



Fuelling Nigeria's Future: The Dangote Oil Refinery

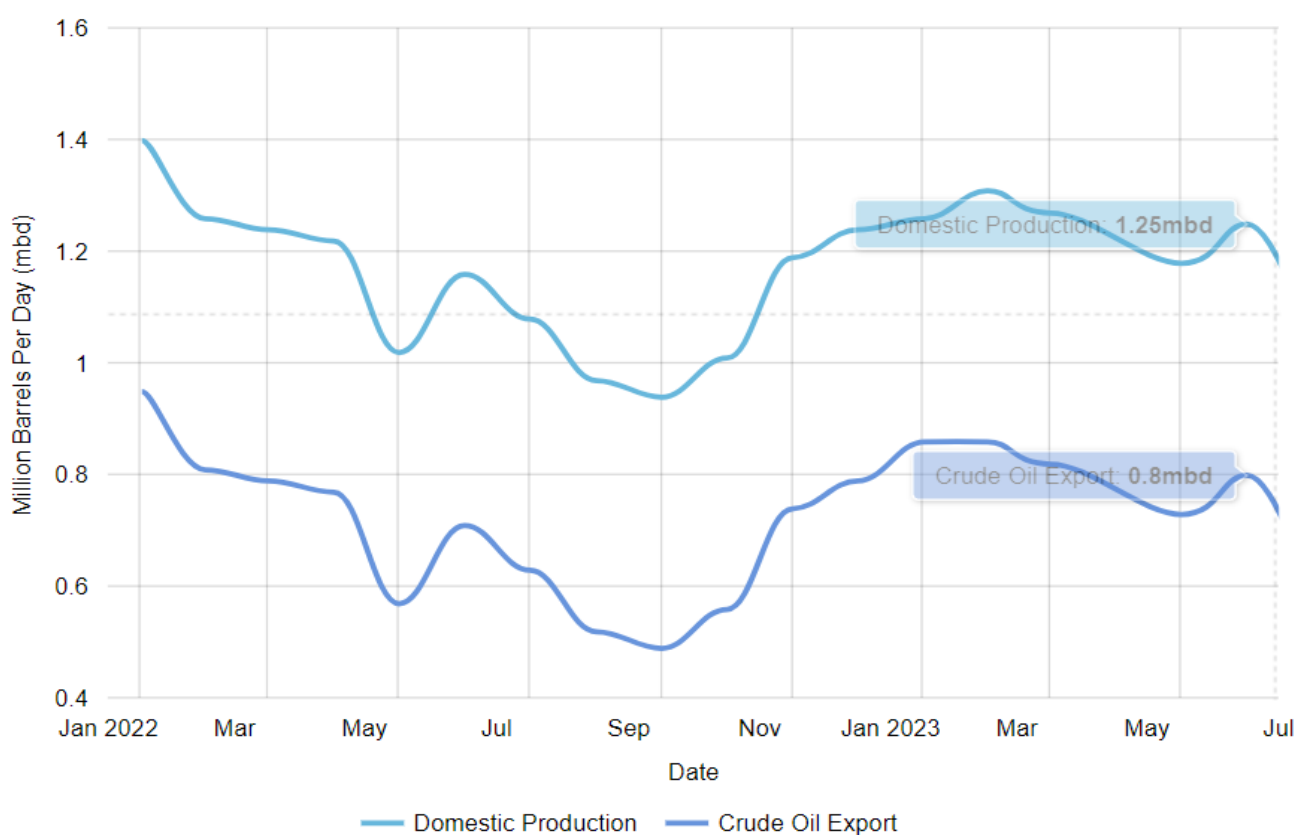
Issuer Commentary

20 September 2023



Commentary

Nigeria, often referred to as the "Giant of Africa", is on the cusp of a transformative economic journey, driven by the colossal undertaking known as the [Dangote Oil Refinery](#). With an expected capacity of [650 000 barrels per day](#), this refinery is poised to redefine Nigeria's economic landscape. The inauguration of the Dangote refinery and the revitalisation of state-owned refineries hold the promise of transforming Nigeria into Africa's leading refining centre by the year 2025. In this article, we delve into the multifaceted impact of the Dangote Oil Refinery on Nigeria's economic prospects, exploring how it stands to benefit both investors seeking growth opportunities and government officials striving to strengthen the nation's fiscal stability and sustainability.



