capacity expansion, and control over their respective value chains. The remaining businesses are still relatively small, but GCR expects further earnings diversification from the ongoing refinery project and capacity ramp-up at the recently commissioned fertilizer plant over the outlook period.

The earnings profile assessment is positive to the ratings. This reflects the size and progression of earnings over the review period, with a 5-year CAGR of 10.2% in FY20. Although the top line declined slightly in FY19, DIL has since demonstrated resilience, with revenue increasing 10% in FY20 and 31.4% and 9M FY21, on the back of higher production volumes and price increases. GCR expects revenue growth of about 15% in FY22 on account of increased sales and additional inflow from the fertilizer plant. Revenue is then projected to nearly treble to c.N6tr in FY23, once the oil refining operations commence. Once fully operational, the refinery operations are expected to dominate group earnings. We anticipate this will lead to a sharp reduction in the EBITDA margin to the 21% to 24% range (historical average: 35%), but the overall earnings quantum will materially increase.

Leverage and capital structure are a constraint to the ratings, given the substantial debt used to fund the fertilizer and refinery projects. Gross debt (including shareholder loans and lease liabilities) was reported at N3.2tr at 9M FY21 (FY19: N2.2tr; FY18: N1.7tr), weakening net debt to EBITDA to 3.9x at 9M FY21 (FY20: 4.9x) compared to the moderate levels pre-FY19. Following the escalation in debt service costs, net interest coverage has since narrowed to the 2.2x – 2.4x range (FY16-18 average: 9.8x), before widening slightly to 3.7x during 9M FY21. In addition, operating cash flow ("OCF") coverage of debt weakened to 21.8% in FY20 and further to 13.8% during 9M FY21, mirroring the increase in debt. GCR expects the metrics to gradually improve over the outlook period, as earnings and cash flows from the fertilizer plant and refinery materialise, allowing DIL to materially reduce debt level.

GCR notes DIL's access to diverse funding pool, including 29 local and foreign banks and development finance institutions. Moreover, c.30% of DIL's debt relates to shareholder loans. However, the benefits are counterbalanced by the Group's high FCY exposure versus limited FCY earnings (<15% of group earnings). However, GCR anticipates that the FCY exposure will ease as earnings from the ongoing projects will be USD denominated.

The slightly positive liquidity assessment is predicated on DIL's cash holdings of N811bn at December 2021 and GCR's projected operating cash flows of N650bn and N915bn in FY22 and FY23 respectively. Liquidity will be supported by the Group's proposed bond issue of c.N300bn, N206.5bn from the disposal of shares and unutilised committed credit lines of N12.5bn with a foreign financier. We expect this to sufficiently cover the substantial remaining capex outlay, investment commitments, dividend payments and external debt redemption in FY22 and FY23. Overall, the liquidity sources versus uses coverage is estimated at 1.8x over the next 12 months and 1.6x over the 24 month to December 2023. Even if not all cash inflows materialise, DIL has adequate scope to manage its liquidity by reducing dividends or some non-essential investments.

Notwithstanding the financial stress that may materialise if there are delays in the commencement of the ongoing refinery project, GCR has factored in a positive peer score in view of the economic importance of the project to Nigeria. This has ensured strong federal government support, including a 20% investment in the refinery and preferential access to foreign currency.

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 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 could also impact the broader group, given that it underpins current earnings.

Analytical Contacts

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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 2019
GCR Country Risk Scores, December 2021
GCR Nigeria Corporate Sector Risk Scores, April 2022

Ratings History

Dangote Industries Limited

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial/last	National	AA+(NG)	Stable	April 2022
Short Term Issuer	Initial/last	National	A1+(NG)	--	

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**5.75**
Country risk score	3.75
Sector risk score	2.00
Business profile	**3.00**
Competitive position	3.00
Management and governance	0.00
Financial profile	**0.50**
Earnings performance	2.00
Leverage and Capital Structure	(2.00)
Liquidity	0.50
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.75
Total Score	**10.00**

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.
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.
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.
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 Horizon	The rating outlook period

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 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 rating has been disclosed to Dangote Industries Limited. 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 Limited participated in the rating process via telephonic management meetings, 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 Limited and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- management accounts for the period to 30 September 2021;
- 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.