

Geregu Power Plc

2021 Final Corporate Rating Review Report



Geregu Power Plc

Entity Rating **Bbb+**

This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due

Outlook: Positive

Issue Date: 7 January 2022

Expiry Date: 31 December 2022

Previous Rating: Bbb+

Industry: Power Generation

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RATING RATIONALE

- Agusto & Co. hereby affirms the “**Bbb+**” rating assigned to Geregu Power Plc (“Geregu Power”, “Geregu”, “GPP” or “the Company”). The rating reflects the Company’s good and sustainable profitability, buoyed by the continued growth in power generation, adequate working capital, satisfactory cash flow position and low leverage upheld by the Company’s strong equity base. In addition, the rating is enhanced by Geregu’s good position in the grid-connected electricity supply value chain as well as its experienced and qualified management team and the strong technical support the Company enjoys from its gas turbine manufacturer – Siemens. However, the rating is tempered by the weak macroeconomic environment and industry-wide uncertainties which constrains revenue collections as well as the unstable gas supply and frequent downturn of the national grid, which continues to hamper optimum evacuation of operators’ generation capacity.
- Geregu Power Plc operates one of the gas-fired power plants in Nigeria (Geregu Power I), which it acquired in a government-led privatisation scheme in 2013. The Company’s business activities involve the generation and supply of electric power through the national grid of the Transmission Company of Nigeria (TCN) to the Nigerian Bulk Electricity Trading (NBET) Plc, which is engaged in the bulk purchase and resale of energy from independent power producers (IPPs) and successor generation companies (GenCos). The current capacity of Geregu’s plant stands at 435 megawatts with ongoing plans to increase this by more than double in the medium to long term.
- Geregu Power Plc became a fully owned subsidiary of Amperion Power Distribution Company Limited after it acquired the Federal Government of Nigeria (FGN)’s 20% equity stake in November 2021. Amperion Power Distribution Company Limited is a subsidiary of Calvados Global Services Limited – a company largely owned and controlled by Mr Femi Otedola CON.
- During the financial year ended 31 December 2020 (FYE 2020), Geregu’s revenue grew by 27.3% year-on-year to ₦53.7 billion largely on account of the increase in energy tariff, induced by an upward movement in exchange rate which affected gas prices which are traded in dollars in the period¹. The Company also posted a reduced cost of

¹ The Nigerian Electricity Regulatory Commission (NERC) typically sets GenCos electricity tariff based on gas prices

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sales to revenue ratio on the back of the improved efficiency of its gas turbines, thus resulting in an operating profit margin of 34.3% (2019: 33.3%), which surpassed our benchmark. Geregu Power Plc's pre-tax pre-interest return on assets (ROA) which remained at par with the prior year and the three-year (2018-2020) weighted average ROA of 15.5% were both in line with our expectations. Furthermore, the Company's pre-tax return on average equity (ROE) of 26.8% in 2020 surpassed the estimated industry average of 14.4%². In the period ended H1 2021, the Company recorded a revenue of ₦41 billion which represented 69% of budgeted revenue. PBT and PAT margins stood at 40.9% and 27.1% respectively in the six months, with annualised ROA and ROE of 22.7% and 38% respectively. Overall, we consider Geregu Power Plc's profitability to be good and sustainable, though the unstable gas supply and the frequent downturn in the national grid remain threats.

- In FYE 2020, GPP reported a moderated operating cash flow (OCF) of ₦4.4 billion on account of the increased levels of intercompany receivables as well as receivables from NBET. However, the OCF was sufficient to cover returns to providers of finance of ₦26.9 million wholly comprising interest payments. The Company's OCF to sales ratio fell to 8% (2019: 44%) in FYE 2020 and -17% in the six months ended 30 June 2021 to further reflect the surge in related party and trade receivables. While we recognise Geregu's adequate revenue generation capacity and existing payment guarantees from NBET, we believe the effective control of its intercompany transactions and the continued ability of NBET to make timely payments of invoiced amounts would help boost cash flow position in the near term.
- We consider the leverage position of GPP to be low with total liabilities of ₦46.1 billion as at FYE 2020 and comprised wholly of non-interest-bearing liabilities. GPP's net debt (total liabilities less cash and equivalent) to average total assets of 39% was better than our benchmark. In the same vein, the interest expense to sales ratio of less than 1% and interest cover of 162 times in FYE 2020 both lay credence to the Company's low leverage position. Although we expect a slight uptick in leverage metrics with the proposed ₦40 billion bond issuance, we expect the overall leverage position to remain minimal in the near term.
- Geregu recorded an overall working capital surplus of ₦4.8 billion as at FYE 2020, due to the available working capital³ which was more than sufficient to cover short-term financing needs (STFN). This continued in 2021 with the Company recording a working capital surplus of ₦6.7 billion as at the six months ended 30 June 2021 (audited). However, given the growing amounts of receivables from NBET as well as related entities and the frail macroeconomic conditions which continues to impede NBET's revenue collectability, in our view, the Company's ability to effectively manage its working capital over the near to medium term might be constrained.

