

# Axxela Limited

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2023 Corporate Final Rating Review Report

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 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# Axxela Limited

## Issuer Rating:

**A-**

This is a company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.

**Outlook:** Stable

**Issue Date:** 21 July 2023

**Expiry Date:** 30 June 2024

**Previous Rating:** A-

**Industry:** Natural Gas

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## RATING RATIONALE

- Agusto & Co. hereby affirms the “A-” rating assigned to Axxela Limited (‘Axxela’ or ‘the Company’). The rating reflects the Company’s good financial condition upheld by i) good and sustained profitability metrics bolstered by the strategy to diversify revenue sources by geography and increase the throughput of natural gas to unserved industrial customers, ii) satisfactory leverage profile elicited by good funding mix boosted by the introduction of long term concessionary loans, iii) adequate working capital supported by favourable terms of trade with gas suppliers and industrial customers on the back of long term take or pay gas contracts, iv) stable and experienced management team and v) strong shareholders’ support from Helios Investment Partners and Sojitz Corporation at the holding company level. However, the Company’s performance continues to be tempered by protracted gas supply constraints as well as ongoing macroeconomic headwinds on business operations.
- Axxela Limited (along with its subsidiaries<sup>1</sup>) is a leading player in the natural gas processing, marketing and distribution value chain in Nigeria, providing bespoke energy solutions to customers in Nigeria and the West African region. The Company has developed over 300 kilometres (km) of gas pipeline infrastructure and delivers about 90 million standard cubic feet per day (mmscf/d) to over 200 industrial and commercial customers in Nigeria and West Africa. Axxela is also involved in alternative power generation and distribution solutions and has deployed circa 22.55 megawatts (MW) of captive and embedded power to industrial customers in Nigeria.
- In the financial year ended 31 December 2022 (FYE 2022), the Company’s total revenue grew by 13% to ₦120.4 billion from the prior year, with 80.6% of the income generated from the Nigerian operations and 19.4% from the sale of natural gas to Compagnie Energie Electrique du Togo - CEET. Despite the tough macroeconomic and operating environment in FYE 2022, Axxela Limited reported an operating profit margin of 13.2%, earnings before interest, tax, depreciation and amortization (EBITDA) margin of 16.4%, return on assets of 12.5% and return on equity of 26.2%, all in line with our expectations. Going forward, we expect the

<sup>1</sup> Axxela Limited’s operating subsidiaries are Gaslink Nigeria Limited (GNL), Central Horizon Gas Company Limited (CHGC), Gas Network Services Limited (GNSL) and Transit Gas Nigeria Limited (TGNL).

Company's plans to increase pipeline gas infrastructure to unserved industries in Nigeria (22 new customers have signed Gas Purchase Agreements) coupled with commencement of natural gas supply to industrial customers in TEMA free zone in Ghana in H2'2023 as well as growing captive and embedded power solutions to customers in Lagos and Port Harcourt will result in improved profitability in the near to medium term.

- Axxela Limited recorded a lower operating cash flow (OCF) of ₦6.4 billion in 2022 compared to the prior year mainly due to a rise in trade receivables days to 43 days compared to 35 days in the prior year from gas customers and other prepayments. However, the OCF was sufficient to cover returns to providers of finance of ₦3.8 billion (wholly comprising interest payment) and estimated mandatory capital expenditure of ₦1.2 billion. Axxela Limited's OCF to sales ratio of 5.3% in FYE 2022 and three-year (2020 – 2022) average of 10%, were both lower than our benchmarks. In our view, the Company's overall cash flow profile requires improvement, especially in moderating the rising trade receivables.
- Axxela Limited has maintained a good working capital position over the last five years supported by consistent short-term financing surpluses elicited by satisfactory gas supply terms as well as a favourable long-term funding mix. In our opinion, the Company has adequate working capital for the current business operations and we expect this trend to continue in the medium term.
- As at 31 December 2022, Axxela Limited's interest-bearing liabilities (excluding the Shareholder's Loan) stood at ₦42.4 billion comprising outstanding balances on three existing facilities (including the Series 1 Bond) and four new long-term loans obtained in the year. Furthermore, we note that all the interest-bearing liabilities (representing 31% of total liabilities) were in local currency and secured against various assets (fixed and floating charges and corporate guarantees) of the Axxela Group. However, the Shareholder's Loan (outstanding balance of USD\$52.5 million with a carrying value of ₦24.2 billion as at FYE 2022) which continues to be denominated in foreign currency is appropriately hedged with a non-deliverable forward instrument. In our view, Axxela's financial liabilities are not materially exposed to fluctuations in the foreign exchange market as the dollar-denominated Shareholder's Loan allows the Company the option and right to extend or convert into preference shares upon maturity, and we consider this to be rating positive.
- While we recognise positively that the loans obtained over the last two years were used to finance pipeline network infrastructure value chain and enhance energy solutions, we expect the Company's leverage position to rise albeit marginally in the near to medium term following the full drawdown of the concessionary loans. However, we estimate that the revenue contribution from the new gas pipeline projects and increased sales of gas to West African clients will cushion the overall impact of higher debt service obligations and leverage levels in the medium term.

