

# Axxela Limited

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2020 Final Corporate Rating Review Report

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 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# Axxela Limited

Rating Assigned:

**Bbb+**

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

**Outlook:** Stable

**Issue Date:** 27 July 2020

**Expiry Date:** 30 June 2021

**Previous Rating:** Bbb+

**Industry:** Natural Gas

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## RATING RATIONALE

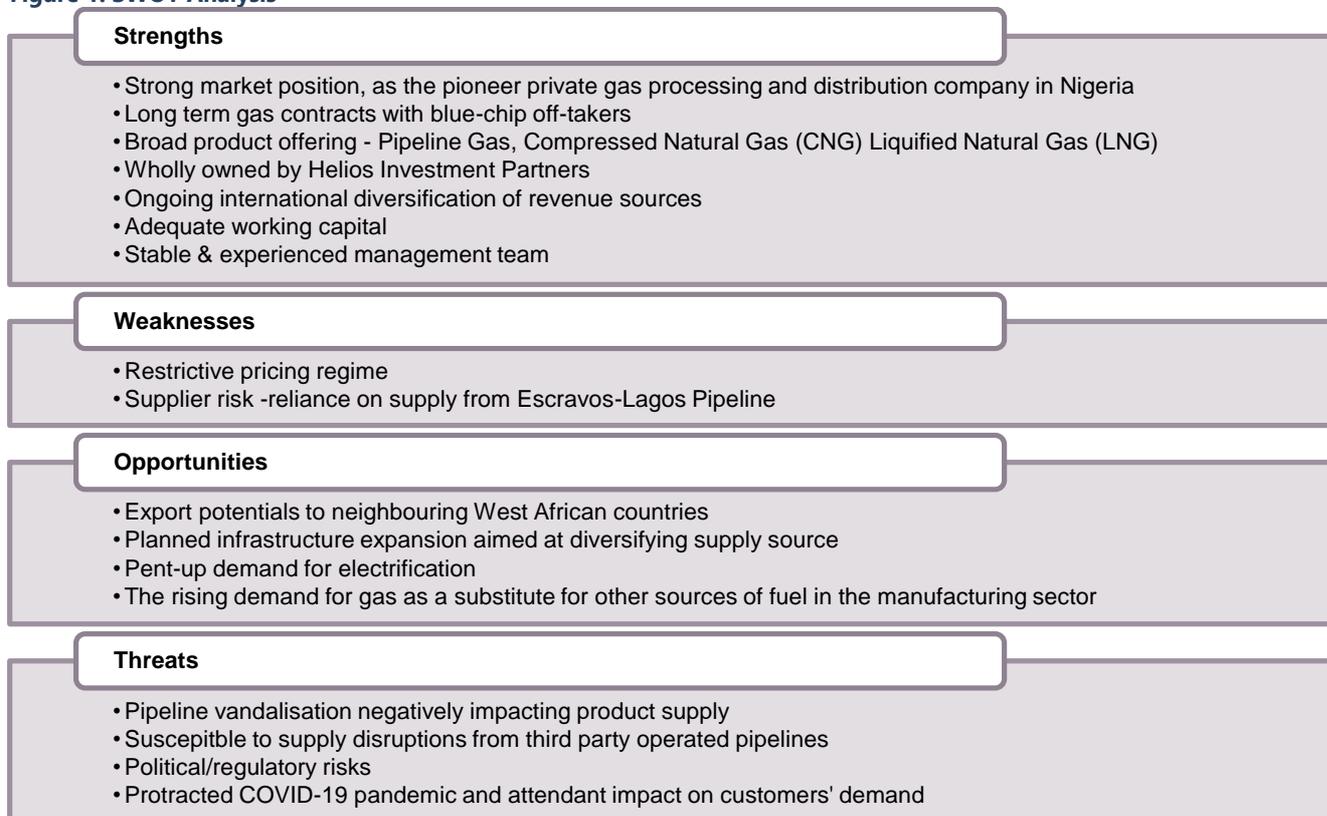
- Agusto & Co. hereby affirms the “**Bbb+**” rating assigned to Axxela Limited (‘Axxela’ or ‘the Company’). The assigned rating reflects our opinion on the Company’s satisfactory financial condition underlined by the following: i) acceptable profitability level spurred by ongoing international diversification initiatives ii) adequate working capital supported by short term financing surpluses over the last three years iii) moderate leverage underpinned by lower borrowing costs and satisfactory equity cushion iv) stable and experienced management team and v) strong parental support from Helios Investment Partners – a private equity firm with over \$3.6 billion funds under management. In addition, the rating also takes into cognisance the adverse impact of COVID-19 pandemic on Axxela’s business operations across the West African region and the strategic initiatives been implemented by the Company to minimise the negative effects.
- Axxela Limited is a leading player in the mid-stream gas marketing and distribution industry in Nigeria, providing gas to top-tier industrial consumers in three major commercial cities in Nigeria (Lagos, Port Harcourt and Sagamu). The Company has developed over 260 km of gas pipeline and supplies gas to over 182 industrial and commercial companies in Nigeria and also exports natural gas to the national electric power companies in Togo and the Republic of Benin through the West African gas pipeline network, in line with its strategic move to diversify its revenue sources geographically.
- In the financial year ended 31 December 2019 (FYE 2019), Axxela Limited’s revenue increased by 32% to ₦75.1 billion, primarily due to the growth in the volume of gas sales, supported by additional gas sale and purchase agreements (GSPA) signed with more industrial consumers as well as the impact of full year gas trading activity to the Togolese national electric power company. We note that pipeline gas distribution remained the largest business segment accounting for 79% of turnover, while gas wholesaling segment (export of gas to West African Countries – Togo only) accounted for 19% in the period under review. Overall, Axxela’s profitability metrics remained satisfactory in the period with operating profit margin, return on asset and return on equity at 14.3%, 13.3% and 17.3% respectively.
- In FYE 2019, the Company recorded an operating cash flow (OCF) of ₦4.5 billion, which was sufficient to cover returns to providers of finance (wholly comprising interest payments) and estimated mandatory capital expenditure. Agusto & Co. notes that Axxela’s OCF to sales ratio of 6.1% in 2019 and three-year (2017 – 2019) average of 6.3% requires improvement.

## Axxela Limited

- Over the last three years, Axxela Limited has continuously posted short term financing surpluses mainly supported by favourable terms of trade. The Company continues to record overall working capital surpluses based on analyst adjustments (stripping long term assets of the cash-generating value of rights to pipeline assets as an intangible asset in line with relevant accounting standards). Thus, Axxela recorded short-term financing surplus of ₦10.9 billion and overall working capital surplus of ₦31.6 billion for FYE 2019.
- As at 31 December 2019, Axxela Limited's adjusted total liabilities<sup>1</sup> stood at ₦36.7 billion, comprising non-interest-bearing liabilities (73%) and interest-bearing liabilities (27%). Although Axxela's interest-bearing liabilities (IBL) rose by 4% to ₦9.9 billion in FYE 2019, the Company's interest expense to sales ratio improved to 4.5% when compared to prior year of 6.7%, on account of lower cost of borrowing during the year under review. However, this ratio is still high in our opinion. As at 2019 year-end, Axxela's IBL (net of cash) to equity ratio at 16%, as well as net debt (total debt less cash) as a percentage of average total assets at 47% were both in line with our expectations.
- The Company's unaudited accounts for the three months ended 31 March 2020 (Q1'2020) reveals a slight drop in performance when compared to Q1'2019 and Q1'2020 budget. Axxela's management notes that the marginal decline in topline performance was due to delays in commencement of trading for the new gas contract in the Republic of Benin, lower gas sales due to maintenance of pipeline facilities and lower gas consumption by West African customers and overall reduced demand on account of the lockdown imposed due to the COVID-19 pandemic towards the end of Q1'2020. Although Axxela recorded a lower annualised ROA of 11.1% and ROE of 13.5% compared to prior period, we expect further improvements in H2'2020, as gradual reopening of countries globally and in Nigeria commenced by end of Q2'2020.
- Subsequent to 2019 FYE, Axxela Limited, through a wholly owned SPV (Axxela Funding 1 Plc) raised ₦11.5 billion in the form of a 7-year 14.3% Fixed Rate Bond in May 2020 to refinance existing debts and fund the construction of Sagamu pipeline project which will enable the Company provide gas to some industrial and commercial companies operating in Ogun State.
- Overall, we expect Axxela's financial condition to remain flat for 2020 despite its optimistic 2020 budget. Agosto & Co. notes that a significant part of the Company's 2020 forecast depends on exogenous factors outside its control such as increased demand from existing gas customers following return to full business operations, undisrupted business operations for H2'2020 and continued gas demand and distribution to West African customers.
- Notwithstanding the aforementioned, Agosto & Co. attaches a **stable** outlook to the rating of Axxela Limited on account of the Company's strategic initiatives, continued diversification of revenue sources and robust business continuity plans. However, we will continue to monitor the impact of Covid-19 on the Company's performance.