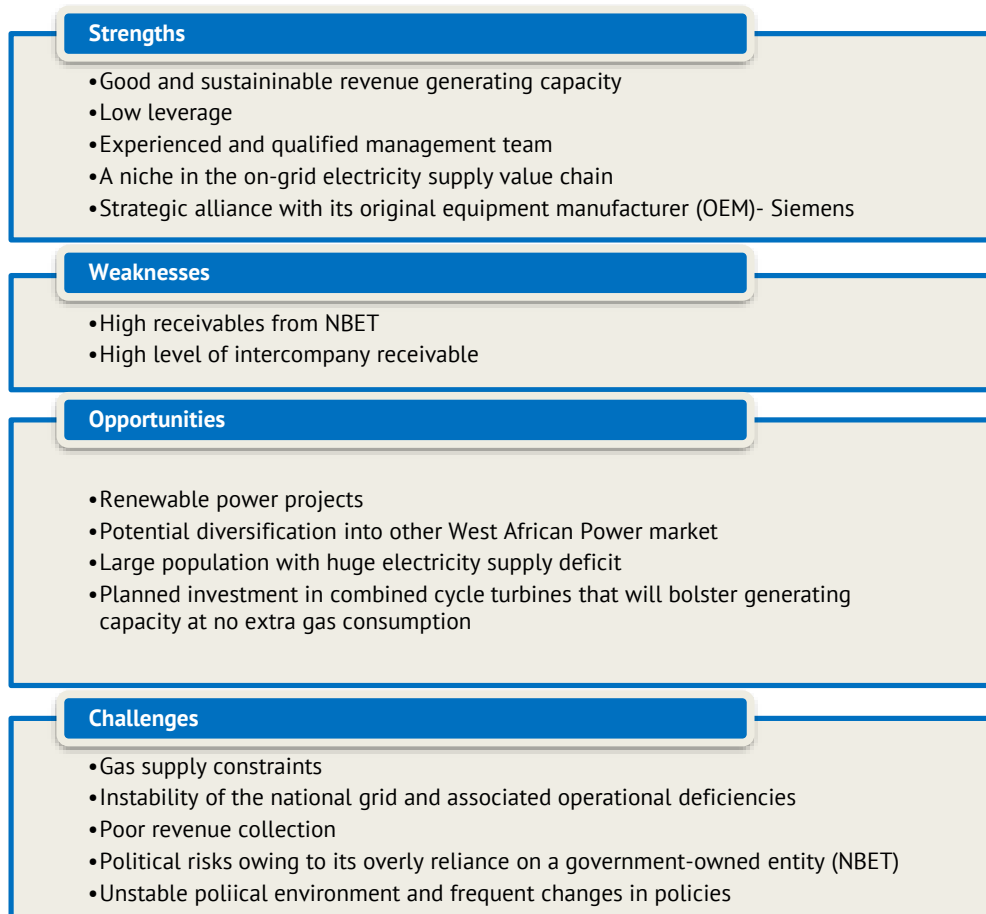
² Agusto & Co research

³ Excess of long-term funds over long-term assets

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- Going forward, the Company plans to optimize the operation of the Geregu Power Plant asset to double its power generating capacity and minimise gas consumption with technical support from its OEM- Siemens, over the medium term. Plans are also ongoing for the acquisition of a new power asset, through which the Company expects to scale up its total installed capacity to about 1,270 megawatts. Presently, GPP controls up to 10% of energy supply to the national grid in Nigeria and upon successful completion of the planned expansion initiatives, we expect an increase in the Company's market share in the medium to long term. In addition, with the anticipated increase in power generation capacity, the Company plans to expand its reach to other West-African markets, through its recent association with the West African Power Pool (WAPP). We expect this to create a diversification benefit with respect to foreign exchange earnings and reduce reliance on NBET, as an alternative diversification strategy to the recently suspended Eligible Customer arrangement by the Nigerian Electricity Regulatory Commission (NERC). In addition, we expect the improved electricity tariffs experienced in the 2021 financial year to translate to a better financial performance by full-year 2021.
- Based on the above, we attach a **positive** outlook to Geregu Power Plc.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges



COMPANY PROFILE

Geregu Power Plc ('Geregu Power', 'Geregu', 'GPP' or 'the Company') was incorporated as a public limited company on 10 November 2006 but commenced commercial operations in 2007. The Geregu Power Plant, which was established to generate and supply electric power to the national grid was constructed by the Federal Government of Nigeria (FGN) and operated by the defunct Power Holding Company of Nigeria (PHCN). In 2013, Amperion Power Distribution Company Limited, a special purpose vehicle and power generation division of Cavaldos Global Services Limited acquired the Geregu Power Plant from the FGN under a government-led privatisation scheme. Subsequently, the plant became jointly owned by Amperion Power Distribution Company Limited and the FGN (represented by the Bureau of Public Enterprise and Federal Ministry of Finance). However, GPP is presently fully owned and managed by Amperion Power Distribution Company Limited, after the FGN divested its 20% equity stake in the Company in November 2021.

Geregu Power Plant is one of six privatized power generating companies (GenCos) in Nigeria. The power plant currently consists of three simple-cycle natural gas-fired gas turbine-generator units by Siemens with a 435MW Installed Capacity⁴. The turbine units are GT11, GT12 and GT13 and each is designed to produce 145 megawatts at 330-kilovolt amperes through a 173.6 megavolt amperes power transformer and are suitable for all load ranges of energy production, including peak load. GPP typically operates at about 60% - 70% of its total installed capacity due to the Country's inadequate transmission capacity and the frequent breakdown of the national grid as well as the intense competition from hydropower GenCos. The plant currently contributes between 7% and 10% of Nigeria's power generation to the national grid. Going forward, GPP plans to ramp up its power generating capacity in the medium to long term with the upgrade of its existing Geregu Plant I and the acquisition of an additional plant asset – Geregu II Power Plant.

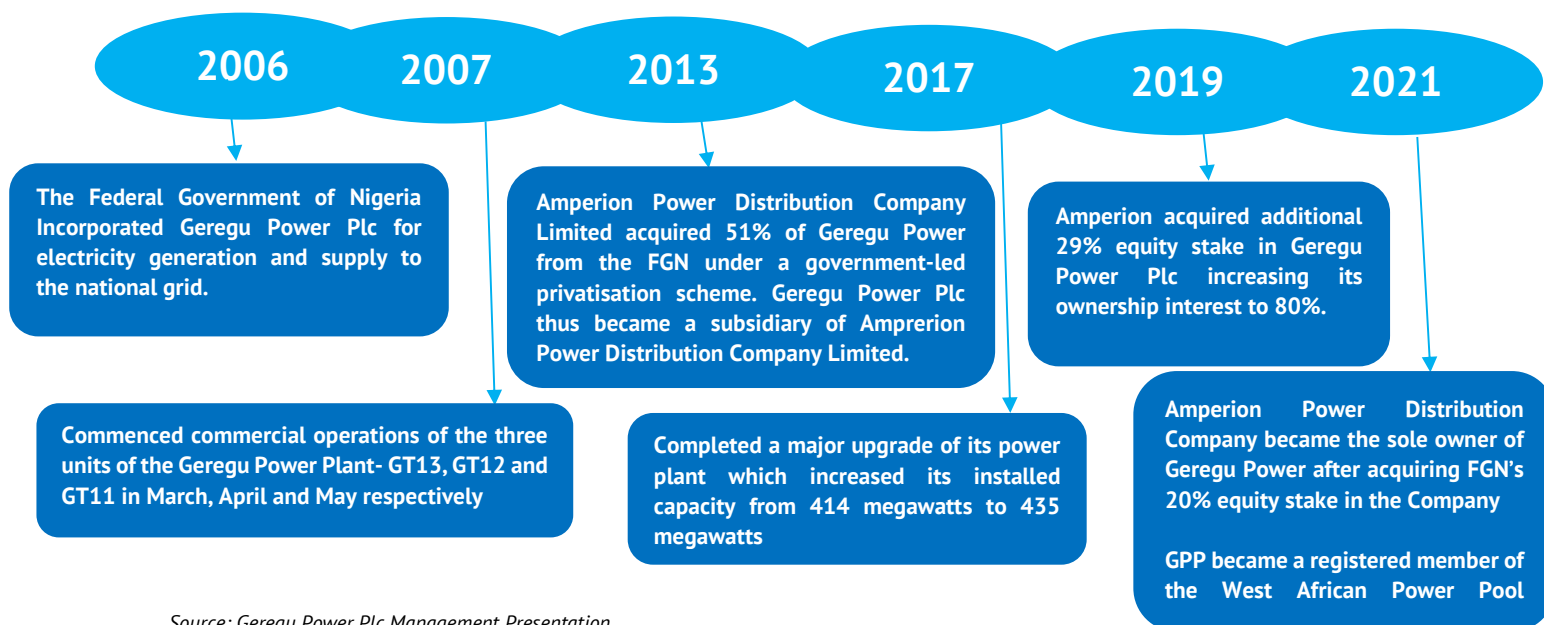
Geregu Power Plant holds a license from the Nigerian Electricity Regulatory Commission (NERC) for Electricity Generation expiring in 2028⁵. The Company also holds an Environmental Audit (EA) Statement & Certificate from the Federal Ministry of Environment.

Geregu Power Plant's gas turbines are powered by natural gas supplied by the National Gas Company (NGC) from Seplat Petroleum Development Company Plc, channeled through an underground pipeline in Niger Delta. The Company also sources natural gas from other suppliers to ensure continued operation of the turbines.

⁴ Installed capacity of the three turbines was 414 megawatts at inception but was upgraded to 435 megawatts in 2017 by Amperion Power Distribution Company Limited in partnership with Siemens.

⁵ The license was previously granted for a 10-year period from 2013, but was recently extended by NERC for another five years to 2028.

Figure 2: Key Milestones of Geregu Power Plc.



Source: Geregu Power Plc Management Presentation

Ownership Structure

Prior to 2021, Amperion Power Distribution Company Limited (parent company) controlled an 80% equity stake in Geregu Power Plc, while the Bureau of Public Enterprise and the Ministry of Finance Incorporated jointly held the remaining 20% on behalf of the Federal Government of Nigeria (FGN). In November 2021, Amperion Power Distribution Company acquired FGN's shares and is now the sole owner of Geregu Power Plc as at 30 November 2021.

