FitchRatings

# Fitch Rates Dangote Industries ‘AA (nga)’; Outlook Stable

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Fitch Ratings - Dubai - [publication date will be automatically inserted]
Fitch Ratings has assigned Dangote Industries Limited (DIL) a Nigerian National Long-Term Rating of ‘AA(nga)’ with a Stable Outlook. Fitch has also assigned an expected National rating of ‘AA(EXP)(nga)’ to the senior unsecured notes to be issued by DIL’s SPV, Dangote Industries Funding Plc. The final instrument rating is contingent on the receipt of final documentation conforming with information already reviewed.

DIL is planning to establish a local bond programme amounting to USD750 million to partially finance the completion of its refinery and petrochemical plant. Dangote Oil Refining Company Limited (DORC) and Dangote Fertiliser Limited (DFL), DIL’s subsidiaries, will be co-obligors under the proposed programme.

DIL is a diversified conglomerate in Nigeria with a leading share in the cement business and a future key operator in the petrochemical industry through its fertiliser and oil refinery business. Its strategy is to gradually establish a downstream industry in Nigeria and be the largest urea producer in Nigeria. It also aims to make Nigeria a net exporter of refined petroleum products and petrochemicals by 2026.

**KEY RATING DRIVERS**

**National Scale Rating:** DIL is rated on Fitch’s Nigerian National Scale Rating. Its business model, profitability and leverage metrics are commensurate with an 'AA(nga)' rating category. DIL generates majority of its revenue from the domestic market and borrows in both Nigerian naira from local banks and in US dollars from international markets.

**Prior-Ranking Debt:** DIL has significant secured debt viewed as prior-ranking debt to its prospective new unsecured bond. The future bond will include standard covenant package for local bond issuance. The documentation includes negative pledge and cross-default provisions. Fitch’s expectations of recovery should result in a Recovery Rating of ‘RR4’, with bond rating at the same level as DIL’s National long-term rating.

**Cement a Major EBITDA Contributor:** Dangote Cement (DCP) is a significant contributor to DIL’s consolidated profile. The company is supported by large-scale operations in Nigeria and pan-Africa. In 2020, DCP’s EBITDA contribution to DIL stood at 93% and we forecast the contribution to remain high until 2022 when contributions from the fertiliser business increase.

**Strong Cement Growth:** The cement business recorded significant recovery in sales volume due to increase in prices and demand across DCP’s main markets. Revenues rose 34% yoy in 2021 on growth in Nigeria and pan-Africa, despite volatility in landing cost of cement and clinker. EBITDA in 2021 increased 9% to USD1 billion (24% in local currency). Additionally, the company’s export strategy is expected to ramp-up, which could lead to sizeable volume sales.

**Lower Urea Output:** DIL’s urea plant was commissioned in 2021 following delays with a 25% utilisation rate of line 1 in 2021 and 0% in line 2. Both lines were operational as of April 2022. Gas compressor issues and, as a result, low pressure of the gas supplied to the plant were the main factor behind the delay together with a delay to obtaining regulatory approvals. The gas pressure has recovered in 2022, and management has conservatively assumed utilisation rates for respective lines to increase to 55% and 50% in 2022, 65% in 2023 and 82% by 2025.

**Moderate Refinery Execution Risk:** DIL’s refinery project is still on track to be completed by 2023, and requires additional USD1.1 billion capex in 2022 to be partly funded by the new bond. Considering the importance of the refinery’s cash flow contribution to the company’s deleveraging capacity, the timely completion of the project is a key driver of our rating, and only limited delays or cost overruns may be tolerated in the current rating.

**Deleveraging to Benefit Operational Profile**: DIL’s rating reflects its leverage metrics and remaining execution risks. Fitch assumes that once the fertiliser and refinery projects start contributing to EBITDA, their associated cash generation will be directed towards deleveraging.

**Limited Financial Flexibility:** Funding for the completion of the refinery project is expected to be partly covered by proceeds of the new bond. If the transaction is not successful, or should completion costs overrun or market conditions in the cement or urea sector deteriorate materially, we do not believe that DIL’s existing creditors would have further lending capacity. We believe that further asset sales, either in cement, or stakes in the projects, would be the more likely options to address funding of the refinery.

**Transformational Projects:** The refinery project is expected to sustain strong margins and yield solid cash generation, adding diversification to DIL’s profile and allowing rapid deleveraging. Once operational, we expect this project to contribute around USD1 billion to EBITDA annually when ramped up from 2024.

**High Leverage:** We estimate funds from operations (FFO) gross leverage to have been high for 2021 at above 7x, up from 4.7x in 2019, due to continuing capex funding for the refinery plant. We expect DIL to start deleveraging meaningfully from 2023.

**Weak Corporate Governance:** Weak Corporate Governance: DIL has a complex group structure with a large amount of related-party transactions, with a negative effect on operational and financial transparency. The Group structure may be further complicated by the Nigerian National Petroleum Corporation's 20% stake in the refinery Project. We also view the dominance of Aliko Dangote, as CEO and the main shareholder, in operations as an

additional risk.