<sup>1</sup> We made analyst adjustments to total liabilities to exclude shareholder's loan worth US\$64.5 million (estimated at ₦21.6 billion in FYE 2019), which was re-classified as equity, on account of its convertibility option.

**Figure 1: SWOT Analysis**



## COMPANY PROFILE

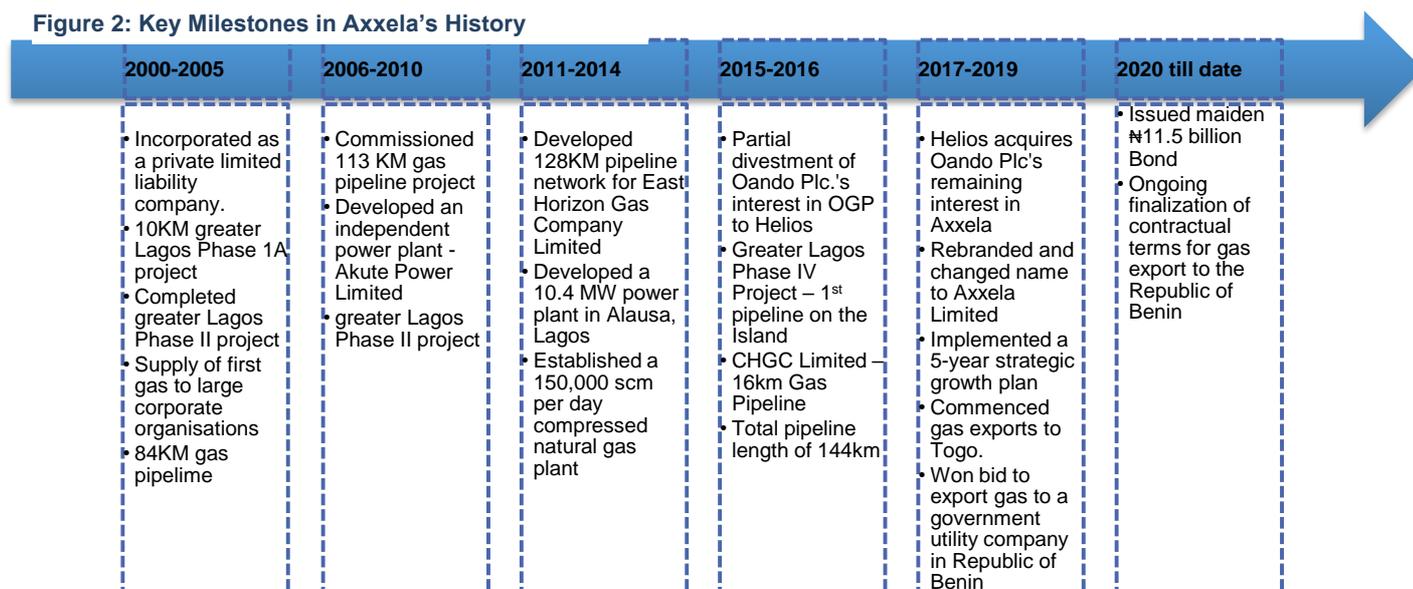
### Background

Axxela Limited was incorporated as Oando Gas and Power Limited (“OGP”) in 2001. Up till December 2016, OGP operated as a subsidiary of Oando Plc. Following the partial divestment of Oando Plc’s interest in OGP Glover Gas Power BV, a vehicle fully owned by Helios Investment Partners LLP (“Helios” or “HIP”) through its fund called Helios Investors III, LP, the Company was rebranded as Axxela Limited in December 2017. Helios acquired the remaining interest in Axxela in April 2019. Helios is a leading Africa-focused private investment firm managing funds circa US\$3.6 billion<sup>2</sup>, spread across 19 portfolio companies operating in over 30 countries in Africa, including 7 current investments in Nigeria.

Axxela Limited is a wholly owned Helios portfolio company. The Company pioneered the private sector pipeline distribution of natural gas to industrial and commercial consumers in Nigeria and is now a designated natural gas shipper on the West African Gas Pipeline (WAGP) to neighboring west-African countries. Axxela’s existing business comprises natural gas pipeline distribution in three major cities (Lagos, Port Harcourt and Sagamu) as well as a compressed natural gas (“CNG”) facility located at Ilasamaja in Lagos State. The existing businesses are run through the following operating entities - Gaslink Nigeria Limited (GNL), Central Horizon Gas Company Limited (CHGC), Gas Network Services Limited (GNSL), Transit Gas Nigeria Limited (TGNL) and Axxela Limited (used for regional operations).

Following various capital investments, Axxela has developed over 260KM of gas pipeline to supply gas to over 182 industrial and commercial customers in Lagos, Port Harcourt and Sagamu. In addition, the company currently supplies gas to Compagnie Energie Electrique du Togo (CEET), the Togo Electric Power Company. Axxela has gas pipeline capacity to deliver up to 179 MMscf/d in Nigeria and plans to scale supply up to 500 MMscf/d in the medium term across Nigeria and West Africa. The Company has long term supply agreements with NGMC with exclusive right to distribute NGMC pipeline gas to designated areas and long term distribution contracts to supply gas to the Industrial centres of Lagos and Port Harcourt.

Figure 2: Key Milestones in Axxela’s History



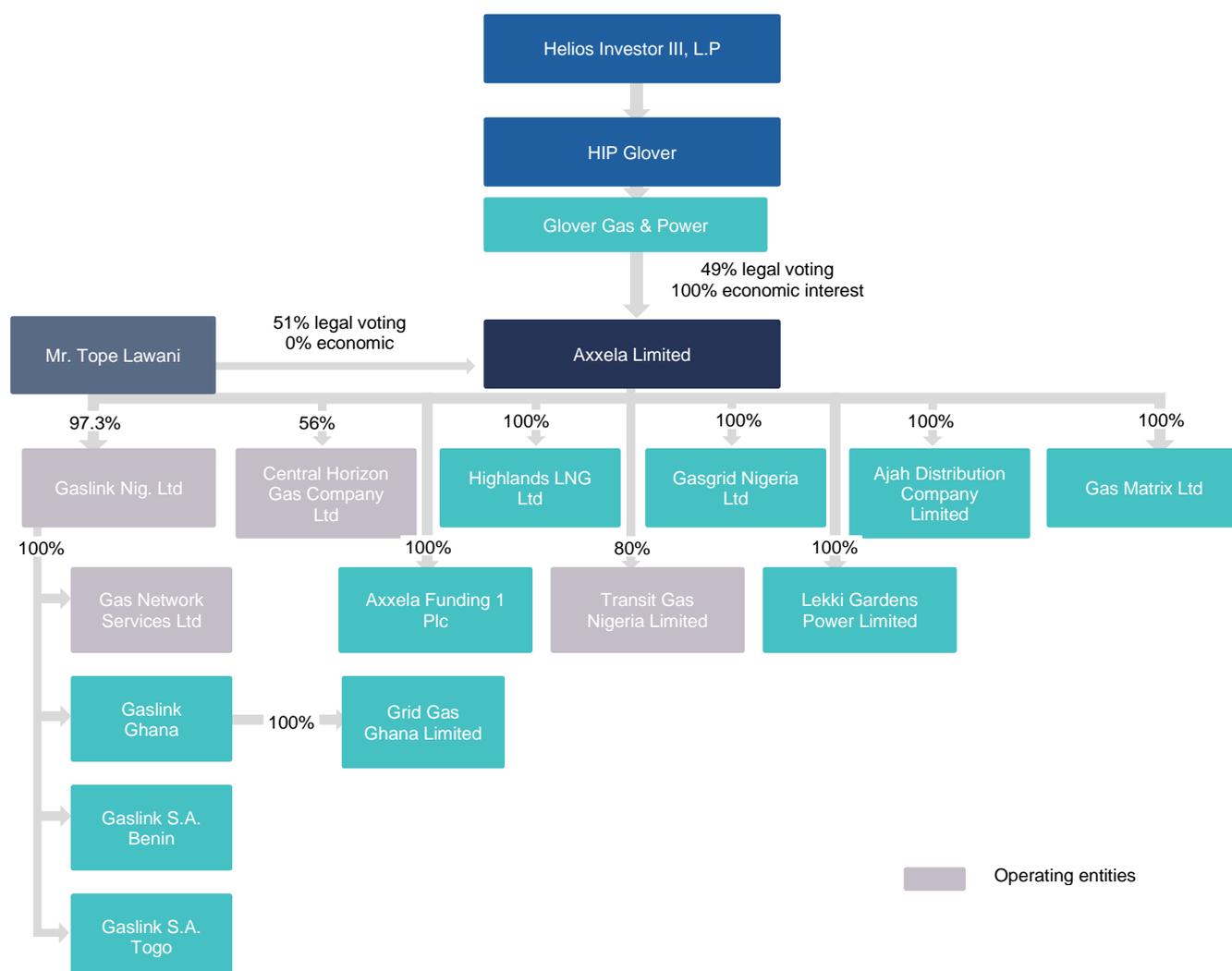
<sup>2</sup> Axxela’s Management Presentation July 2020 and further corroborated on <https://www.heliosinvestment.com/> accessed 20 July 2020