Board Composition and Structure

As at the 2020 financial year-end, Geregu Power Plc had a five-member Board of Directors of three Non-Executive Directors and two Executive Directors. Mr. Femi Otedola, who is the ultimate controlling shareholder of the parent company leads the Board as Chairman, while Mr. Akin Akinfenwa serves as the Chief Executive Officer (CEO) with Mr. Julius Omodayo-Owotunga as the Deputy CEO.

Geregu's Board of Directors has three Board committees, namely the Audit Committee, Governance & Remuneration Committee and Risk Management Committee. Mr. Taj Giwa Osagie – an external representative and power consultant – leads the Audit Committee with support from two other members. The Governance & Remuneration Committee is chaired by Mr. Christopher Adeyemi, a Non-Executive Director with two representatives from the Bureau of Public Enterprise and Shanghai Municipal Electric Power Company (SMEPC)⁶. The Risk Management Committee consists of the CEO and Deputy CEO and we recommend the appointment of an Independent Non-Executive Director to replace the outgoing Chairman of the Committee, Mr. Alex Okoh who represented the Bureau of Public Enterprise, in line with the requirement of the FRCN Code of Corporate Governance.

⁶ SMEPC owns 5% equity stake in Amperion Power Distribution Company Limited and provided technical support to Geregu's from 2013 – 2017.

Table 1: Board of Directors as at 30 June 2021

Mr Femi Otedola CON	Chairman
Mr Akin Akinfemiwa	Chief Executive Officer
Mr Julius Omodayo-Owotuga	Deputy CEO
Mr Christopher Adeyemi	Non-Executive Director
Mr. Alex Okoh*	Non-Executive Director

* Represented the BPE before FGN's divestment in November 2021

Source: Geregu Power Plc's 2020 Audited Financial Statements and Management Presentation

Other Information

As at 31 December 2020, Geregu Power Plc's total assets and liabilities stood at ₦123 billion and ₦46.1 billion respectively, while shareholders' fund was ₦77 billion (FYE 2019: ₦62.9 billion). In the FYE 2020, the Company generated a turnover of ₦53.7 billion and recorded a profit after tax of ₦14.1 billion (FYE 2019: ₦10.4 billion) and recorded a revenue of ₦40.9 billion and PAT of ₦16.7 billion in half-year 2021 (audited account). Geregu Power Plc had an average of 120 persons in its employment as at FYE 2020 (2019: 63 persons).

Table 2: Background Information

Authorized Share Capital:	₦10 million
Paid-up Capital:	₦5 million
Shareholders' Funds:	₦77 billion
Registered Office:	Itobe-Ajaokuta Expressway, Ajaokuta, Kogi State, Nigeria
Principal Business:	Electric Power Generation
Auditors:	PKF

Source: Geregu Power Plc's 2020 Audited Financial Statements

FINANCIAL CONDITION

ANALYSTS' COMMENTS

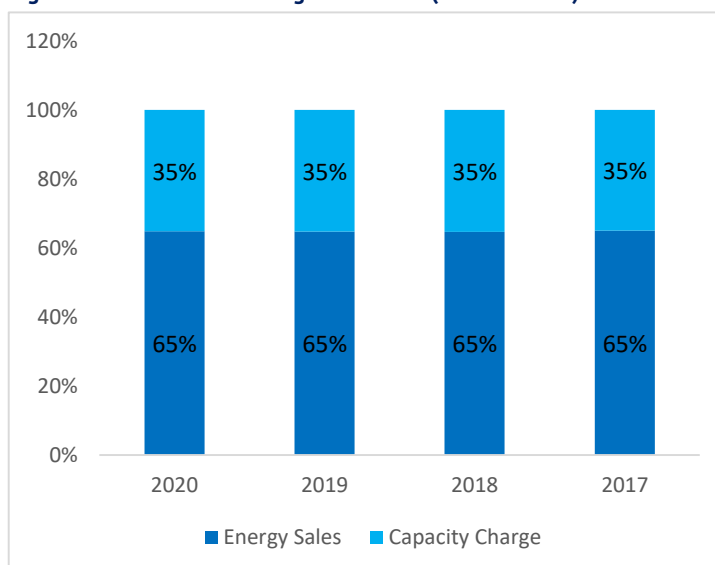
We have analysed the audited financial statements of Geregu Power Plc ("Geregu Power", "Geregu", "GPP" or "the Company") for the three years ended 31 December 2020 as well as its audited interim accounts for the six months ended 30 June 2021 (H1'2021).

PROFITABILITY

Geregu Power Plc is primarily involved in the generation and sale of electric power, transmitted through the national grid to the Nigerian Bulk Electricity Trading Plc (NBET)⁷ for onward delivery to power distribution companies⁸. Geregu generates electric power through its three-units 435 megawatts natural gas-fired turbines, and send to the national grid through the Transmission Company of Nigeria (TCN). Geregu also generates revenue from capacity charges, on the basis of energy tariffs determined by the Nigerian Electricity Regulatory Commission (NERC)'s Multi-Year Tariff Order (MYTO) II⁹.

The outbreak of the COVID-19 pandemic became pronounced in Nigeria in the first quarter of 2020 and this led to the imposition of several phases of lockdowns and other restrictive measures by the FGN, to stem the spread of the Coronavirus. These measures, which resulted in the shutdown of businesses brought about a shift in demand from commercial and industrial consumers to residential consumers, given the stay-at-home orders as well as the continued work from home measures adopted by many companies, post-lockdown period. Nonetheless, electricity demand remained relatively stable in the period.

Figure 3: Breakdown of Geregu's Revenue (2017 – 2020)



In the financial year ended 31 December 2020, Geregu Power Plc recorded revenue of ₦53.7 billion which represented a 27.3% increase from the prior year. Although energy transmitted to the national grid remained stable when compared with the prior year, the uptick in revenue was largely supported by the increase in tariff mainly arising from exchange rate movement which led to a rise in gas prices during the period. With the growth in electricity demand in H1 2021, occasioned by the significant resumption of industrial activities, GPP recorded a 43% year-on-year increase in the amount of energy generated and sent out to the national grid in half-year 2021. On the back of this asnd an uptick in

⁷ NBET is responsible for managing the electricity pool in the Nigerian Electricity supply industry. Its activities involve bulk purchase and resale of energy and other ancillary services from independent power producers (IPPs) and power generation companies (GenCos).

⁸ The DisCos engage in the resale of electric power to consumers.

⁹ The Nigerian Electricity Regulatory Commission (NERC) in February 2016 reviewed the thermal GenCos tariff based on gas cost of \$3.3/mscft which translates to ₦10,082/Mwh for energy and ₦5,101/Mwh for capacity charge subject to indexation on the basis of changes in the Central Bank of Nigeria's (CBN) exchange rate

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energy tariffs, the Company recorded a 66% year-on-year growth in revenue to ₦41 billion when compared with the same period of 2020. Consistent with prior years, energy sales contributed 65% to total revenue, while capacity charge accounted for the remaining.

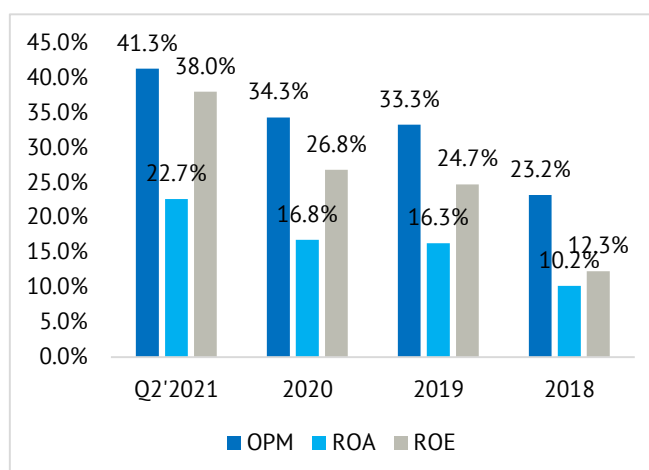
During the FYE 2020, Geregu's cost of sales to revenue ratio improved to 57.4% (2019: 61.3%) as a result of the cost optimisation strategies adopted to minimise gas costs¹⁰, including routine maintenance of the gas turbines¹¹ to enhance the efficiency of the turbines and minimise gas consumption. This continued in H1 2021 with a further reduction in cost to sales ratio to 51.6%. Overall, Geregu recorded a gross profit margin of 42.6% and 48.4% in FYE 2020 and H1 2021 respectively, which we consider to be good.

