Unaudited results for the six months to 30 June 2014

Fuel supply issues weigh on sales growth and margins but new coal facilities will improve fuel security and margins. Ibese and Obajana close to commissioning new capacity.

Lagos, 15 August 2014: Dangote Cement PLC (DANGCEM-NL), Nigeria's largest cement producer, announces unaudited results for the six months ended 30 June 2014.

Financial highlights

- Consolidated Group revenue up 5.3% to ₦208.9bn
- Nigeria revenue up 6.1% to ₦202.4bn
- Group gross profits up 1.1% to ₦133.5bn, 63.9% margin, affected by gas disruption
- EBITDA up 1.6% to ₦129.3bn at 61.9% margin
- EBIT up 0.8% to ₦112.0bn, 53.6% margin
- Earnings per share down 11.0% to ₦5.63 as some Nigerian operations become taxable
- Net debt of ₦200.0bn
- ₦119bn paid in respect of 2013 dividend

Operating highlights

- Disruption to gas and LPFO supplies constrains production and market growth
- Total Nigerian cement market grows by 1.2% to 11.1 million tonnes
- Nigerian sales volumes up 0.9% to 6.8 million tonnes
- Obajana sales volumes down 6.0%, Ibese down 4.8%, Gboko up 63.0%
- Successful launch of 3x brand of 42.5R cement in Nigeria
- Operations commence at Sephaku Cement in South Africa

D.V.G. Edwin, Chief Executive, said:

"Disruption to our gas and LPFO supplies has weighed on both our sales and margins and hampered our ability to supply Nigeria's healthy demand for cement. We have built coal facilities to serve Lines 1 & 2 at Ibese and Line 3 at Obajana and are embarking on a programme to equip all our kilns in Nigeria with the ability to burn coal in preference to the more expensive LPFO we use at present."

"Our new lines at Ibese and Obajana will begin commissioning in the coming weeks and we are confident they will be producing commercial quantities of cement in the near future."

"Across Africa we continue to make progress in opening new plants to serve the continent's growing need for cement. Although we have experienced continuing delays in Senegal, our plants in Cameroon and Aganang, South Africa, are close to launching and later this year we will open our plant in Zambia."

About Dangote Cement

Dangote Cement is Africa's leading cement producer with three plants in Nigeria and plans to expand in 13 other African countries. The Group is a fully integrated quarry-to-customer producer with production capacity of 20.25 million tonnes in Nigeria and new operations beginning to come onstream across the rest of Sub-Saharan Africa. The Group plans to have 50-60 million tonnes of production, grinding and import capacity in Sub-Saharan Africa by 2016.

Dangote Cement's Obajana plant in Kogi state, Nigeria, is the largest in Africa with 10.25mta capacity across three lines and a further 3mta capacity currently being built.

The new 6mta Ibese plant in Ogun state, near the key market of Lagos, was inaugurated in February 2012. Building is nearing completion on a further two lines totalling 6mta of capacity.

The Gboko plant in Benue state has 4mta capacity.

Through its recent investments, Dangote Cement has eliminated Nigeria's dependence on imported cement and is transforming the nation into an exporter serving neighbouring countries.

Dangote Cement is investing several billion dollars to build manufacturing plants and import terminals across Africa. Current plans are for integrated or grinding plants in Cameroon, Ethiopia, Republic of Congo, Liberia, Senegal, South Africa, Tanzania, Kenya and Zambia, as well as Ivory Coast and Ghana, and import/packing facilities in Ghana and Sierra Leone.

Web: www.dangcem.com

Conference call details

A conference call for analysts and investors will be held on Friday 15 August at 16.00 Lagos / UK time

The dial-in details are as follows:

Participants: +44 203 139 4830
Pin code: 31685757#

A replay facility will be available for 30 days as follows:

Participants: +44 203 426 2807
Pin code: 649994#

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Summary of key performance indicators for Nigerian cement operations

Six months to 30 June **Nigerian cement operations only, including haulage revenue**	**2013**	**2014**	**% change**
Cement sales (kt)	6,761	6,824	0.9%
(Nigerian cement operations only)	(₦bn)	(₦bn)	
Revenue	190.8	202.4	6.1%
Revenue per tonne (₦)	28,216	29,655	5.1%
EBITDA	127.9	130.8	2.3%
EBITDA margin	67.0%	64.6%	(2.4pp)
EBIT	111.8	114.1	2.1%
EBIT margin	58.6%	56.4%	(2.2pp)
	US $million	US $million	
Revenue	1,186	1,258	6.1%
Revenue per tonne (including haulage)	175	184	5.1%
EBITDA	795	813	2.3%
EBITDA / tonne	118	119	1.4%

$1=₦160.857

Operating review

Cement supply hampered by continuing gas and LPFO disruption

Fuel supply constraints continued to constrain cement production at the country's key plants, notably our Obajana plant, which accounts for about 36% of all production capacity in Nigeria.