- Based on the above, Agusto & Co. hereby attaches a **stable** outlook to Axxela Limited.

**Figure 1: Strengths, Weakness, Opportunities & Threats**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Strong market position, as the pioneer private gas processing and distribution company in Nigeria</li> <li>• Long term gas contracts with blue-chip off-takers</li> <li>• Broad product offering - Pipeline Gas, Compressed Natural Gas (CNG), Liquefied Natural Gas (LNG) and Captive power development</li> <li>• Strong ownership support- Helios Investment Partners and Sojitz Corporation</li> <li>• Ongoing international diversification of revenue sources</li> <li>• Good profitability</li> <li>• Adequate working capital</li> <li>• Stable &amp; experienced management team</li> </ul>
<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>• Product availability risk from reliance on supply from Escravos-Lagos Pipeline</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Export potentials to more West African countries and generation of foreign exchange earnings</li> <li>• Pent-up demand for electrification</li> <li>• Ongoing supply infrastructure expansion aimed at mitigating gas supply constraints</li> <li>• The rising demand for gas as a substitute for other sources of fuel in the manufacturing sector</li> </ul>
<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Pipeline vandalism negatively impacting gas supply</li> <li>• Susceptible to supply disruptions from third party operated pipelines</li> <li>• Political/regulatory risks</li> <li>• Weak macroeconomic environment</li> </ul>

## COMPANY PROFILE

### OVERVIEW & BACKGROUND

Axxela Limited ("Axxela" or "the Company") is primarily involved in natural gas processing, transmission & distribution as well as power generation & distribution. The Company pioneered the private sector development of the natural gas network in the country and is the largest private-sector gas distributor in Nigeria delivering 90 million standard cubic feet per day (mmscf/d) to over 200 industrial and commercial customers. Axxela is also the leader in the natural gas value chain with circa 300 kilometres (Km) of gas pipeline infrastructure and providing bespoke energy solutions to customers in Nigeria and the West African region. The Company is also the first privately owned firm registered as a natural gas shipper on the West African Gas Pipeline (WAGP) covering Nigeria and neighbouring West African countries – Benin, Togo and Ghana. Axxela Limited was originally incorporated in 2001 as Oando Gas and Power Limited and is now owned at the holding company level by two principal shareholders - Helios Investment Partners (an Africa focused private investment firm) and Sojitz Corporation (a leading conglomerate and trading house listed on the Tokyo Stock Exchange).

The Company is also involved in alternative power generation and distribution solutions such as captive and embedded power and has deployed about 28.55 megawatts (MW) to meet the energy needs of industrial customers in Lagos State. Axxela also supplies gas to Compagnie Energie Electrique du Togo (CEET) under a Gas Sales and Purchase Agreement (GSPA) with the Togolese National Power Company. The Company has long-term supply agreements with the Nigerian Gas Marketing Company Limited (NGML) with the exclusive right to distribute NGML pipeline gas to designated areas and long-term distribution contracts to supply gas to the Industrial centres of Lagos and the Sagamu-Benin axis.