Data source: Central Bank of Nigeria

The Dangote Oil Refinery, valued at over \$19 billion, it is the largest single-train refinery globally, capable of meeting a substantial portion of Nigeria's internal need for processed petroleum products, while reserving a portion for export. Upon completion, this monumental project is expected to provide 135 000 permanent jobs in the Lekki Free Zone near Lagos, painting a promising picture of economic prosperity. The above factors are credit-positive for Nigeria.

Beyond job creation, the refinery promises to bolster Nigeria's foreign exchange reserves. With an aim to produce up to 53 million litres of gasoline, 4 million litres of diesel, and 2 million litres of aviation jet

fuel daily, it charts a path to reduce the nation's reliance on fuel imports. A conservative estimate of a 20% reduction in import costs could yield an annual foreign exchange saving of approximately \$2 billion.

For government officials, the Dangote Oil Refinery has a potential financial windfall. With an expected annual revenue of \$11 billion, this enterprise could contribute significantly to government coffers. Should a tax rate of 30% be applied, it could translate into annual tax revenues of approximately \$3.3 billion, providing much-needed funds for public projects and services.

Moreover, the refinery aligns with Nigeria's pursuit of economic diversification away from oil dependence. By doing so, it fortifies the nation's fiscal position, reducing vulnerability to the caprices of global oil prices and strengthening debt sustainability. This strategic shift holds the potential to curtail budget deficits and bolster the nation's financial resilience.

The Dangote Oil Refinery's influence extends beyond its industrial footprint. Its construction and operation necessitate significant infrastructure development, including transportation and power supply enhancements. This injection of investment, potentially reaching several billion dollars, not only supports the refinery but also fuels job creation and economic growth.

Risks such as project execution delays or cost overruns may be expected with a task of this magnitude. Currency risks stemming from foreign supplier obligations could amplify costs. It is worth noting that a significant portion of the project's funding came from a mix of [equity investment and debt finance](#), with borrowings of up to 187 billion naira (about 442 million USD) required in 2022 to ensure its completion.

Addressing environmental concerns and adhering to evolving regulations is imperative. Investments ranging from \$100 million to \$500 million may be required to mitigate environmental impact and ensure compliance.

The geopolitical stability of Nigeria and the security of critical infrastructure, including the refinery, are pivotal. Any security concerns could reverberate through investor confidence and project continuity, warranting vigilant attention.

However, the refinery is yet to begin production after the August commencement date earlier announced by the president of the Dangote Group, Aliko Dangote.

The Dangote Oil Refinery represents not just an industrial marvel but a catalyst for transformative change in Nigeria. Its potential to reshape the economy, fortify foreign exchange reserves, and augment fiscal revenues is undeniable. However, the journey is not without its trials, as it navigates project risks, financial complexities, and environmental responsibilities. The success of this endeavour, intricately linked to Nigeria's economic destiny, hinges upon effective risk management, regulatory adherence, and unwavering commitment to stability and growth.



Contributors:

- **David Mosaka | Chief Ratings Officer | david@saratings.com |**
- **Bekithemba Ndimande | Rating Analyst | bekithemba@saratings.com |**
- **Lomanja Malaba | Rating Analyst | lomanja@saratings.com |**

The analysis in this document is provided for information purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making investment decisions. The opinions and views expressed reflect the current opinions and assumptions of the credit rating team at Sovereign Africa Rating. Actual results, performances, or events may differ materially from those expressed or implied in this document. The information in this document should not be construed as a credit rating.