We estimate that market sales grew by 1.2% to 11.1 million tonnes, which is well below growth rates we have previously reported in the traditionally stronger first half of the year. However, as previously indicated, this should also be viewed in the context of an unusually strong first half in 2013, as building work recovered strongly after the floods of late 2012.

Nigeria's importation of cement remains low and we estimate that 689kt of cement were imported during the first half of 2014, slightly higher than the 638kt imported in the same period last year.

In May 2014, Nigeria adopted national standards for cement with different strength grades of cement being required for different building purposes. The lowest strength, known as 32.5 may be used for basic work such as plastering, while higher-strength 42.5 grade cement is to be used for block-moulding and the casting of columns, beams and slabs. The highest grade, known as 52.5, is required for load-bearing structures such as bridges.

Cement sales up 0.9%, constrained by gas and LPFO shortages

Dangote Cement increased cement sales in Nigeria by 0.9% to 6.8 million tonnes in the first half of 2014. We estimate our market share to have been nearly 62%.

Our production of cement was severely constrained by shortages of gas at the Obajana and, to a lesser extent, Ibese plants, both of which are primarily gas fired. Gas shortages are caused by a general lack of investment in the gas distribution network serving the central regions of the country, as well as vandalism and maintenance upgrades.

The problem of gas disruption was exacerbated by a lack of the low-pour fuel oil (LPFO) that we use as a back-up fuel, as we and other industries were forced to switch to it during gas shortages. Switching to LPFO *en masse* depleted national reserves and put LPFO refiners under considerable pressure, meaning we and other manufacturers had to import LPFO in the spot market at extra cost. In addition, the shortages of gas forced us to use a much higher level of diesel than normal for power production.

New 3x brand fully compliant with Nigeria's new standards for cement

At the beginning of March we introduced a 10% Quality Surcharge to reflect the higher quality of our 42.5 grade cement, versus the 32.5 grade that is more widely sold in Nigeria. This is our first price adjustment in more than five years, despite annual increases in our input costs. The full benefit of this adjustment began to flow through from April.

We recently launched our new 3x brand of cement which, at 42.5 strength, is the most suitable for general building works in Nigeria. The cement is a rapid-setting formulation that is proving popular with block makers; previously we had sold a more normal-setting formulation, 42.5N. In addition, we have launched an extra strong 52.5 grade of cement to service the growing need for cement in heavy load-bearing structures typical of large infrastructure projects such as bridges, flyovers and tall buildings.

Obajana sales down 6.0% as gas shortage affects production

Our flagship 10.25 million tonne plant at Obajana, in Kogi state, suffered disruption to both its gas and LPFO supplies and as a result, sales fell by 6.0% to 3.8 million tonnes in the first half of 2014. This represents a capacity utilisation rate of about 75%.

Obajana averaged 69% gas utilisation ratio during the period, with low gas supply compounded by some shortages of the back-up furnace oil (LPFO) we use to fuel the kilns. We have now commissioned a coal mill on Line 3 to diversify our fuel sources, with coal providing a cheaper alternative to LPFO.

Ibese sales down 4.8%

Our 6.0 million tonne Ibese plant in Ogun state sold 1.9 million tonnes of cement during the first half of 2014, which was 4.8% lower than the previous year. This represents a capacity utilisation rate of about 65%. Gas utilisation averages 94% at Ibese but as at Obajana, gas and LPFO shortages caused problems on a number of days. We have now commissioned a coal mill at Ibese to provide an alternative back-up fuel to LPFO. In addition, Ibese experienced 18 days' downtime during the period for scheduled and unscheduled maintenance.

Gboko increases sales by 63%

Our Gboko plant in Benue state increased sales by 63% to just over 1.0 million tonnes, when compared to the first half of 2013 in which the plant was mothballed during January.

Gboko is entirely fuelled by LPFO and diesel and shortages of LPFO forced us to suspend production of cement at Gboko for a number of days during the period.

Ghana sales reduced as currency impact challenges importation

Devaluation of the Ghanaian Cedi made it unattractive to import cement into Ghana during the second quarter of 2014 and as a result, revenues fell from ₦7.4 billion in H1 2013 to ₦3.4 billion in the first half of 2014. This represents sales of 170kt tonnes of cement, of which about 135kt was sold in the first quarter. This compares with around 350kt sold in the first half of 2013.