The Company has four operating entities (Gaslink Nigeria Limited, Central Horizon Gas Company Limited, Gas Network Services Limited and Transit Gas Nigeria Limited), one financing special purpose vehicle (Axxela Funding 1 Plc) and several non-operating companies established for future expansion plans. The Company through the special purpose vehicle issued a ₦11.5 Billion Series 1 Seven-Year 14.3% Fixed Rate Bond Due 2027 in May 2020 to purchase Notes issued by Axxela Limited, Gaslink Nigeria Limited and Transit Gas Nigeria Limited, while the Co-Obligors utilized the proceeds to refinance existing debts and fund Sagamu pipeline construction projects. The Bond coupon is being paid half yearly over the seven-year tenor, while the principal is being repaid semi-annually following the expiration of a two-year moratorium.

### OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2022, the Company had an authorized share capital of ₦10 million divided into 20,000,000 ordinary shares at fifty kobo each which were fully issued and paid. As at the same date, Axxela Limited was wholly owned by Glover Gas & Power B.V.<sup>2</sup> ("Glover B.V"), a special purpose vehicle incorporated in the Netherlands by Helios Investment Partners. However, Glover B.V was in turn owned by Helios Investment Partners (HIP) Glover SCS (75%) and Sojitz Corporation (25%).

<sup>2</sup> Glover B.V held a 49% legal voting (100% economic interest) equity stake in Axxela Limited, while Mr. Tope Lawani (nominee of Helios) held a 51% (legal voting) equity stake in trust for Glover Gas & Power B.V as at the same date.

## BOARD COMPOSITION AND STRUCTURE

Axxela Limited has an eight-member Board of Directors which comprises the Chairman, four non-executive directors, two independent non-executive directors and one executive director. The Company's Board of Directors is led by Mr Boye Olusanya, as the Chairman, while Mr Mobolaji Osunsanya is the Chief Executive Officer. During the period under review, Mr Satoshi Awaya joined the Board as a non-executive director representing the interest of Sojitz Corporation. The Company's Board of Directors operates through three committees namely; Governance and Remuneration Committee, Safety, Audit and Risk Committee and Strategy and Finance Committee.

**Table 1: Members of Axxela Limited's Board of Directors as at 30 June 2023**

Name	Designation	Representing
Mr Boye Olusanya	Chairman	Helios
Mr Bolaji Osunsanya	Chief Executive Officer	
Mr Jeremy Bending	Independent Director	
Ms Kaat Van Hecke	Independent Director	
Mr Ogbemi Ofuya	Non-Executive Director	Helios
Mr Lazarus Angbazo	Non-Executive Director	Helios
Mr Nitin Kaul	Non-Executive Director	Helios
Mr Satoshi Awaya	Non-Executive Director	Sojitz

Source: Axxela Limited's Management Presentation June 2022

The Chief Executive Officer is supported by 15 members of the management team with requisite work experience spread across different business interests such as oil & gas, banking & finance, power, consulting and project management, amongst others. In the period under review, Mr Rasheed Olaoluwa retired and Mr Kehinde Alabi (formerly Head, Sales and Marketing) took over his role as Chief Operating Officer. Mr Isaac Oluwadiya joined Axxela in 2022 as Head, Gas Infrastructure while Mrs Adebukola Oladapo joined in 2023 as Head, Structured Ventures. In addition, Mr John Okoro, Mr Ayoola Onabokun and Mr Oluseye Popoola joined the management team as Head, EHSQ, Financial Controller and Head, Power Infrastructure respectively. Besides from four persons who joined the Axxela management team within the last three years, the other members have been with the Company for more than five years, depicting a stable management team.

**Table 2: Other Members of Axxela's management team as at 30 June 2023**

Name	Position	Name	Position
Mr Kehinde Alabi	Chief Operating Officer	Mr Timothy Ononiwu	Chief Financial Officer
Mr Franklin Umole	Director, Business Development	Mrs Adebukola Oladapo	Head, Structured Ventures
Mr Olufisayo Duduyemi	Chief Strategy & Services Officer	Mrs Olayide Williams	Head, Business Origination
Mr Tuoyo Ejueyitchie	General Counsel & Company Secretary	Mr Uchenna Okpala	Head, Operations & Engineering
Mrs Ngozika Achebe	Head, Human Resources & Admin	Mr Ayoola Onabokun	Financial Controller
Mr Babatunde Baba-Agba	Head, Business Stakeholder Management	Mr John Okoro	Head, EHSQ
Mr Isaac Oluwadiya	Head, Gas Infrastructure	Mrs Yetunde Demuren	Head, Corporate Finance and Treasury Management
Mr Oluseye Popoola	Head, Power Infrastructure		