Conversely, the Company's operating expense to sales ratio rose to 8.2% (2019: 5.4%) and was largely driven by an increase in personnel expenses¹² and impairment allowance on discounted trade receivables in line with IFRS 9 (Financial Instruments). Nonetheless, Geregu's operating profit margin in FYE 2020 improved to 34.3% in FYE 2020 (2019: 33.3%) and 41.3% in H1 2021 and was better than our expectation for companies in the Electricity Supply Industry.

In the FYE 2020, Geregu's other income arising from interest income on bank deposits, foreign exchange gain, as well as business interruption insurance claim, amounted to ₦2.3 billion, representing 4.2% of revenue. We expect this income to improve in the near term, with the rising interest rates in Nigeria. In the same period, Geregu's finance cost, moderated to ₦26.9 million, representing a meagre 0.1% of revenue,

due to the Company's reduced debt position. However, on the back of the additional interest-bearing term loan¹³ obtained in H1 2021, the interest expense to sales ratio inched up to 0.6%; which is still low in our view. We expect a further increase in the near term, due to the planned ₦40 billion bond issuance. Overall, the Company's profit before tax (PBT) and profit after tax (PAT) margins improved slightly to 38.5% and 26.3% respectively in FYE 2020 (2019: 36.9% and 24.6%) and 40.9% and 27.1% respectively in H1 2021.

Figure 4: OPM, ROA & ROE – (2016 – 2019)



Despite the uptick in profit, Geregu Power's pre-tax pre-interest returns on assets (ROA) remained at par with the prior year due to the increase in total assets following the rise in trade and related party receivable from the shareholder- Amperion Power Distribution Company Limited. The Company typically gives loans to the Parent company which are netted off from the dividend for the preceding period. Nonetheless, the Company's FYE 2020 ROA of 16.8% and the three-year (2018-2020) weighted average of 15.5% were both in line with our expectation for operators in Nigerian Electricity Supply Industry. Furthermore, the Company posted a pre-tax

¹⁰ Gas costs accounts for over 80% of the Company's direct costs

¹¹ This was achieved through a thorough compressor washing at periods when the turbines were offline

¹² This relates to Including salaries and training costs for staff transmitted from Amperion to Geregu Power Plc during the period.

¹³ This is a ₦10 billion revolving facility obtained at an annual interest rate 11%

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return on average equity (ROE) of 26.8% in 2020 which surpassed the 3% average yield on government securities in the same period, while the three years (2018-2020) weighted ROE of 23.7% was also higher than the 10% average yield on 365-day treasury bills over the same period. It is however worthy of note that the unusually low yield in 2020 was occasioned by the prevailing low interest regime and measures by the Central Bank of Nigeria to cushion the effect of the pandemic on businesses.

In FY 2021, Geregu Power Plc plans to ramp up total energy transmitted to the national grid by 15% to 2,130 megawatts¹⁴, which is expected to yield an 11% increase in revenue by year-end. GPP also intends to double its generation capacity albeit with the same level of gas consumption through the planned investment in combined cycle turbines in the medium term. We expect the successful actualization of these initiatives coupled with the planned acquisition of Geregu II power plant to enhance the Company's revenue generation in the medium to long term. Also, with the anticipated increase in generation capacity, we expect the Company to continue to post healthy profits in the near to medium term, particularly with the existing power purchase agreement with NBET which guarantees off-take of energy generated.

In our opinion, Geregu Power Plc's profitability is good.

CASH FLOW

Geregu Power generates cash from energy sales and capacity charges for electricity transmitted through the national grid to NBET, who manages the electricity pool account on behalf of the industry operators and settles invoices on the basis of availability of funds in the account¹⁵. Grid-connected GenCos like Geregu typically rely on the Power Purchasing Agreements (PPA) with the government-owned entity -NBET, which usually guarantees 100% payment of outstanding balances for energy and capacity supplied through the national grid. Although, the stipulated payment period in the Company's contract is 60 days, NBET typically settles about 40% of the invoiced amount based on funds available in the electricity pool account while the outstanding amount is settled over a one-to-two-year period, due to delays in remittances by DisCos.

We note GPP's continued exposure to the government which often results in delayed revenue collection, due to NBET's reliance on remittances from DisCos, which is in turn dependent on receipts from final electricity consumers. The weak consumer purchasing power on the back of the COVID-19 pandemic and its accompanying recession in FYE 2020 adversely impacted electricity invoice collection particularly from residential consumers, thus constraining operators' cash flow positions in the period.

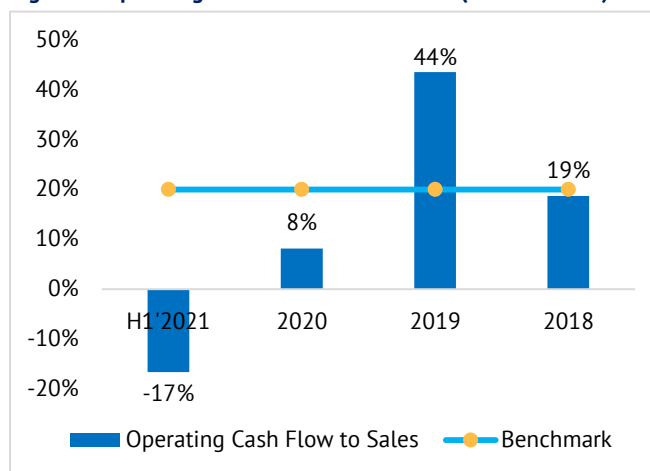
¹⁴ 61% of this has been achieved as at H1 2021

¹⁵ The pool account is funded by the DisCos from receipts from final consumers.

During the financial year ended 31 December 2020, Geregu Power recorded an operating cash flow (OCF) of ₦4.4 billion, which represented a significant 76% decline from the prior year.

This sharp decrease is mainly on the back of the upsurge in amount due from related party¹⁶ as well as outstanding trade receivables from NBET. Nonetheless, the Company's cumulative OCF for the three years (2018-2020) which amounted to ₦29.3 billion was sufficient to cover returns to providers of finance of ₦21.9 billion comprising dividend payment (95%) and interest payment (5%).

Figure 5: Operating Cash Flow to Sales Ratio (2017 – 2019)



In FYE 2020, GPP's OCF as a percentage of sales worsened to 8% (2019: 44%), following the significant decline in operating cash flow generated in the period. Although, the Company's three-year (2018-2020) simple average OCF to revenue ratio of 22% was in line with our expectation, the OCF as a percentage of returns to providers of finance of 162% in FYE 2020 and over the three-year (2018-2020) period of 134% were both below our benchmark of 200%.

In the six months ended 30 June 2021 (H1 audited), Geregu's OCF dipped further to negative ₦6.8 billion on the back of the continued rise in the amount due from related parties as well as trade receivables in line with the growing energy supply to NBET. The related party receivables are mostly U.S dollar denominated loans¹⁷ to the parent company- Amperion Power Holding Company Limited, which attract interests at the prevailing market rates. These loans are typically not settled in cash but offset periodically against the dividend payable to the parent company. Consequently, OCF to sales and as a percentage of finance both fell to -17% and -27.6% respectively as at half-year 2021. We however expect trade receivables to moderate in the near term as outstanding invoices are settled by NBET. As at 19 August 2021, the Company had received an additional ₦6.1 billion from NBET and anticipates further payments by year-end.