**Parent Subsidiary Linkage:** Greenview International Corp (Greenview) has majority ownership in DIL. We view the legal incentives as high based on parental guarantees. Strategic incentives are also high as DIL contributes all EBITDA generation. The operational incentive is moderate. As a result, we do not notch DIL's rating from our credit assessment of Greenview.

**DERIVATION SUMMARY**

DIL is a diversified conglomerate with leading market share in building materials in Nigeria and, potentially, a large operator in the fertiliser and oil refinery markets in Nigeria and regionally. We apply the generic navigator to DIL's consolidated profile. We also compared its business profile with its sector peers'.

Diversified peers in LATAM, Votorantim SA (VSA, BBB-/Stable) and Alfa SAB de CV (Alfa, BBB-/Stable), have geographical and product diversification across industries such as building materials/cement, petrochemicals, and in the case of VSA, oil & gas and mining. DIL's business profile of 'bb' is weaker than VSA's and Alfa's due to meaningful diversification in LATAM and stable cash flow generation from fast moving capital goods, compared with high exposure to cyclical commodity prices for DIL's cement.

**KEY ASSUMPTIONS**

- Cement business to average USD1.1 billion p.a. EBITDA contribution in 2022-2025

- Urea plant line 1 to gradually ramp up to an average 60% capacity utilisation in 2022-2023 and to around 80% by 2025, from 25% in 2021. Line 2 to start production in April 2022 to around 80% capacity rate by 2025 from 50% in 2022

- Fitch urea price deck assumptions: FOB Black Sea USD500/tonne in 2022; USD300/tonne in 2023; USD250/tonne in 2024-2025

- Urea plant's 66% EBITDA margin in 2022-2025, increasing consolidated EBITDA margin to 39% in 2022 from 37% in 2021

- Oil refinery to start production in 2H23. Fitch conservatively assumes a six-month delay in production ramp-up versus management expectations with an average gross refining margin of USD10/barrel

- USD1.38 billion capex in 2022

- No dividend payments until 2024 when net consolidated leverage is below 1.5x. Dividend pay-out to equal 90% of net income in 2024

**RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action on Nigeria's sovereign IDR (B/Stable) and improvement of DIL's operational and financial profiles, leading to gross debt/ EBITDA below 4.0x

- Start of commercial production at the refinery project

- Sustainable positive FCF generation

- Sufficient liquidity with sustained liquidity score above 1x

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Sustained deterioration in operating performance across DIL's businesses, leading to gross debt/ EBITDA consistently above 5x

- Weak liquidity position

- Delayed commissioning of the refinery project by more than a year and significant capex overrun

- Sustained negative FCF generation after commissioning of the refinery

**LIQUIDITY AND DEBT STRUCTURE**

**Adequate Liquidity:** We estimate DIL to have had an adequate liquidity score at 1.5x for 2021 with estimated total external group debt of USD3.8 billion. It has no significant maturities until 2023 when Fitch expects the refinery to start generating cash flow. We expect positive FCF from 2023 when both projects are ramped up and capex is moderate.

**DATE OF RELEVANT COMMITTEE**

08 April 2022

**REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

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**RATING ACTIONS**

| ENTITY | RATING | | |
|---|---|---|---|
| Dangote Industries Funding Plc | | | |
| senior unsecured | Natl LT | AA(EXP)(nga) | Expected Rating |
| Dangote Industries Limited | Natl LT | AA(nga) ⭘ | New Rating |

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**FITCH RATINGS ANALYSTS**

**Samer Haydar**
Director
Primary Rating Analyst
+971 4 424 1240
samer.haydar@fitchratings.com
Fitch Ratings Ltd
Dubai Branch One Central, The Offices 3, #321 & 323, Sheikh Zayed Road, P.O.Box 9573,
Dubai

**Maria Yakushina**
Director
Secondary Rating Analyst
+44 20 3530 1315
maria.yakushina@fitchratings.com

**Paul Lund**
Senior Director
Committee Chairperson
+44 20 3530 1244
paul.lund@fitchratings.com

**Media relations**
Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.p-mannan@thefitchgroup.com


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Additional information is available on www.fitchratings.com

**Applicable Criteria**
Corporate Rating Criteria (pub.15-Oct-2021)(includes rating assumption sensitivity)
Corporates Recovery Ratings and Instrument Ratings Criteria (pub.09-Apr-2021)(includes rating assumption sensitivity)
Country-Specific Treatment of Recovery Ratings Criteria (pub.05-Jan-2021)
National Scale Rating Criteria (pub.22-Dec-2020)
Parent and Subsidiary Linkage Rating Criteria (pub.01-Dec-2021)
Sector Navigators - Addendum to the Corporate Rating Criteria (pub.15-Oct-2021)

**Applicable Models**
Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 (1 (https://www.fitchratings.com/site/re/1003019))


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