Sephaku Cement performing well, Aganang integrated plant almost ready

Sephaku Cement, our joint venture with JSE-listed Sephaku Holdings, consists of a fully integrated cement plant in Lichtenburg (230km west of Johannesburg) and a grinding plant in Delmas (40km east of Johannesburg).

Cement production began at Delmas in January 2014 and Sephaku contributed ₦3.1bn in sales in the first half of 2014. This compares with ₦0.3bn generated by sales of fly ash in the first half of 2013.

The Lichtenburg (Aganang) Plant has a 6000tpd clinker capacity and 1.1mta cement capacity is expected to be in production in the next few weeks. Aganang will supply Delmas with clinker to grind into cement, as well as producing its own cement for local distribution. Trucks conveying clinker to Delmas will return to Aganang with coal or gypsum, thus improving Sephaku's supply logistics.

South African demand for cement is currently around 12.5mta and production capacity is approximately 14mta. A large portion of the existing production capacity is old and inefficient with an average plant age in excess of 35 years.

Sephaku Cement has entered the market with a strategy of focusing on a geographic area containing around 65% of the total South Africa cement market, which is well away from the ports through which imports arrive from the Far East.

Benefiting from the latest and most efficient production technologies, which will reduce the cost of production compared with the older plants of other operators, Sephaku will compete in all segments of the market, offering both bagged and bulk cement with the likelihood of being able to deliver to 95% of its targeted customers.

Senegal legal process resolved, plant being readied for operations

The opening of Dangote Cement's plant in Senegal was delayed by claims on land where the plant is situated. In 2013 the Supreme Court in Senegal gave orders to the effect that the claimants had no right or lawful interest in the property in dispute, which is on land where the plant is situated.

Furthermore, the Supreme Court ordered that the case be sent back to the Court of Appeal for the latter to issue a decision consistent with that ruling. Before the Court of Appeal could reissue the decision, the parties reached an amicable out-of-court settlement of the case.

Subsequently, the Administrative Closure Order was lifted by the authorities in Senegal and we began the process of returning workers to the site so that building work could be completed and commissioning could begin.

We have experienced some delays in relocating key Sinoma contractors to the plant and now expect it to be operational in the final quarter of 2014.

Other African projects progressing steadily

We are achieving steady progress with building projects in other African countries.

In Ethiopia, work is well underway to build a 2.5mta plant at Mugher, with production now expected early in 2015. In Tanzania, we have now begun work on a 3mta plant at Mtwara that is expected to be operational in late 2015. In Zambia, work is underway on a 1.5mta plant at Ndola, with cement production expected late in H2 2014.

We are reviewing plans for Kenya with a view to increasing the scale of our proposed factory from 1.5mta to 3.0mta. This is because we are confident there will be sufficient demand both in Kenya and neighbouring countries. We have secured a prospecting license and having found ample sources of limestone are now in the process of upgrading it to a mining license. In South Sudan, we have put our plans on hold owing to the unfavourable political and conflict situation that exists in the country at present.

Building work is progressing with a 1.5mta grinding plant in Cameroon, with production expected to commence in October. In Congo we are building a 1.5mta plant due to open in 2016.

Along the coast of West Africa, we plan to build import and grinding facilities to receive and process raw materials supplied from Nigeria, Senegal and elsewhere. Work in Sierra Leone has been delayed and we now anticipate it will commence operations in the final quarter of 2014. In Liberia we are reviewing our plans, currently for an import terminal, and exploring whether a larger grinding facility would be a more attractive investment.

Work has been delayed on our 1.5mta grinding facility in Cote d'Ivoire, but we expect this to become operational in the second quarter of 2016.

Financial review

Financial performance

Group revenues increased by 5.3% to ₦208.9bn (H1 2013: ₦198.5bn). In Nigeria, revenues increased by 6.1% to ₦202.4bn (H1 2013: ₦190.8bn), largely reflecting the impact of the 10% quality surcharge introduced in March.

Following the commissioning of its grinding plant at Delmas in South Africa, Sephaku Cement contributed revenues of ₦3.1bn (H1 2013: ₦0.3bn). As already noted, Dangote Cement Ghana contributed ₦3.4bn of revenue, 53.9% down on the first half of 2013, following the decision to scale back imports until more favourable foreign exchange rates are available.

Group gross profit was largely affected by gas and LPFO shortages and rose by just 1.1% to ₦133.5bn, at a margin of 63.9% (H1 2013: ₦132.1bn, 66.6%). A higher proportion of sales from LPFO-fuelled Gboko also weighed on gross margins during the period under review.

Total operating expenses rose by 7.4% to ₦23.5bn, mostly as a result of a wage increase implemented last year, as well as costs associated with new IT projects to help improve efficiency. Distribution costs increased because of the higher level of direct-to-customer deliveries and higher depreciation associated with the larger fleet needed to support them.