In our view, Geregu Power Plc's overall cash flow position is satisfactory but improvement is contingent on the effective management of rising intercompany loans and the continued favourable terms of trade with gas suppliers which we believe would continue to support cash position since gas obligations are typically settled vis a vis payments received for energy transmitted to NBET.

¹⁶ Relating to loans to the parent company- Amperion Power Distribution Company Limited

¹⁷ GPP recognizes foreign exchange gains/losses on these loans

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2020, Geregu's working assets grew year-on-year by 54% to ₦74.3 billion. This increase is mainly credited to the rise in trade receivables and amounts due from related parties which jointly accounted for 98% of total working assets as at the same date. Similar to what obtains among the grid-connected GenCos in Nigeria, trade receivables comprise largely the operators' working assets. However, we consider these receivables collectible due to the several funding programs¹⁸ introduced by the government from time to time to provide liquidity to NBET for electricity transmitted and capacity charged to the national grid, as well as the Bank Guarantee operators obtain from NBET.

As at FYE 2020, the Company's spontaneous financing rose by 36% to ₦46 billion largely arising from the increase in trade payables for outstanding gas invoices. Trade payables accounted for 74% of spontaneous financing as at 2020 year-end, while deferred taxation (13%), dividend payable (10%) and the creditors and accruals (2%) accounted for the remaining 13%, 10% and 2% respectively. Geregu's spontaneous financing was insufficient to cover working assets, thereby leaving a short-term financing need (STFN) of ₦28.2 billion. The Company's continued STFN is as a result of prolonged delays in the settlement of invoices for energy sold to NBET and market operators.

Figure 7: STFN and LTFS

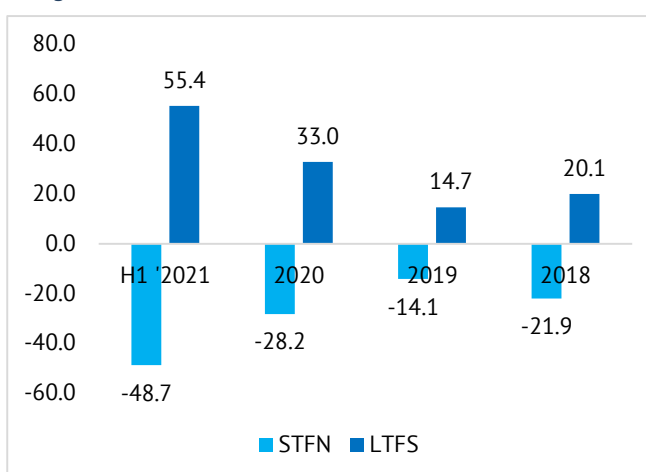
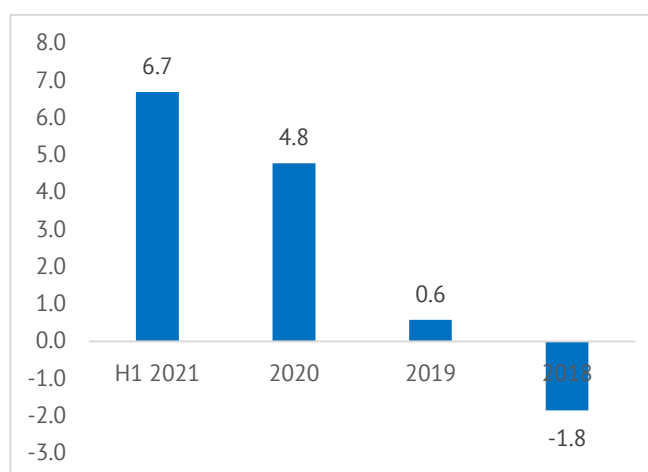


Figure 6: Overall Working Capital Surplus/(Deficiency)



Geregu's total receipts from NBET amounted to ₦45.2 billion in 2020 and subsequent to the year-end, the Company received a total of ₦65.6 billion to reduce outstanding invoices by 68% as at 24 November 2021

As at 31 December 2020, GPP's long term assets stood at ₦44 billion (2019: ₦48 billion), while long term fund was ₦77 billion and comprised wholly equity. The Company's long-term funds were more than adequate to cover long term assets, resulting in working capital of ₦33 billion. The working capital was sufficient to cover the STFN with an overall working capital surplus of ₦4.8 billion.

Subsequent to the 2020 year-end, Geregu also reported an available working capital of ₦55.4 billion as at H1

¹⁸ These include ₦600 billion extended Payment Assurance Facility introduced by the FGN in January 2019 to cover periods from January 2019 and June 2020. Other intervention funds have also been established to further provide financial support to NBET in 2021.

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2021 (audited), which was sufficient to cover the STFN of ₦48.7 billion, resulting in an overall working capital surplus of ₦6.7 billion. While we recognise that GPP's trade receivables are secured by existing contract with NBET as well as the guarantee from the FGN, the continued rise in trade receivables as a result of prolonged delays by market operators to settle energy bills amidst frail macroeconomic conditions, could continue to weaken Geregu's ability to effectively manage its working capital in the near to medium term. However, given the agreed payment terms with gas suppliers to settle gas invoices as revenue for energy sent to the grid are received from NBET, we believe spontaneous financing from unsettled gas invoices which typically provides an average payment period of between 60 days and one year, as well as the planned injection of long-term funds should create some cushioning effect.

In our opinion, Geregu Power's working capital is adequate.

LEVERAGE

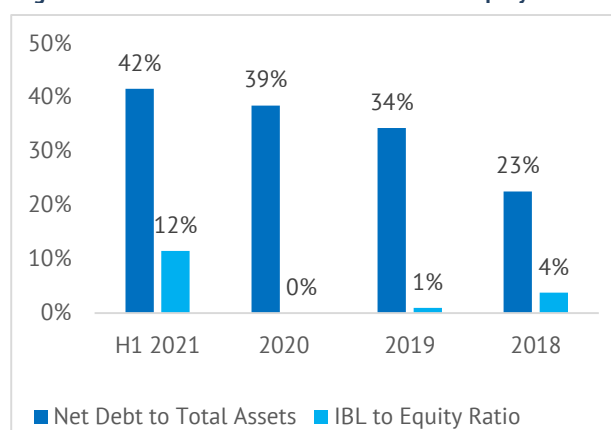
As at 31 December 2020, Geregu Power Plc's total liabilities rose year-on-year by 33% to ₦46.1 billion, comprising wholly non-interest-bearing liabilities (NIBL). The NIBL mainly comprised trade creditors (74%), deferred taxes (13%), dividend payable (10%) and other creditors and accruals (2%). The trade payables relate to unsettled invoices from gas suppliers, in line with the industry norm of matching payments for gas supplies with receipts from NBET for electricity supplied to the grid over a certain period.

As at the 2020-year end, Geregu's funding mix comprised equity (63%) and non-interest-bearing liabilities (37%). The Company's equity which mainly comprised retained earnings rose to ₦76.9 billion as at year-end (2019: ₦62.9 billion) on the back of the rising profit levels, thus providing good funding support for the Company's operations.

As at FYE 2020, the Company's interest expense on existing loan balances¹⁹ of 0.1% of sales as well as the net debt (total liabilities less cash and equivalent) as a percentage of total assets of 39%

were better than our benchmarks. Also, GPP's interest cover (OCF to interest expense) of 163 times in FYE 2020 outstripped our benchmark, supporting our opinion on the Company's low leverage position.

Figure 8: Net Debt to Total Assets and IBL to Equity



¹⁹ This is a secured term loan obtained under the ₦300 billion Bank of Industry and CBN balance from the Power and Aviation Intervention Fund, to part-finance the overhaul of the Company's gas turbines. The existing balance on the loan was paid off during the FYE 2020.