Source: Axxela Limited Management Presentation – June 2023

As at 31 December 2022, the Company had a staff strength of 82 employees (2021: 72 employees). In 2022, Axxela Limited recorded an average cost per employee of ₦59.4 million (2021: ₦64.5 million) and operating profit contribution per staff of ₦253.4 million (2021: ₦272.4 million). Consequently, the Company reported a staff productivity level (operating profit per staff divided by cost per staff) of 4.27 times which is above our minimum benchmark of 3 times.

In our opinion, Axxela Limited has an experienced Board and Management team while staff productivity level is good.



## FINANCIAL CONDITION

### ANALYSTS' COMMENTS

- Axxela Limited together with its operating subsidiaries - Gaslink Nigeria Limited (GNL), Central Horizon Gas Company Limited (CHGC), Gas Network Services Limited (GNSL) and Transit Gas Nigeria Limited (TGNL) - are referred to as the Axxela Group ("Axxela", "the Company" or "Axxela Limited").
- We have analysed the consolidated audited financial statements of Axxela Limited for the year ended 31 December 2022 and unaudited for the three months ended 31 March 2023 to capture the scope of the business operations.

## PROFITABILITY

Axxela Limited's principal activities involve pipeline gas marketing, distribution and processing of natural gas as well as the sale of compressed natural gas (CNG) to industrial consumers in Nigeria. Also, Axxela is involved in alternative power generation and distribution solutions such as captive and embedded power plants.

In the financial year ended 31 December 2022, Axxela's total revenue rose by 13% year-on-year to ₦120.4 billion. Although the Company's gas volume sales in 2022 of 839 million metric standard cubic meters (mmscm) was lower than the budget of 992 mmscm due to gas supply constraints, it was marginally higher than the prior year's volume of 810 mmscm. Supporting the topline growth was an increase in the average gas price to \$8.67/mscf (2021: \$7.98/mscf) in the year under review. Agosto & Co. notes positively that Axxela's long-term gas sales and purchase agreements (GSPA) under 'take or pay' arrangements with top-tier industrial customers coupled with its growing pipeline of new customers (22 GSPA contracts signed in 2022) and robust internal operating systems (SCADA<sup>3</sup>) have supported the continued expansion and delivery of gas across the country and West Africa, evidenced by a 21% compound annual growth rate (CAGR) of revenue over the last five years.

A review of Axxela Limited's segment analysis for FYE 2022 showed that the pipeline gas distribution segment<sup>4</sup> remained dominant (growing by 10% year-on-year) accounting for 80% of revenue, while the gas wholesaling segment (sale of gas to Compagnie Energie Electrique du Togo – CEET – Kekeli Power Plant) and compressed natural gas business represented 19% and 1% respectively. Furthermore, an analysis of revenue contribution by companies in the Axxela Group in FYE 2022 showed that GNL (operating the Greater Lagos pipeline distribution) and Axxela responsible for the regional gas wholesaling to CEET, were the main contributors accounting for 72% and 19% respectively. Overall, the Company generated 80.6% of FYE 2022 total revenue from the Nigerian market and the balance of 19.4% (2021: 17.1%) from the sale of natural gas to Togo with the latter income denominated in USD but settled in naira equivalents.

During the financial year ended 31 December 2022, Axxela Limited's cost of sales to revenue ratio inched up marginally to 78% resulting in a gross profit margin of 22.1% (2021: 23.2%). Although the Company's operating expense rose by 8% y-o-y in absolute terms due to an increase in staff salaries and bonuses as well as travel costs, office expenses and maintenance on the back of higher inflationary pressures, it marginally improved as a percentage of revenue to 8.8%, compared to 9.2% in the prior year. Consequently, Axxela reported an operating profit margin of 13.2% in 2022 and a three-year (2020 – 2022) average of 13.6%, both of which are in line with our expectations. In the same vein, the Company recorded earnings before interest, tax, depreciation and amortization (EBITDA) margin of 16.4% in 2022 and a three-year weighted average (2020 – 2022) of 17.4%, both of which we consider to be satisfactory.