### Ownership Structure

Axxela Limited's economic interest is wholly owned by Glover Gas & Power B.V. ("Glover B.V"), a special purpose vehicle incorporated in the Netherlands by Helios. As at 31 December 2019, Glover B.V held 49% equity stake, while Mr Temitope Lawani<sup>3</sup> (nominee of Helios) had 51% equity stake - held in trust for Glover Gas & Power B.V.

During the year under review, HIP Glover S.A.R.L acquired Oando Netherlands Holdings 3 Cooperatief's 25% interest in Glover Gas & Power B.V. Thus, HIP Glover S.A.R.L holds 100% equity stake in Glover Gas & Power B.V. In the same period, Oando Plc. transferred its shares in Axxela Limited to Mr Temitope Lawani – the co-founder and Managing Partner of Helios Investment Partners. Glover Gas & Power B.V. holds 100% economic interest in the Company and ultimately Axxela Limited is wholly owned by Helios Investment Partners.

**Figure 3: Group/Ownership Structure**



<sup>3</sup> Mr. Tope Lawani is Co-Founder and Managing Partner of Helios Investment Partners.

## Operating Entities

During the financial year ended 31 December 2019, the Company had four operating subsidiaries, namely Gaslink Nigeria Limited, Central Horizon Gas Company Limited, Gas Network Services Limited and Transit Gas Nigeria Limited.

### Gaslink Nigeria Limited (GNL)

GNL operates an exclusive franchise to distribute natural gas in the Greater Lagos area, covering all the industrial areas of the city, delivering gas to over 165 industrial and commercial customers. The company has over 120 km gas distribution network in Lagos with capacity for 129 million meters standard cubic feet per day (“mmscf/d”).

### Central Horizon Gas Company Limited (CHGC)

CHGC operates an exclusive franchise to distribute natural gas to the Greater Port-Harcourt area to over 10 industrial customers. The company has over 16km gas distribution network with a current capacity of 50 mmscf/d.

### Gas Network Services Limited (GNSL)

GNSL handles the compressed natural gas (CNG) business of Axxela. The company has a CNG plant situated at Ilasamaja, Lagos, with a capacity of 150 mscm/d. The CNG is typically transported to customers’ locations within a 200km radius of the facility using CNG tube trucks. The CNG plant also has capacity and dispensing equipment for filling CNG-fuelled cars and buses.

### Transit Gas Nigeria Limited (TGNL)

TGNL is in a joint venture arrangement with the Nigerian Gas Marketing Company (NGMC) to develop a natural gas distribution network that would serve the industrial clusters along Sagamu-Benin expressway and environs. The first phase of the project was completed in Q4’2019, while the second phase is planned for completion by Q1’2021. In addition, TGNL has a joint venture agreement with NGMC to develop a natural gas distribution network to cover Lekki and Lagos free trade zones and environs. Phase 1 of this project is expected to be completed by 2020. TGNL is also in the process of developing a mini-LNG plant in Ajaokuta with a capacity of 10.8 mmscf/d to supply natural gas to industrial customers all over the country. The plant is expected to be completed in Q2’2022.

## Board Composition and Structure

As at 31 December 2019, Axxela Limited had a seven-member Board of Directors, comprising the Chairman, one Executive Director, three other non-executive directors and two independent directors. The Company’s Board of Directors is led by Mr Boye Olusanya, as the Chairman, who replaced Mr. Jubril Adewale Tinubu in that capacity, while the management team is led by Mr Bolaji Osunsanya as the Chief Executive Officer. In the period under review, Mr Omamofe Boyo resigned as a non-executive director and was replaced by Ms Kaat Van Hecke.

**Table 1: Members of Axxela Limited’s Board of Directors as at 30 June 2020**

Name	Designation	Representing
Mr Boye Olusanya	Chairman	Helios
Mr Bolaji Osunsanya	Chief Executive Officer	Axxela
Mr. Jeremy Bending	Independent Director	
Ms. Kaat Van Hecke	Independent Director	
Mr Ogbemi Ofuya	Non-executive Director	Helios
Mr Tope Lawani	Non-executive Director	Helios
Mr Nitin Kaul	Non-executive Director	Helios

Source: Axxela Limited’s Management Presentation July 2020

The Company's Board of Directors operates through the following committees namely; Governance and Remuneration Committee, Safety, Audit and Risk Committee and Strategy and Finance Committee. The Governance and Remuneration Committee is chaired by Mr Jeremy Bending, an independent non-executive director and supported by two other directors. Ms Kaat Van Hecke leads the Safety, Audit and Risk Committee alongside two non-executive directors. The Strategy and Finance Committee is led by Mr Ogbemi Ofuya as chairman and supported by three non-executive directors. The Board of Directors met four times in the 2019 financial year.

### Other Information

As at 31 December 2019, Axxela Limited's total assets and liabilities stood at ₦74.7 billion and ₦36.7 billion respectively, while total shareholders fund was ₦38 billion (FYE 2018: ₦33.4 billion). In the FYE 2019, the Company generated a turnover of ₦75.1 billion (FYE 2018: ₦56.7 billion) and recorded a profit after tax of ₦6.5 billion (FYE 2018: ₦3.6 billion). In the same period, Axxela had an average of 66 persons in its employment (2018: 61 persons).

**Table 2: Background Information as at 31 December 2019**

Authorised Share Capital	₦10 million
Paid-up Capital	₦10 million
Shareholders' Funds	₦38 billion
Registered Office	The Wings Office Complex (East Tower), 17A Ozumba Mbadiwe Avenue, Victoria Island, Lagos
Principal Business	Natural Gas processing, transmission and distribution
Auditors	Ernst & Young