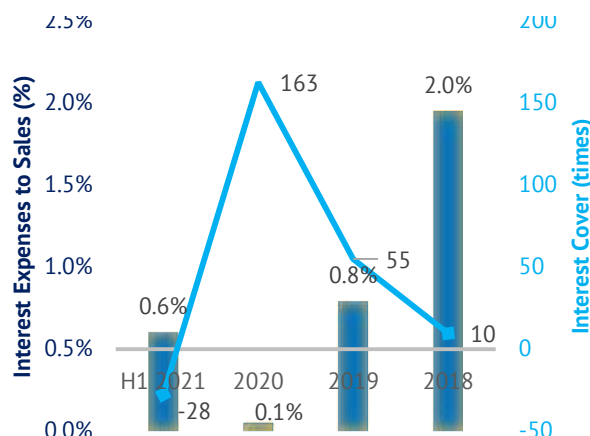
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In the audited six months ended 30 June 2021, Geregu Power obtained a ₦10 billion loan from a commercial bank to part-finance the purchase of the Federal Government's shares in Geregu Power Plc and to augment working capital in the same period. As such, the Company's interest-bearing liabilities increased to ₦10.2 billion as at half-year 2021, while interest expense to sales ratio rose marginally to 0.6% but we expect it to reflect the impact of the loan in 2022 accounts.

Going forward, the Company intends to raise up to ₦40 billion 7-Year Fixed Rate Senior Unsecured Bond under the ₦100 billion Bond Issuance Programme. Proceeds from this bond issuance are expected to be used to part-finance the planned investment in Geregu II Power plant. Hence, we expect an uptick in the Company's leverage metrics in the near term, albeit within acceptable levels, as we forecast that GPP's sufficient revenue generation capacity would persist over the near to medium term.

In our view, Geregu Power Plc's leverage is low.

Figure 9: Interest Cover (times) and Interest Expense to Sales (%)



OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2020, Geregu Power Plc had an authorised share capital of ₦10 million consisting of 20 million ordinary shares at 50 kobo each, while the issued and fully paid-up share capital as at the same date stood at ₦5 million. Geregu however plans to issue the remaining 10 million ordinary shares by 2021 year-end, in line with the new requirement by the Corporate Affairs Commission (CAC)²⁰.

As at FYE 2020, Amperion Power Distribution Company Limited held an 80% equity stake in Geregu Power Plc, while the Bureau of Public Enterprise and the Ministry of Finance Incorporated (both representing the Federal Government of Nigeria) held the remaining 10.2% and 9.8% respectively. However, subsequent to the 2020 year-end, Amperion Power Distribution Company Limited acquired the Federal Government's stake in the Company, thus becoming the single owner of Geregu Power's shareholdings. Amperion Power Distribution Company Limited is controlled by Calvados Global Services Limited, with Mr. Femi Otedola as the ultimate controlling shareholder.

As at FYE 2020, the Board of Geregu Power Plc comprised three Non-Executive Directors and two Executive Directors. The Board is led by Mr. Femi Otedola as the Chairman with Mr. Akin Akinfemiwa as the Chief Executive Officer. During the FYE 2020, Mr. David Granot resigned his position as a Non-Executive Director and following the divestment of the FGN from the Company in November 2021, Mr. Alex Okoh, a representative

²⁰ The CAC amended Section 124 of the Companies and Allied Matters Act (CAMA) requiring companies with existing unissued shares to issue same on or before 31 December 2022 (an extension from 30 June 2021).

Geregu Power Plc.

of the BPE has resigned his position from the Board following the divestment of BPE. The Company is currently in the process of appointing a new Non-Executive Director.

Geregu's Board of Directors maintains three standalone committees namely - Audit Committee, Risk Management Committee and Governance & Remuneration Committee. The Company's management team is made up of two Executive Directors and seven senior management personnel who oversee various segments of the business. We note positively that most of the management team have been with Geregu since inception and have garnered vast experience in the power industry, having previously worked in various capacities under the defunct Power Holding Company of Nigeria (PHCN). In our opinion, GPP has a stable, qualified and experienced management team.

As at 31 December 2020, Geregu Power's staff strength grew significantly by 90% to 120 employees due to the transfer of employees²¹ from Amperion Power Distribution Company Limited to GPP during the period. In the review period, the Company's average cost per employee amounted to ₦10.4 million, a 15% rise from the prior year following the increase in staff strength. As a result, operating profit (before deducting staff cost) per staff moderated to ₦163.8 million (2019: ₦232 million) but was sufficient to cover the average cost per staff 16 times (2019: 26 times). This depicts a strong staff productivity level in our view.

Management Team

Mr. Akin Akinfemiwa is the Chief Executive Officer of Geregu Power Plc and is responsible for the overall strategic leadership, direction and guidance of the Company's business. Prior to his appointment with GPP, he served as the Group CEO of Forte Oil Plc up till 2019 and was previously a Chairman of the Major Oil Marketers Association of Nigeria (MOMAN) between 2016 and 2018. Mr Akinfemiwa is an alumnus of the Said Business School, University of Oxford and has attended various leadership programs at Wharton Business School and Harvard Business School. He holds a Bachelor's Degree in Mechanical Engineering from the University of Ibadan and a Master's of Business Administration (Information Technology) from the University of Lincolnshire and Humberside, United Kingdom.

Mr. Julius Omodayo-Owotuga is the deputy Chief Executive Officer of Geregu Power Plc. He is an experienced, finance professional and a CFA Charter Holder. He was formerly the Group Executive Director, Finance & Risk Management at Forte Oil Plc and has held key positions at Africa Finance Corporation (AFC). Mr. Omodayo-Owotuga has garnered several years of work experience spanning the financial services sector having held key roles at MBC International Bank (now First Bank of Nigeria Limited), KPMG Professional Services and Standard Chartered Bank Nigeria Limited. He is a Chartered Management Accountant and a fellow of the Institute of Chartered Accountants of Nigeria and the Chartered Institute of Taxation of Nigeria. He also holds a Bachelor's Degree in Accounting from the University of Lagos and has attended leadership programs at top global business schools.

Engr Ferdinand E. Ezech is the Chief Operating/Technical Officer (CTO) at Geregu Power Plc. He was appointed the CTO effective 1 January 2020 after previously serving as the Chief Executive Officer of Delta Electric Power Business Unit of the defunct NEPA/PHCN, where he joined as Pupil Electrical Engineer in 1978. He has over 35 years of work experience in power plant management spanning the country's energy industry. Engr Ezech currently acts as a Consulting Engineer for several power stations in the country and played a critical role in

²¹ Largely junior level employees

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the design and construction of Kanji Lake, Air Force Base and Army Cantonment substations in New Bussa, Niger State. He holds a Bachelor's Degree in Electrical & Electronic Engineering and a Masters of Business Administration in Human Resources Management from the University of Nigeria, Nsukka. He is a fellow of numerous professional bodies including the Nigerian Society of Engineers (NSE), Council for the Regulation of Engineering Practice in Nigeria (COREN), Institute of Electrical Electronics Engineer MIEEE U.S.A. and Institution of Power Engineers. He has attended several local and international power plant management seminars and conferences and has served as a member of several Presidential Task Forces on Power (PTFP).

Mr. Ganiyu L. Adisa is the Chief Financial Officer at Geregu Power Plc. He oversees the Company's financial and treasury management. Prior to joining GPP, he worked at Forte Oil Plc as Financial Controller and had previously held accounting and audit roles at various companies in the aviation and construction industry. He is a fellow of the Institute of Chartered Accountants of Nigeria and holds a Bachelor's Degree in Accounting from the University of Lagos.