Other income rose from about ₦0.8bn in H1 2013 to ₦1.9bn this year, as a result of a write-back of certain provisions no longer required.

As a result of these factors the Group posted an operating profit of ₦112.0bn, only slightly higher than the ₦111.1bn generated the previous year. The operating margin fell from 56.0% in H1 2013 to 53.6% in H1 2014.

Operating profits in the core Nigerian operations rose by 2.0% to ₦114.0bn. Our operations in West Africa sustained a higher operating loss of ₦1.4bn (H1 2013: ₦0.3bn) as a result of start-up costs in Senegal and losses in Ghana owing to suspension of operations owing to the unfavourable currency situation. Our operations in East & South Africa posted an operating loss of ₦0.8bn, mostly related to start-up costs at Sephaku Cement in South Africa, which had been grinding clinker bought from third-party suppliers in order to enter the local market. Non-capitalisable expenses were also higher.

Net financial costs increased from ₦3.4bn in H1 2013 to ₦4.9bn in H1 2014. Group profit before tax fell by 0.6% to ₦107.1bn (H1 2013: ₦107.7bn).

With profits on operations at Obajana (Lines 1+2) and Gboko now subject to taxation, the Group had a tax charge of ₦11.6bn (H1 2013: no charge) to leave profit for the year lower by 11.4% at ₦95.4bn (H1 2013: ₦107.7bn). As a result, earnings per share were lower by 11% at ₦5.63 per share.

Balance sheet and cash flow remain strong

Non-current assets rose from ₦695.1bn at the end of 2013 to ₦777.6bn at 30 June 2014, mostly as a result of increased capital expenditure, both within Nigeria and in other African countries.

Cash and cash equivalents decreased from ₦70.5bn at the start of the year to ₦36.2bn at the end of June. Net debt stood at ₦200.0bn, up from ₦110.6bn at the start of the year, reflecting in an increase in short-term loans.

Total assets rose from ₦843.2bn at the start of 2014 to ₦900.0bn at the end of June.

From a profit before tax of ₦107.1bn we generated cash from operations of ₦145.3bn and invested ₦117.2bn (H1 2013: ₦83.3bn). Financing outflows were ₦70.9bn (H1 2013: ₦60.0bn), reflecting an additional ₦84.7bn of loans taken on, offset by the payment of ₦119.3 in dividends.

PIC's Fidelis Madavo joins the Board

Fidelis Madavo, of the Public Investment Corporation of South Africa, has joined the Board of Dangote Cement. Mr Madavo is PIC's Head of Resources and Portfolio Manager for Listed African Investments. Last year, PIC took a 1.5% stake in Dangote Cement.

Current trading and outlook

The second half of 2014 has begun well in Nigeria with the highest-ever shipments recorded for the traditionally rainy month of July.

We have begun operating coal facilities for Lines 1&2 at Ibese and coal facilities will soon be available for Line 3 at Obajana. These should improve our fuel security and margins, when compared to the use of LPFO as a secondary fuel in our kilns. Over the next 1-2 years we will invest an additional $170m in building coal facilities at the other lines at Ibese and Obajana, as well as in converting Gboko to run entirely on coal for both kilns and power. In the longer term we and our parent company Dangote Industries (DIL) are exploring the possibility of mining coal near to the Obajana and Gboko plants, to reduce our reliance on imported coal. In addition, DIL is also involved in bidding for oil and gas assets in Nigeria.

Although growth in 2014 has been challenged by erratic fuel supplies affecting production, we believe that in the medium term, the Nigerian market will continue growing to the point that other manufacturers become constrained by their existing capacities, at which point they will no longer be able to satisfy increasing demand except by investing in new capacity. As we are adding nine million tonnes of capacity in the coming weeks, we will not be so constrained and will therefore be able to gain share by satisfying additional demand that others cannot.

We have commenced cement production at our Delmas plant in South Africa and expect its fully integrated sister plant at Aganang to be operational in the next few weeks. Although there have been further delays at Senegal, we expect other facilities to come onstream this year in South Africa, Zambia, Cameroon and Sierra Leone.

We offer the following guidance for 2014 and beyond, based upon information available to us at present:

- In Nigeria, our average tax rate is likely to be around 10%-12% for 2014, with Obajana Lines 1&2 and Gboko now out of their five-year Pioneer Tax period.
- Capital expenditure is likely to be around $1bn in 2014, with building work completing on Ibese 3&4, Obajana 4 and African projects including Zambia, Senegal, Cameroon etc. Capital expenditure will ease as other projects come to completion in 2015 and 2016.