Source: Axxela Limited 2019 Annual Report

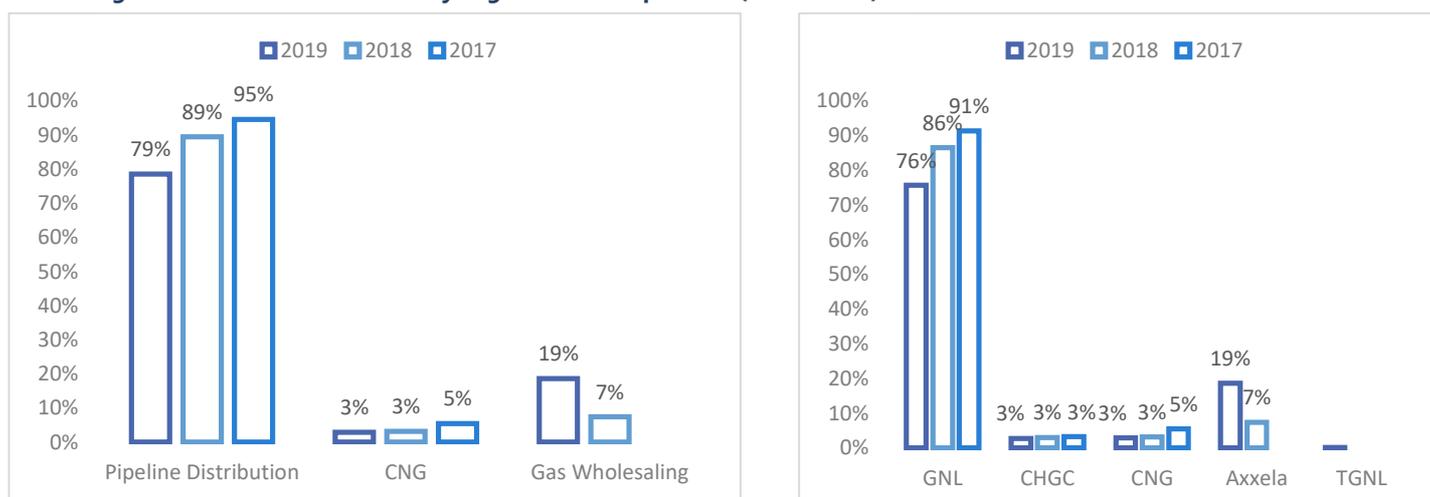
## FINANCIAL CONDITION

### PROFITABILITY

Axxela Limited's principal activities involve pipeline marketing, distribution and processing of natural gas as well as the sale of compressed natural gas (CNG) to industrial consumers. In the financial year ended 31 December 2019, Axxela's total revenue grew by 32% to ₦75.1 billion, when compared with prior year but fell short of the Company's 2019 budget by 27%. We note that the main drivers of Axxela's topline performance in FYE 2019 were increase in volume of gas sold by 45% to 821 million metric standard cubic meters and higher average gas prices, impact of full year trading activity to CEET's gas fired plant<sup>4</sup> and 10% service construction margin on Sapele Compressor Project<sup>5</sup>. In addition, the prevailing peace occasioned by the continued amnesty programme in the Niger Delta Region resulted in less vandalization of oil installations and pipelines and strong gas distribution in the period.

A breakdown of Axxela's revenue by business segment showed that pipeline gas distribution<sup>6</sup> remained the most dominant, recording a 16% growth year on year (YoY), thus accounting for the largest portion of revenue at 79%. The year 2019 was the first full year of gas wholesaling by Axxela following the execution of a GSPA with the Togolese national power company – Compagnie Energie Electrique du Togo (CEET Power) for the provision of pipeline gas through the West African Gas Pipeline network. Consequently, the gas wholesaling segment accounted for 19% of the Company's revenue in the year ended 31 December 2019. Agosto & Co. recognises this diversification initiative as timely and commendable as it provides Axxela with cash receipts in foreign currency (specifically USD), which can serve as a foreign exchange hedge and utilised to settle foreign currency obligations. In terms of revenue contribution by Axxela Group companies in 2019, GNL (in charge of Greater Lagos pipeline distribution) accounted for the largest stake at 76%, while Axxela responsible for gas wholesaling to CEET Togo represented 19% and CHGC (Port Harcourt area) and CNG each accounted for 3%.

**Figure 4: Revenue Breakdown by Segment & Companies – (2017 -2019)**



<sup>4</sup> In 2019, Axxela provided gas supply to Compagnie Energie Electrique du Togo (CEET Power) new gas fired 60MW plant following the execution of a GSPA with the Togolese national power company for the provision of pipeline gas through the West African Pipeline network in September 2018.

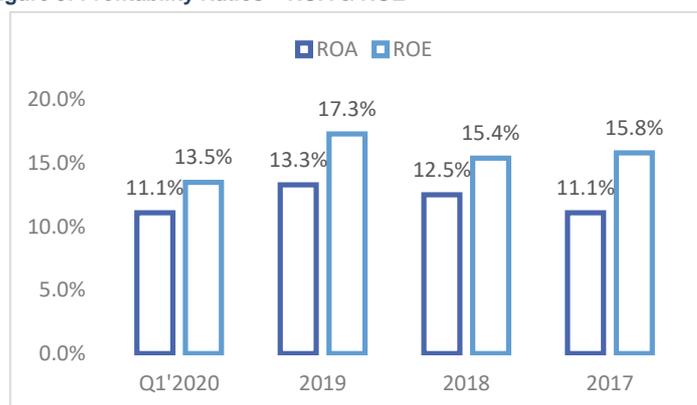
<sup>5</sup> This relates to the agreement between GNL and NGMC, which requires GNL to fund, design and engage contractors to construct gas distribution facilities in Greater Lagos Industrial Area and earn a project management income. In 2019, NGMC approved a project management income of MPR plus 2% of the actual cost incurred by GNL on the project.

<sup>6</sup> This comprises revenue generated from Pipeline distribution franchises from Lagos, Port Harcourt and Sagamu, which is related to the operating companies - Gaslink Nigeria Limited, Central Horizon Gas Company Limited and Transit Gas Nigeria Limited

During the financial year ended 31 December 2019, Axxela Limited's cost of sales to revenue ratio rose marginally to 75.2%, up from 73.8% in the prior year, on account of higher cost of gas purchased. Although operating expenses rose by 6% YoY in absolute terms due to higher staff costs (increase in salaries and staff bonuses) as well as non-cash depreciation on right of use asset and impairment loss on fair value of subsidiary and goodwill, it remained lower than prior year as a percentage of revenue at 10.5%, thus resulting in an improved operating profit margin of 14.3% (2018: 13%). Augusto & Co. notes that Axxela's 2019 operating profit margin and three-year (2017 - 2019) average of 13% is in line with our expectation and considered to be satisfactory.

Figure 5: Profitability Ratios – ROA & ROE

In 2019, Axxela reported other income mainly from foreign exchange gain, unrealised gain on non-deliverable forward (NDF) contracts valuation and finance income, but these gains were offset by credit loss expenses on trade receivables on account of IFRS 9 adoption, thus resulting in other expenses of ₦749 million, compared to other income of ₦1.5 billion recorded in the prior year.



In the financial year ended 31 December 2019, interest expense declined by 11% in absolute terms to ₦3.3 billion, mainly driven by lower cost of borrowing on facilities drawn in 2019 and in line with the prevailing low interest rate regime. Therefore, interest expense to sales ratio dipped to 4.5%, though still high in our opinion.

The Company reported a profit before tax of ₦6.5 billion (2018: ₦5.1 billion), representing 8.8% of turnover, which is in line with our expectation. In the same period, Axxela's pre-interest pre-tax return on assets (ROA) inched up to 13.3% (2018: 12.5%) which we consider to be good, while the adjusted pre-tax return on equity<sup>7</sup> (ROE) of 17.3% (2018: 15.4%) remained within acceptable levels and better than average yield on 364-day treasury certificate (14%) during the review period. Overall, we consider Axxela's profitability indicators to be acceptable.

Subsequent to the 2019 year-end, the Company's unaudited accounts for the three months ended 31 March 2020 (Q1'2020) reveals a slight drop in performance when compared to Q1'2019 and Q1'2020 budget. The main challenges were delays in commencement of trading for the new gas contract in the Republic of Benin, lower gas sales at GNL due to maintenance of SEPLAT Oben gas facility and repair of Trans Forcados pipeline and lower gas consumption by CEET on account of pipeline maintenance amidst the lockdown imposed due to COVID-19 towards the end of Q1'2020. Although Axxela's annualised ROA of 11.1% and ROE of 13.5% are lower than the prior year, we expect further improvements over the remaining three quarters of 2020.

With uptick in business activities in Q2'2020 following the gradual reopening of the economy, Axxela's management believes that it will continue to benefit from its essential services status, which provided some respite during the COVID-19 induced lockdown as the Company continued to distribute gas, even though in reduced quantities. To this end, management intends to leverage its shipper's license from the West African Gas Pipeline Company to consolidate its gas supply to the national electric power company in the Republic of Benin, a bid it won in Q4'2019 as well as CEET Togo. Augusto & Co. recognises positively the Company's pursuit to diversify revenue sources by geography and also enhance its earnings, given that Axxela will generate foreign exchange income, which could have a positive impact on performance in the event of a devaluation of the functional currency of the Company.