Table 3: Other members of Geregu Power Plc's management team

Mr. Akinleye Olagbende	General Counsel & Head Corporate Services
Mr. Iyimola Akinbola	Head, Business Assurance & Risk Management
Mr. Akinlade Joseph Olukayode	Head, Human Capital Management
Engr. Ali Mohammed Mambo	Head, Production
Engr. Siaka Bernard Oke	Head, Maintenance

Source: Management Presentation

OUTLOOK

Notwithstanding the adverse impact of the COVID-19 pandemic on economic activities in the 2020 financial year, electricity demand in Nigeria remained relatively stable, reflecting the significance of power to household and business survival. Nonetheless, the Country continues to record a huge energy deficit due to the weak supply from the national grid on account of the grid's instability, gas supply shortages owing to the inefficient management of gas pipelines as well as weak policy implementation. The unreflective tariff rates which continue to constrain operators' revenue and cash generating capacity is also a threat to the electricity generation companies.

Despite these industry-wide challenges, Geregu Power Plc's revenue has recorded a 33% compounded annual growth rate over the past five years (2016- 2020). Going forward, the Company plans to continue to adopt cost-saving strategies including the timely upgrade of its equipment with a strategic alliance with its equipment manufacturers, to enhance energy supply to the grid while keeping costs low. We expect this to further strengthen the Company's profitability position in the near term, particularly with the planned 15% increase in energy transmission in the FY2021. Also, to boost production capacity and output in the medium to long term, GPP plans to double the capacity of its existing power plant and as well boost the efficiency of its gas turbines with the adoption of a combined cycle heat engine which would help reduce gas consumption. The Company also plans to acquire an additional power plant (Geregu II power plant), which we expect would widen the Company's market share and guarantee earnings growth over the medium to long term.

We expect the persistent cash flow crisis in the Nigerian Electricity Supply Industry to remain in the near term, particularly with the prevailing macroeconomic conditions which continue to weaken remittances from distribution companies. As such, we expect an uptick in trade debtors balance in the near term. Nonetheless, we expect an improvement over the medium to long term given the FGN's guarantee which ensures ultimate settlement of outstanding invoices for energy sent to the grid. Also, as part of the Company's strategy to diversify its customer base and ultimately reduce exposure to NBET, GPP plans to export some of its power to neighboring West African countries (being a registered member of the West African Power Pool (WAPP)). This would potentially enhance revenue collection over the medium to long term. Also, we expect the Company's revenue and profitability growth to be sustained in the near term, particularly with the increases in electricity tariff recorded in the 2021 financial year. Furthermore, we expect overall working capital adequacy to be sustained in the near term due to GPP's strong equity base, while we forecast leverage would remain within acceptable limits notwithstanding the proposed bond issuance.

Based on the aforementioned, we attach a **positive** outlook to Geregu Power Plc.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	30-Jun-21		31-Dec-20		31-Dec-19		31-Dec-18	
	N'000		N'000		N'000		N'000	
ASSETS								
IDLE CASH	1,925,695	1.3%	332,767	0.3%	186,694	0.2%	38,189	0.0%
MARKETABLE SECURITIES & TIME DEPOSITS	5,706,120	3.8%	4,450,000	3.6%	1,000,000	1.0%	745,000	0.8%
CASH & EQUIVALENTS	7,631,815	5.1%	4,782,767	3.9%	1,186,694	1.2%	783,189	0.8%
FX PURCHASED FOR IMPORTS			-	-		-	-	-
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS			-	-		-	-	-
STOCKS	739,813	0.5%	725,875	0.6%	847,116	0.9%	709,698	0.7%
TRADE DEBTORS	59,759,773	39.9%	51,499,743	41.8%	45,181,887	46.4%	32,044,766	32.3%
DUE FROM RELATED PARTIES	39,014,965	26.0%	21,079,885	17.1%	1,851,068	1.9%	8,596,710	8.7%
OTHER DEBTORS & PREPAYMENTS	866,071	0.6%	955,992	0.8%	213,000	0.2%	273,131	0.3%
TOTAL TRADING ASSETS	100,380,622	67.0%	74,261,495	60.3%	48,093,071	49.4%	41,624,305	42.0%
INVESTMENT PROPERTIES			-	-		-	-	-
OTHER NON-CURRENT INVESTMENTS			-	-		-	-	-
PROPERTY, PLANT & EQUIPMENT	41,830,026	27.9%	43,999,931	35.8%	48,101,008	49.4%	52,127,348	52.6%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-		-		-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	20,511	0.0%	22,776	0.0%	38,443	0.0%	4,537,590	4.6%
TOTAL LONG-TERM ASSETS	41,850,537	27.9%	44,022,707	35.8%	48,139,451	49.4%	56,664,938	57.2%
TOTAL ASSETS	149,862,975	100.0%	123,066,970	100.0%	97,419,216	100.0%	99,072,432	100.0%
<i>Growth</i>	21.8%		26.3%		-1.7%		3.7%	
LIABILITIES & EQUITY								
SHORT TERM BORROWINGS	-		-					
CURRENT PORTION OF LONG-TERM BORROWINGS	941,637	0.6%	-		606,709	0.6%	2,632,970	2.7%
LONG-TERM BORROWINGS	9,227,139	6.2%	-		-		275,419	0.3%
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	10,168,776	6.8%	-		606,709	0.6%	2,908,389	2.9%
TRADE CREDITORS	34,713,373	23.2%	34,239,596	27.8%	28,030,606	28.8%	17,384,770	17.5%
DUE TO RELATED PARTIES	-		-		-		13,245	0.0%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-		-		-		-	
OTHER CREDITORS AND ACCRUALS	258,917	0.2%	320,673	0.3%	559,086	0.6%	1,419,625	1.4%
TAXATION PAYABLE	1,515,060	1.0%	513,096	0.4%	361,368	0.4%	397,816	0.4%
DIVIDEND PAYABLE	4,800,000	3.2%	4,800,000	3.9%	4,800,000	4.9%	490,000	0.5%
DEFERRED TAXATION	10,350,352	6.9%	6,220,582	5.1%	209,460	0.2%	-	
MINORITY INTEREST	-		-		-		-	
REDEEMABLE PREFERENCE SHARES	-		-		-		-	
TOTAL NON-INTEREST-BEARING LIABILITIES	51,637,702	34.5%	46,093,947	37.5%	33,960,520	34.9%	19,705,456	19.9%
TOTAL LIABILITIES	61,806,478	41.2%	46,093,947	37.5%	34,567,229	35.5%	22,613,845	22.8%
SHARE CAPITAL	5,000	0.0%	5,000	0.0%	5,000	0.0%	5,000	0.0%
SHARE PREMIUM								
IRREDEEMABLE DEBENTURES								
REVALUATION SURPLUS								
OTHER NON-DISTRIBUTABLE RESERVES	(3,738)	0.0%	(3,738)	0.0%	584	0.0%	55	0.0%
REVENUE RESERVE	88,055,235	58.8%	76,971,760	62.5%	62,846,403	64.5%	76,453,532	77.2%
SHAREHOLDERS' EQUITY	88,056,497	58.8%	76,973,022	62.5%	62,851,987	64.5%	76,458,587	77.2%
TOTAL LIABILITIES & EQUITY	149,862,975	100.0%	123,066,969	100.0%	97,419,216	100.0%	99,072,432	100.0%

Geregu Power Plc.