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<sup>7</sup> We reclassified Axxela's shareholder's loan as part of equity

Axxela's management has presented a 2020 forecast seeking to outstrip 2019 revenue by 15% and profit after tax by 5% to ₦86.3 billion and ₦6.9 billion respectively. Agusto & Co. notes that this budget is optimistic and a major part of its success would depend on exogenous factors outside the control of the Company such as increased demand from existing gas customers following full business operations, uninterrupted business operations for H2'2020 despite an anticipated second wave of lockdown owing to the increase in COVID-19 cases and continued gas demand and distribution to customers in Togo and Republic of Benin. Nonetheless, we believe that the Company is well positioned with the integration of new technology solutions such as SCADA (remote measurement of customer's gas consumption data and billing system) and ERP solutions (virtual receivables management and online banking platforms) to improve efficiency and enhance performance in the short to medium term.

## CASH FLOW

Axxela Limited enjoys favourable terms of trade with its suppliers, premised on an average 75 days credit provided by its major gas suppliers – Nigerian Gas Marketing Company (NGMC) and Shell Petroleum Development Company. However, the average trade credit days as at FYE 2019 of 84 days was higher than the typical average but lower than 126 days in the prior year, due to good relationship with suppliers. The Company's sales are predominantly on credit to blue-chip industrial and commercial customers operating in key sectors of the economy in Lagos and Rivers State, with an average trade period between 30 and 60 days. The average trade receivable days as at FYE 2019 stood at 53 days (2018: 66 days) which was within the average trade period.

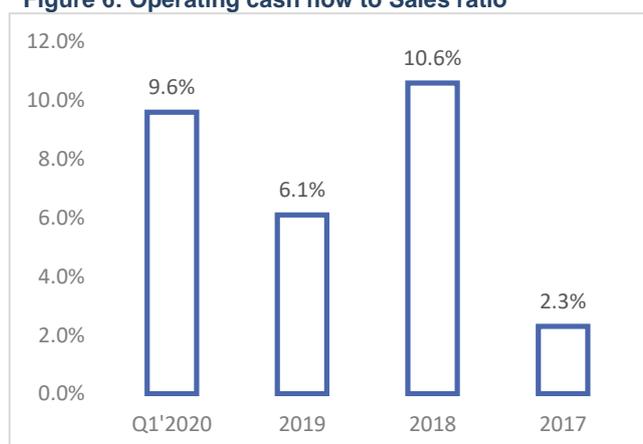
In the financial year ended 31 December 2019, Axxela Limited recorded an operating cash flow (OCF) of ₦4.5 billion, which was 24% lower than prior year. The decline was mainly attributed to non-cash adjustments to unrealized valuation loss in 2019 and impairment of fair value of GNSL plant and goodwill as well as reduction in trade payables. Notwithstanding, Axxela's OCF was sufficient to cover returns to providers of finance wholly comprising interest payment of ₦3.3 billion. During the same period, the Company's net operating cash flow was sufficient to finance estimated mandatory capital expenditure of ₦0.73 billion but not adequate to cover current portion of long-term borrowings amounting to ₦2.7 billion.

Axxela Limited's operating cash flow to sales ratio of 6.1% in FYE 2019 (2018: 10.3%) and the three-year average (2017 - 2019) of 6.3% requires improvement in our view.

The unaudited accounts for the three months ended 31 March 2020 showed a positive operating cash flow of ₦1.6 billion (representing 9.6% of sales), which was only sufficient to cover return to providers of finance wholly comprising interest payment of ₦0.7 billion within the period.

In our opinion, the Company's overall cash flow requires improvement.

**Figure 6: Operating cash flow to Sales ratio**



## FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2019, Axxela Limited's working assets stood at ₦15.7 billion, up by 14% from the prior year, mainly due to the increase in trade receivables from a TGNL customer and rise in other debtors and prepayments. The main components of the Company's working assets as at FYE 2019 were trade debtors (69%), other debtors and prepayments (26%) and inventory (3%).

Similar to last year, Axxela's spontaneous financing (non-interest-bearing liabilities) for FYE 2019 declined by 7% to ₦26.7 billion, on account of decline in trade creditors and deferred taxation (used to offset tax liabilities). As at 31 December 2019, spontaneous financing mainly consisted of trade creditors (49%), other creditors & accruals (19%) and deferred taxation (15%). The Company's spontaneous financing was sufficient to finance working assets, leaving a short-term financing surplus of ₦10.9 billion as at 2019 year-end. Agosto & Co. notes positively that over the last three years, Axxela has continued to record short term financing surpluses supported by favourable terms of trade, particularly from its suppliers.

As at 31 December 2019, the Company's long-term assets remained relatively stable at ₦55 billion comprising intangibles, mainly rights to pipeline assets<sup>8</sup>, goodwill and assets under construction (85%) and plant, property and equipment (15%). As at 2019 year-end, Axxela's long term funds of ₦46.2 billion, comprising equity (82%) and long-term borrowings<sup>9</sup> (18%), were inadequate to finance the total long-term assets leaving a long-term financing need of ₦8.7 billion. Axxela's short term financing surplus of ₦10.9 billion was sufficient to cover the long-term financing need, resulting in an overall working capital surplus of ₦2.2 billion for FYE 2019.

Agusto & Co. notes that the rights to pipeline assets, which amounted to ₦29.4 billion as at year end, are valued based on the expected cash flows and capital recoveries being made over the life of the contract in line with IFRIC 12 (Service Concession Agreements). Thus, a large portion of the intangibles (62%) are actually cash-generating assets. Based on analyst's adjustment, stripping the long-term assets of the cash-generating value of intangibles would result in working capital available of ₦20.6 billion and an overall working capital surplus of ₦31.6 billion as at FYE 2019.

In our opinion, the Company's working capital is adequate.

<sup>8</sup>This pipeline assets are developed by Axxela on behalf of Nigerian Gas Marketing Company (NGMC) based on concession arrangements to fund, design and construct gas pipelines. The NGMC's contract, which concedes the rights to Axxela to recover the cost incurred from a proportion of gas sales to customer, expired in 2019, but has been renewed for another 20 years till 2039.

<sup>9</sup> Out of the total long term borrowing of ₦8.2 billion as at FYE 2019, ₦2.7 billion is due within the next one year.

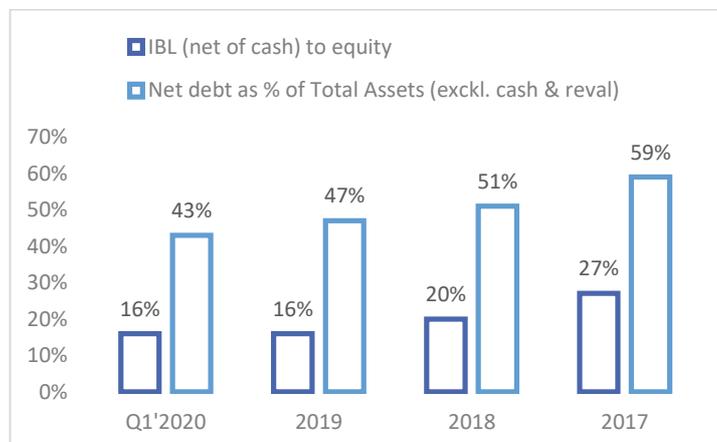
## LEVERAGE

In December 2016, Axxela Limited obtained a US\$64.5 million loan from its principal shareholder (Glover B.V – a special purpose vehicle incorporated in the Netherlands by Helios). The shareholder’s loan was structured as a five-year debt (extendable for an additional one year) with an 8% interest rate per annum on the outstanding principal (and 10% on unpaid interest balance). In line with the Shareholder’s Loan Agreement (as amended), Axxela reserves the right, before or at the expiration of the loan’s tenor, to convert the outstanding principal including all applicable accrued interest into preference shares redeemable at the instance of the Company only. Therefore, Agusto & Co. views the shareholder’s loan as quasi-equity and has thus made analyst adjustment to reflect the same by classifying it as equity.

As at the financial year ended 31 December 2019, Axxela Limited’s adjusted total liabilities<sup>10</sup> stood at ₦36.7 billion (FYE 2018: ₦38.4 billion), comprising non-interest-bearing liabilities (73%) and interest-bearing liabilities (27%). As at the same date, Axxela’s interest-bearing liabilities (excluding shareholders loan) stood at ₦9.9 billion, up from ₦9.5 billion in the prior year, mainly due to an overdraft<sup>11</sup> obtained during the year. As at FYE 2019, all Axxela’s borrowings (short and long terms) are in local currency and sourced from commercial lenders with various security structures in place. Subsequent to 2019 FYE, Axxela Limited incorporated an SPV (Axxela Funding 1 Plc) to raise funds from the debt capital market to refinance existing loans and fund the construction of Sagamu pipeline project which will enable the Company provide gas to a number of industrial and commercial companies operating in the Sagamu–Agbara area in Ogun State. In May 2020, the SPV raised ₦11.5 billion in the form of a 7-year 14.3% fixed rate Bond Due 2027.

During the financial year ended 31 December 2019, Axxela’s interest expense declined in absolute terms by 11% to ₦3.3 billion and as a percentage of revenue to 4.5% (FYE 2018: 6.7%), which is still high in our opinion. We attribute this reduction in finance cost to the prevailing low interest rate regime. As at 31 December 2019, Axxela’s total assets were financed by adjusted shareholders’ funds (51%) and total liabilities (49%), thus depicting a satisfactory equity cushion. In the same vein, the Company’s adjusted IBL (net of cash) to equity ratio at 16%, as well as net debt (total debt less cash) as a percentage of average total assets at 47% are both in line with our expectations.

**Figure 7: IBL to Equity & Net Debt as % of Total Assets**



In the three months ended 31 March 2020, the unaudited accounts of Axxela Limited showed marginal improvements in leverage metrics as equity cushion remained satisfactory at 53% of total assets, while IBL (net of cash) to equity ratio and net debt (total debt less cash) as a percentage of total assets of 16% and 43% respectively were both in line with our expectations.

Pursuant to the successful Bond issuance in May 2020 and the fact that a portion of the proceeds as stipulated in the Pricing Supplement and Trust Deed has been used to refinance some existing expensive debts, we expect additional savings up to circa 200 basis point in finance cost by the end of 2020 and general improvement in leverage metrics in the short to medium term.

Agusto & Co. considers Axxela Limited’s leverage position to be moderate.

<sup>10</sup> We made analyst adjustments to total liabilities to exclude shareholder’s loan estimated at ₦21.6 billion for FYE 2019, which was re-classified as equity, on account of its convertibility option.

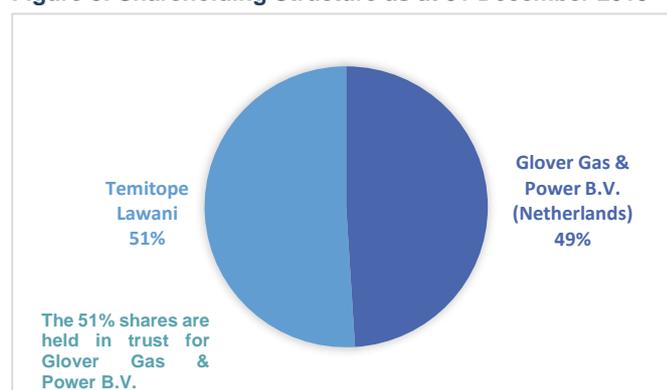
<sup>11</sup> In 2019, GNL obtained a ₦3 billion overdraft (₦1.7 billion due as at FYE 2019) from a commercial bank to finance payments to Nigerian Gas Company and tax obligations. The loan was secured with the Corporate Guarantee of Axxela Limited and the CNG plant

## OWNERSHIP, MANAGEMENT & STAFF

In March 2019, HIP Glover S.A.R.L acquired Oando Netherlands Holdings 3 Cooperatief's 25% interest in Glover Gas & Power B.V. Following the completion of the acquisition, HIP Glover S.A.R.L holds 100% equity stake in Glover Gas & Power B.V. In March 2019, Oando Plc. transferred its shares in Axxela Limited to Mr Temitope Lawani – the co-founder and Managing Partner of Helios Investment.

As at 31 December 2019, the Company had an authorised share capital of ₦10 million divided into 20,000,000 ordinary shares at fifty kobo each. As at the same date, Axxela's authorised shares were fully issued and paid-up with Glover Gas & Power B.V. (Netherlands) holding 49% and Mr Temitope Lawani (the co-founder and Managing Partner of Helios Investment) holding the remaining 51% in trust for Glover Gas & Power B.V. Ultimately, Glover Gas & Power B.V. holds 100% economic interest in Axxela Limited.

Figure 8: Shareholding Structure as at 31 December 2019



Glover Gas & Power B.V (Netherlands) is a special purpose vehicle ("SPV") incorporated in the Netherlands by Helios Investment Partners ('HIP' or 'Helios') - an Africa-focused private equity investment firm based in London, United Kingdom. HIP founded in 2004 has grown to become one of the leading providers of equity and debt financing to African businesses. With Funds under Management in excess of US\$3 billion, Helios has circa 19 portfolio companies operating across over 30 African countries, including existing investments in Nigeria. Some of Helios' current investments in Nigeria include Mall for Africa, Interswitch, OVH Energy and Petrobras.

Axxela Limited is governed by a seven-member Board of Directors consisting of the Chairman, five non-executive directors and the Chief Executive Officer. Mr Boye Olusanya who is a partner at Helios Investment Partners<sup>12</sup> is the Chairman of the Board, following the resignation of Mr Adewale Tinubu in June 2019. Mr Bolaji Osunsanya is the Chief Executive Officer of the Company and is supported by a 12-member executive management team with cumulative work experience of over 200 years spread across different business interests such as oil & gas, banking & finance, power, consulting and project management. In addition, we note positively that the majority of the Axxela management team have been with the Company for more than five years, depicting a stable management team. In our view, Axxela has a qualified and experienced Board and Management team.

As at 31 December 2019, the Company had an average of 66 full-time staff on its payroll, compared to 61 persons in the previous year. In the year under review, Axxela's average cost per employee rose by 8% to ₦53.2 million due to annual remuneration adjustment for inflation as well as payment of performance bonuses during the year. In the same period, operating profit contribution per staff increased by 27% to ₦215.4 million from the prior year. In our opinion, Axxela Limited has a good staff productivity level as operating profit per staff is 4 times the average cost per staff.

<sup>12</sup> Mr. Boye Olusanya is the Head of Portfolio Operations Group at Helios Investment Partners

## Management Team

**Mr Bolaji Osunsanya** is the pioneer Chief Executive Officer of Axxela Limited (formerly Oando Gas & Power), a position he has held since the inception of the Company. Mr Osunsanya has overseen the Axxela's expansion programmes in the West African sub-region. Following an extensive career spanning consulting with Arthur Anderson, banking with Guaranty Trust Bank Plc and Access Bank Plc, where he rose to the position of Executive Director (Corporate Banking). Mr Osunsanya has held positions within the Oando Group ranging from Head of Lubes and Specialties to Chief Marketing Officer of Oando Marketing. He holds a Bachelor's and Master's degrees in Economics from the University of Ife (now known as Obafemi Awolowo University) in 1985 and the University of Lagos in 1987 respectively.

**Mr Rasheed Olaoluwa** was appointed Chief Operating Officer of Axxela Limited in June 2019. Prior to his appointment, he founded Niche Capital Limited in 2016 as an investment company with the objective of making minority equity stakes in early-stage, high growth technology and tech-based companies in Africa. Mr Olaoluwa is the immediate past Managing Director/CEO of the Bank of Industry (BOI). Prior to joining BOI in 2014, he was the Director, Financial Services at Heirs Holdings Limited after spending about a decade in United Bank for Africa (UBA). He has held various positions such as Managing Director/CEO, United Capital Plc; CEO, UBA Africa; Executive Director, UBA Nigeria South; Director, Strategy & Business Transformation; Director, Corporate & Investment Bank; Regional Bank Head, Ikeja, among others. He has over thirty years' experience in the banking industry. Mr Olaoluwa holds a First-Class honours degree in Civil Engineering from the University of Ife (now Obafemi Awolowo University), Nigeria and an Executive MBA from International Graduate School of Management (IESE), Spain. He is also a Member of the Institute of Chartered Accountants of Nigeria (ICAN).

**Mr Timothy Ononiwu** is the Chief Financial Officer of Axxela Limited. Prior to joining Axxela in 2018, he held senior management positions in various financial and non-financial institutions including Executive Director and Head of Thermal Power and Oil & Gas, Project Finance North America at BBVA Securities, Co-Head of Energy and Industrials at Fitch Ratings (NY), Director and Head of Thermal/Oil & Gas at Dexia. His transactions have won 'Deal of the Year' awards from Project Finance International and Euromoney publications, both industry-leading magazines. He is an accomplished finance executive with extensive experience spanning Project Financing, Financial Advisory, Capital Raising, Business Development and Project Management across the energy, environmental and infrastructure sectors. Timothy has an MBA in Finance and International Business from the Columbia University Business School.