STATEMENT OF COMPREHENSIVE INCOME	30-Jun-21		31-Dec-20		31-Dec-19		31-Dec-18	
	N'000		N'000		N'000		N'000	
TURNOVER	40,945,014	100.0%	53,676,666	100.0%	42,164,038	100.0%	35,005,972	100.0%
COST OF SALES	(21,119,736)	-51.6%	(30,835,415)	-57.4%	(25,855,985)	-61.3%	(21,604,141)	-61.7%
GROSS PROFIT	19,825,278	48.4%	22,841,251	42.6%	16,308,053	38.7%	13,401,831	38.3%
OTHER OPERATING EXPENSES	(2,918,508)	-7.1%	(4,424,217)	-8.2%	(2,283,693)	-5.4%	(5,268,276)	-15.0%
OPERATING PROFIT	16,906,770	41.3%	18,417,034	34.3%	14,024,360	33.3%	8,133,555	23.2%
OTHER INCOME/(EXPENSES)	66,499	0.2%	2,258,648	4.2%	1,863,396	4.4%	1,961,654	5.6%
PROFIT BEFORE INTEREST & TAXATION	16,973,269	41.5%	15,887,756	37.7%	10,095,209	28.8%	12,038,305	32.9%
INTEREST EXPENSE	(246,835)	-0.6%	(333,935)	-0.8%	(684,070)	-2.0%	(1,009,358)	-2.8%
PROFIT BEFORE TAXATION	16,726,434	40.9%	20,648,737	38.5%	15,553,821	36.9%	9,411,139	26.9%
TAX (EXPENSE) BENEFIT	(5,642,959)	-13.8%	(6,523,380)	-12.2%	(5,160,950)	-12.2%	1,622,576	4.6%
PROFIT AFTER TAXATION	11,083,475	27.1%	14,125,357	26.3%	10,392,871	24.6%	11,033,715	31.5%
NON-RECURRING ITEMS (NET OF TAX)			-	-	-	-	-	-
MINORITY INTERESTS IN GROUP PAT			-	-	-	-	-	-
PROFIT AFTER TAX & MINORITY INTERESTS	11,083,475	27.1%	14,125,357	26.3%	10,392,871	24.6%	11,033,715	31.5%
DIVIDEND	-		-		(24,000,000)	-56.9%	-	
PROFIT RETAINED FOR THE YEAR	11,083,475	27.1%	14,125,357	26.3%	(13,607,129)	-32.3%	11,033,715	31.5%
SCRIP ISSUES			-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		-		-	
PROFIT RETAINED B/FWD	76,971,760		62,846,402		76,453,532		65,419,817	
PROFIT RETAINED C/FWD	88,055,235		76,971,759		62,846,403		76,453,532	
ADDITIONAL INFORMATION	30-Jun-21		31-Dec-20		31-Dec-19		31-Dec-18	
Staff costs (N'000)	416,496		1,244,404		567,155		475,616	
Average number of staff	120		120		63		70	
Staff costs per employee (N'000)	3,471		10,370		9,002		6,795	
Staff costs/Turnover	1.0%		2.3%		1.3%		1.4%	
Capital expenditure (N'000)	265,090		173,569		156,197		62,507	
Depreciation expense - current year (N'000)	2,434,995		4,274,646		4,181,951		3,484,119	
(Profit)/Loss on sale of assets (N'000)	-		-		-		-	
Number of 50 kobo shares in issue at year end ('000)	5,000		5,000		5,000		5,000	
Non-operating assets at balance sheet date (N'000)	-		-		-		-	
Market value of tradeable assets (N'000)	-		-		-		-	
Average age of depreciable assets (years)	5		4		3		2	
Sales at constant prices - base year 1985 (N'000)	112,116		146,978		115,454		107,338	
Auditors	PKF		PKF		PKF		PKF	
Opinion	CLEAN		CLEAN		CLEAN		CLEAN	

Geregu Power Plc.

CASH FLOW STATEMENT FOR YEAR ENDED	30-Jun-21	31-Dec-20	31-Dec-19	31-Dec-18
	₦'000	₦'000	₦'000	₦'000
OPERATING ACTIVITIES				
Profit after tax	11,083,475	14,125,357	10,392,871	11,033,715
ADJUSTMENTS				
Interest expense	246,835	26,945	333,935	684,070
Minority interests in Group PAT	-	-	-	-
Depreciation	2,434,995	4,274,646	4,181,951	3,484,119
(Profit)/Loss on sale of assets	-	-	-	-
Other non-cash items	-	(4,322)	529	-
Potential operating cash flow	13,765,305	18,422,626	14,909,286	15,201,904
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:				
Trade creditors	473,777	6,208,990	10,645,836	(1,936,333)
Due to related parties	-	-	(13,245)	13,245
Advance payments and deposits from customers	-	-	-	-
Other creditors & accruals	(61,756)	(238,413)	(860,539)	(2,336,024)
Taxation payable	1,001,964	151,728	(36,448)	136,024
Deferred taxation	4,129,770	6,011,122	209,460	-
Obligations under unfunded pension schemes	-	-	-	-
Minority interest	-	-	-	-
Cash from (used by) spontaneous financing	5,543,755	12,133,427	9,945,064	(4,123,088)
(INCREASE)/DECREASE IN WORKING ASSETS:				
FX purchased for imports	-	-	-	-
Advance payments and deposits to suppliers	-	-	-	-
Stocks	(13,938)	121,241	(137,418)	(33,079)
Trade debtors	(8,260,030)	(6,317,856)	(13,137,121)	550,115
Due from related parties	(17,935,080)	(19,228,817)	6,745,642	(5,065,383)
Other debtors & prepayments	89,921	(742,992)	60,131	24,574
Cash from (used by) working assets	(26,119,127)	(26,168,424)	(6,468,766)	(4,523,773)
CASH FROM (USED IN) OPERATING ACTIVITIES	(6,810,067)	4,387,629	18,385,584	6,555,043
RETURNS TO PROVIDERS OF FINANCING				
Interest paid	(246,835)	(26,945)	(333,935)	(684,070)
Dividend paid	-	-	(19,690,000)	(1,225,000)
CASH USED IN PROVIDING RETURNS ON FINANCING	(246,835)	(26,945)	(20,023,935)	(1,909,070)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	(7,056,902)	4,360,684	(1,638,351)	4,645,973
NON-RECURRING ACTIVITIES				
Non-recurring items (net of tax)	-	-	-	-
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	-	-	-	-
INVESTING ACTIVITIES				
Capital expenditure	(265,090)	(173,569)	(156,197)	(62,507)
Sale of assets	-	-	587	3,276
Purchase of other long term assets (net)	-	-	-	(1,842,361)
Sale of other long term assets (net)	2,265	15,667	4,499,147	-
CASH FROM (USED IN) INVESTING ACTIVITIES	(262,825)	(157,902)	4,343,537	(1,901,592)
FINANCING ACTIVITIES				
Increase/(Decrease) in short term borrowings	-	-	-	-
Increase/(Decrease) in long term borrowings	10,168,776	(606,709)	(2,301,680)	(2,122,761)
Proceeds of shares issued	-	-	-	-
CASH FROM (USED IN) FINANCING ACTIVITIES	10,168,776	(606,709)	(2,301,680)	(2,122,761)
CHANGE IN CASH INC/(DEC)	2,849,049	3,596,073	403,506	621,620
OPENING CASH & MARKETABLE SECURITIES	4,782,767	1,186,694	783,189	161,567
CLOSING CASH & MARKETABLE SECURITIES	7,631,816	4,782,767	1,186,694	783,186

Geregu Power Plc.

SUMMARY OF KEY RATIOS	30-Jun-21	31-Dec-20	31-Dec-19	31-Dec-18
PROFITABILITY				
PBT as % of Turnover	41%	38%	37%	27%
Return on equity	38%	27%	25%	12%
Sales growth	52.6%	27.3%	7.6%	-14.2%
CASH FLOW				
Interest cover (times)	(27.6)	162.8	55.1	9.6
Principal payback (years)	-	-	-	-
WORKING CAPITAL				
Working capital need (days)	435	192	122	229
Working capital deficiency (days)		-		-
LEVERAGE				
Interest bearing debt to Equity	12%	0%	1%	4%
Total debt to Equity	70%	60%	55%	30%
IBD net of cash and Equiv. as a % of Equity without rev.	3%	0%	0%	3%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	109%	110%	99%	102%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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