**Table 3: Other Members of Axxela's management team as at 30 June 2020**

Name	Position
Mr Franklin Umole	Director, Business Development
Mr Tuoyo Ejueyitchie	General Counsel & Company Secretary
Ms Ngozika Achebe	Head, Human Resources
Mr Babatunde Baba-Agba	Head, Contract Performance
Mr Uchenna Okpala	EHSSQ Manager
Mr Chukwuma Ezeike	Head, Operations
Mr Olufisayo Duduyemi	Chief Strategy Officer
Mr. Kehinde Alabi	Financial Controller
Ms Yetunde Demuren	Corporate Finance Manager
Mr Adebayo Omikorede	Risk, Internal Control and Audit Manager

Source: Axxela Limited Management Presentation – July 2020

## OUTLOOK

The volume of gas sold by Axxela in FYE 2019 increased by 45% to 821 mmscm, on account of additional GSPA signed with a number of new manufacturing companies in the country. In addition, average gas prices inched up, albeit marginally to boost the Company's revenue growth. In the financial year ended 31 December 2019, Axxela's overall financial performance remained relatively stable supported by strong top line growth of 32% to ₦75.1 billion and satisfactory bottom line performance evidenced by ROA of 13.3% and ROE of 17.3%. In addition, the Company has continued its diversification plans into West Africa following the signing of another Gas Sales and Purchase Agreement (GSPA) with the national electric power company in the Republic of Benin and commencement of supply of natural gas in Q1'2020 through the West African Gas Pipeline network. The new initiative of exporting gas to other West-African countries will aid the Company in diversifying its revenue sources, given that revenue generated from this business segment is denominated in foreign currency (FX) which will support Axxela's FX requirements.

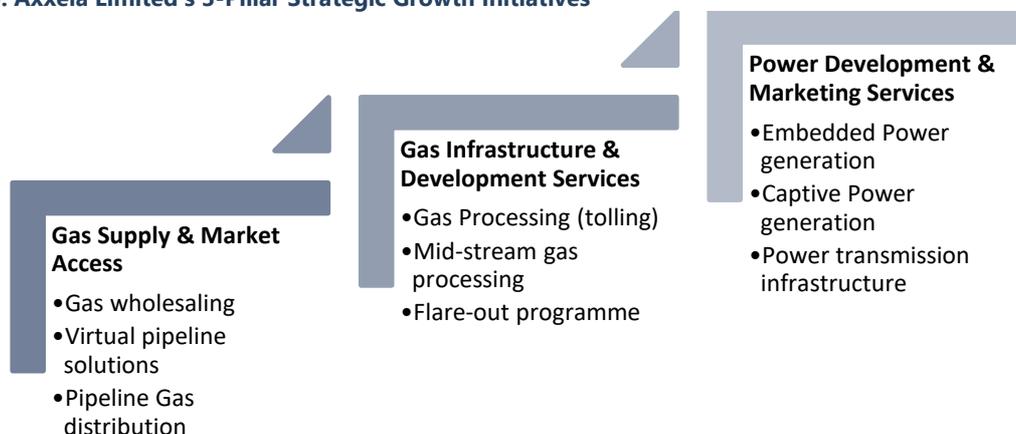
An unanticipated global health crisis (COVID-19) besieged the world in Q1'2020 thus creating negative impact on global supply chains, weaker commodity prices and incapacitated global production output. This led to many countries shutting down land, sea and air borders and grinding economic activities to a halt in a bid to stem the rising spate of the pandemic. This has further placed pressure on government's finances globally as well as industries projected performance in the first half of the year as many companies had to comply with the lock down directives and hence stalled productive activities. However, with the gradual reopening of countries globally and in Nigeria towards the end of Q2'2020, we believe that companies with dynamic business continuity plans and actionable strategic growth objectives hinged on diversifying revenue sources, will benefit immensely going forward.

Axxela Limited sponsored the incorporation of an SPV (Axxela Funding 1 Plc) to raise ₦11.5 billion seven year bond from the capital market in May 2020, to refinance some existing expensive debts and fund the construction of Sagamu pipeline, which will enable the Company provide gas to industrial and commercial companies operating in the Sagamu – Agbara area of Ogun State. Agusto & Co. notes that growth in domestic gas consumption, driven by increasing investments in electrification, rising demand for gas by manufacturing industries as a cost-effective source of fuel, growing population with the attendant need for energy consumption are potential drivers of growth in the near term and Axxela is well positioned to benefit from such opportunities given its growing network of gas pipeline distribution in Nigeria and West Africa.

Axxela's Management's growth strategy in the short to medium term is hinged principally on three pillars - Gas Supply & Market Access, Gas Infrastructure & Development Services and Power Development & Marketing Services. With planned ramp up of capacity to deliver 179MMscf/d in Nigeria and scale up to 500MMscf/d in the medium term across the West-African region, Axxela would remain a leading provider of gas supply and market access through gas wholesaling, virtual pipeline and gas distribution solutions.

As part of the strategic growth objectives, Axxela plans to leverage on existing assets and good relationship with NGMC to obtain GSPA for Greater Lagos expansion project (to develop natural gas distribution network to cover Lekki and Lagos free trade zone and environs), deepen gas supply relationship with existing clients and related parties and achieve throughput maximization through a phased debottlenecking and rehabilitation of some assets. In addition, the Company plans to set up a 40MW Independent Power Plant in Ikeja, Lagos State and a mini-LNG of 10.8 mmscf/d plant in Ajaokuta, Kogi State to drive its embedded power generation and mid-stream gas processing initiatives respectively. As part of diversification growth plans, Axxela intends to secure alternate gas supply from non-Niger Delta gas field sources and also explore the option of a bankable flare gas site in the medium term.

**Figure 9: Axxela Limited's 3-Pillar Strategic Growth Initiatives**



*Source: Axxela Limited's Management Presentation - July 2020*

Overall, we expect Axxela's financial performance to remain flat in 2020 amid the optimistic 2020 budget. Nonetheless, we hereby attach a **stable** outlook to the rating of Axxela Limited given the Company's strategic initiatives, ongoing diversification of revenue sources and our expectation that working capital will remain adequate. Our outlook also reflects Agusto & Co's expectation that Axxela will maintain its leading position in the Nigerian gas supply market.

## FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-19		31-Dec-18		31-Dec-17	
	₦'000		₦'000		₦'000	
<b>ASSETS</b>						
IDLE CASH	3,986,779	5.3%	2,886,646	4.0%	2,856,756	4.0%
MARKETABLE SECURITIES & TIME DEPOSITS	-	-	-	-	-	-
<b>CASH &amp; EQUIVALENTS</b>	<b>3,986,779</b>	<b>5.3%</b>	<b>2,886,646</b>	<b>4.0%</b>	<b>2,856,756</b>	<b>4.0%</b>
FX PURCHASED FOR IMPORTS	270,015	0.4%	295,908	0.4%	222,646	0.3%
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	-	-	-	-	-	-
STOCKS	543,541	0.7%	312,716	0.4%	424,492	0.6%
TRADE DEBTORS	10,855,010	14.5%	10,318,998	14.4%	11,582,199	16.1%
DUE FROM RELATED PARTIES	-	-	-	-	-	-
OTHER DEBTORS & PREPAYMENTS	4,032,075	5.4%	2,877,500	4.0%	1,940,519	2.7%
<b>TOTAL TRADING ASSETS</b>	<b>15,700,641</b>	<b>21.0%</b>	<b>13,805,122</b>	<b>19.2%</b>	<b>14,169,856</b>	<b>19.7%</b>
INVESTMENT PROPERTIES	-	-	-	-	-	-
OTHER NON-CURRENT INVESTMENTS	-	-	-	-	-	-
PROPERTY, PLANT & EQUIPMENT	7,154,811	9.6%	8,556,969	11.9%	8,231,001	11.4%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-	-	-	-	-	-
GOODWILL, INTANGIBLES & OTHER I T ASSETS	47,847,062	64.1%	46,580,697	64.8%	46,679,238	64.9%
<b>TOTAL LONG TERM ASSETS</b>	<b>55,001,873</b>	<b>73.6%</b>	<b>55,137,666</b>	<b>76.8%</b>	<b>54,910,239</b>	<b>76.3%</b>
<b>TOTAL ASSETS</b>	<b>74,689,293</b>	<b>100.0%</b>	<b>71,829,434</b>	<b>100.0%</b>	<b>71,936,851</b>	<b>100.0%</b>
<i>Growth</i>	4.0%	-	-0.1%		8.7%	
<b>LIABILITIES &amp; EQUITY</b>						
SHORT TERM BORROWINGS	1,796,785	2.4%			2,830,149	3.9%
CURRENT PORTION OF LONG TERM BORROWINGS						
LONG-TERM BORROWINGS	8,201,525	11.0%	9,546,511	13.3%	8,155,113	11.3%
<b>TOTAL INTEREST BEARING LIABILITIES (TIBL)</b>	<b>9,998,310</b>	<b>13.4%</b>	<b>9,546,511</b>	<b>13.3%</b>	<b>10,985,262</b>	<b>15.3%</b>
TRADE CREDITORS	13,024,513	17.4%	14,454,123	20.1%	10,312,785	14.3%
DUE TO RELATED PARTIES						
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	239,160	0.3%	219,987	0.3%	1,588,915	2.2%
OTHER CREDITORS AND ACCRUALS	5,139,330	6.9%	4,749,183	6.6%	8,808,699	12.2%
TAXATION PAYABLE	2,276,449	3.0%	1,285,042	1.8%	1,915,231	2.7%
DIVIDEND PAYABLE	102,450	0.1%	102,450	0.1%	102,450	0.1%
DEFERRED TAXATION	3,985,579	5.3%	6,137,489	8.5%	6,630,694	9.2%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES					44,756	0.1%
MINORITY INTEREST	1,903,862	2.5%	1,894,374	2.6%	1,927,606	2.7%
REDEEMABLE PREFERENCE SHARES	-	-	-	-	-	-
<b>TOTAL NON-INTEREST BEARING LIABILITIES</b>	<b>26,671,343</b>	<b>35.7%</b>	<b>28,842,648</b>	<b>40.2%</b>	<b>31,331,136</b>	<b>43.6%</b>
<b>TOTAL LIABILITIES</b>	<b>36,669,653</b>	<b>49.1%</b>	<b>38,389,159</b>	<b>53.4%</b>	<b>42,316,398</b>	<b>58.8%</b>
SHARE CAPITAL	21,700,675	29.1%	23,492,347	32.7%	21,298,941	29.6%
SHARE PREMIUM	-	-	-	-	-	-
IRREDEEMABLE DEBENTURES	-	-	-	-	-	-
REVALUATION SURPLUS	-	-	-	-	-	-
OTHER NON-DISTRIBUTABLE RESERVES	-	-	-	-	-	-
REVENUE RESERVE	16,318,965	21.8%	9,947,928	13.8%	8,321,512	11.6%
<b>SHAREHOLDERS' EQUITY</b>	<b>38,019,640</b>	<b>50.9%</b>	<b>33,440,275</b>	<b>46.6%</b>	<b>29,620,453</b>	<b>41.2%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>74,689,293</b>	<b>100.0%</b>	<b>71,829,434</b>	<b>100.0%</b>	<b>71,936,851</b>	<b>100.0%</b>

## Axxela Limited

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-19		31-Dec-18		31-Dec-17	
	N'000		N'000		N'000	
TURNOVER	75,114,035	100.0%	56,739,306	100.0%	42,171,580	100.0%
COST OF SALES	(56,505,840)	-75.2%	(41,866,375)	-73.8%	(31,877,762)	-75.6%
GROSS PROFIT	18,608,195	24.8%	14,872,931	26.2%	10,293,818	24.4%
OTHER OPERATING EXPENSES	(7,904,131)	-10.5%	(7,491,740)	-13.2%	(5,491,847)	-13.0%
OPERATING PROFIT	10,704,064	14.3%	7,381,191	13.0%	4,801,971	11.4%
OTHER INCOME/(EXPENSES)	(749,342)	-1.0%	1,572,241	2.8%	3,176,539	7.5%
PROFIT BEFORE INTEREST & TAXATION	9,954,722	13.3%	8,953,432	15.8%	7,978,510	18.9%
INTEREST EXPENSE	(3,378,292)	-4.5%	(3,803,279)	-6.7%	(3,289,007)	-7.8%
PROFIT BEFORE TAXATION	6,576,430	8.8%	5,150,153	9.1%	4,689,503	11.1%
TAX (EXPENSE) BENEFIT	(53,613)	-0.1%	(1,583,932)	-2.8%	(208,016)	-0.5%
<b>PROFIT AFTER TAXATION</b>	<b>6,522,817</b>	<b>8.7%</b>	<b>3,566,221</b>	<b>6.3%</b>	<b>4,481,487</b>	<b>10.6%</b>
NON-RECURRING ITEMS (NET OF TAX)	-		-		-	
MINORITY INTERESTS IN GROUP PAT	(151,780)	-0.2%	(178,992)	-0.3%	(218,948)	-0.5%
PROFIT AFTER TAX & MINORITY INTERESTS	6,371,037	8.5%	3,387,229	6.0%	4,262,539	10.1%
DIVIDEND	-	-	-	-	-	-
PROFIT RETAINED FOR THE YEAR	6,371,037	8.5%	3,387,229	6.0%	4,262,539	10.1%
SCRIP ISSUES	-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		(1,760,813)		-	
PROFIT RETAINED B/FWD	9,947,928	-	8,321,512		4,058,973	
<b>PROFIT RETAINED C/FWD</b>	<b>16,318,965</b>		<b>9,947,928</b>		<b>8,321,512</b>	
<b>ADDITIONAL INFORMATION</b>	<b>31-Dec-19</b>		<b>31-Dec-18</b>		<b>31-Dec-17</b>	
Staff costs (N'000)	3,516,499		2,996,670		1,905,729	
Average number of staff	66		61		61	
Staff costs per employee (N'000)	53,280		49,126		31,241	
Staff costs/Turnover	4.7%		5.3%		4.5%	
Capital expenditure (N'000)	539,320		834,332		785,098	
Depreciation expense - current year (N'000)	663,707		507,929		404,220	
(Profit)/Loss on sale of assets (N'000)	-		948		-	
Number of 50 kobo shares in issue at year end ('000)	43,401,350		46,984,694		42,597,882	
Market value per share of 50 kobo (year end)	-		-		-	
Market capitalisation (N'000)	-		-		-	
Market/Book value multiple	-		-		-	
<b>Auditors</b>	<b>EY</b>		<b>EY</b>		<b>EY</b>	
<b>Opinion</b>	<b>CLEAN</b>		<b>CLEAN</b>		<b>CLEAN</b>	

<b>CASH FLOW STATEMENT</b>			
<b>FOR THE YEAR ENDED</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
	<b>₹'000</b>	<b>₹'000</b>	<b>₹'000</b>
Operating cash flow (OCF)	4,554,540	6,008,224	965,672
Less: Returns to providers of finance	(3,378,292)	(3,803,279)	(3,292,359)
OCF after returns to providers of finance	1,176,248	2,204,945	(2,326,687)
Non-recurring items	-	-	-
Free cash flow	1,176,248	2,204,945	(2,326,687)
Investing activities	(527,914)	(736,304)	(794,236)
Financing activities	451,799	(1,438,751)	3,374,480
Change in cash	1,100,133	29,890	253,557
<b>PROFITABILITY</b>			
PBT as % of Turnover	9%	9%	11%
Return on equity	18%	16%	17%
Real sales growth	18.2%	20.7%	57.6%
Sales growth	32.4%	34.5%	81.8%
<b>CASH FLOW</b>			
Interest cover (times)	1.3	1.6	0.3
Principal payback (years)	2.2	1.6	11.4
<b>WORKING CAPITAL</b>			
Working capital need (days)	-	-	-
Working capital deficiency (days)	-	-	-
<b>LEVERAGE</b>			
Interest bearing debt to Equity	26%	29%	37%
Total debt to Equity	96%	115%	143%
IBD net of cash and Equiv. as a % of Equity without rev.	16%	20%	27%

## RATING DEFINITIONS

<b>Aaa</b>	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.
<b>Aa</b>	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.
<b>A</b>	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
<b>Bbb</b>	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
<b>Bb</b>	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>B</b>	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
<b>C</b>	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
<b>D</b>	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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