<sup>3</sup> This is a system which allows remote measurement of customers' gas consumption data and invoice electronically

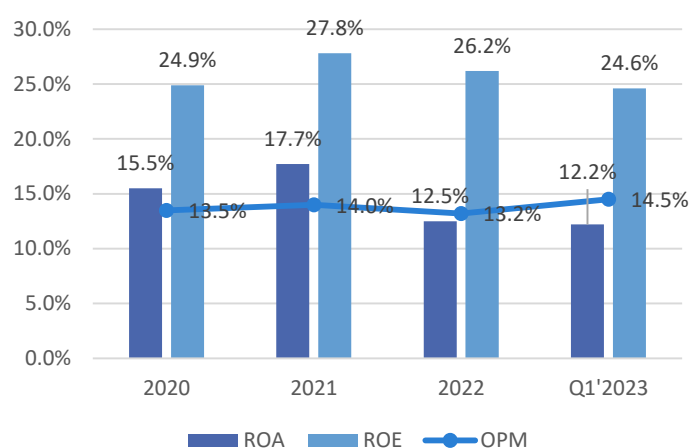
<sup>4</sup> This comprises revenue generated from Pipeline distribution franchises from Lagos, Port Harcourt and Sagamu, which is related to the operating companies - Gaslink Nigeria Limited, Central Horizon Gas Company Limited and Transit Gas Nigeria Limited



In FYE 2022, Axxela recorded other income of ₦1.1 billion (representing 1% of revenue) mainly from unrealized foreign exchange gain on the valuation of non-deliverable forward instruments used to hedge the Shareholder's Loan as well as interest income earned on fixed deposits. In the same period, the Company's interest expense to sales ratio of 3.2% and the three-year (2020 – 2022) average of 3.5% were both within our benchmark of not more than 5% for companies operating in the Natural Gas Industry in Nigeria.

Amidst a tough macroeconomic environment plagued with global uncertainties in the oil and gas space elicited by the ongoing Russia – Ukraine war, rising commodity prices, higher inflationary pressures, tensed electioneering season and the general slowdown in business activities especially in Q4'2022, the Company's profit before tax of ₦13.3 billion (representing 11% of turnover) and profit after tax of ₦10.6 billion (accounting for 8.9% of revenue) remained at par with the prior year and in line with our expectations.

**Figure 2: OPM, ROA & ROE (2020 - Q1'2023)**



In FYE 2022, Axxela's pre-interest pre-tax return on assets (ROA) of 12.5% and the three-year (2020 – 2022) weighted average of 15.5% are both considered to be good when compared to our benchmark of 12% for gas processing companies. Furthermore, Agusto & Co. recognises positively that the Company's pre-tax return on equity (ROE) of 26.2% in FYE 2022 and the three-year (2020 – 2022) weighted average of 27%, were both higher than the prevailing average inflation rate in the country, reflecting positive value creation for shareholders amidst the challenging operating environment.

In the three months ended 31 March 2023 (unaudited), the Company's revenue grew by 14% to ₦30.7 billion, when compared to Q1'2022. Axxela Limited sustained its cost discipline measures to rein in direct and operating expenses despite the higher inflationary pressures resulting in an improved operating profit margin (OPM) of 14.5% and a satisfactory profit after tax margin of 11.4% in the three months ended 31 March 2023. In the same period, Axxela's annualized ROA of 12.2% and ROE of 24.6% were both in line with our expectations.

Going forward, the Company plans to increase the pipeline infrastructure to unserved industries in existing and new territories following the completion of the Sagamu gas distribution zone (GDZ) phase 3, expansion of the GNL network in Lagos Island, an increase of CHGC network in Port Harcourt and commencement of Ore GDZ by Q4'2023, all in a bid to serve prospective new customers. Premised on the above initiatives coupled with the continued gas delivery to the CEET Kekeli power plant (phases 1 & 2) in Togo as well as growing captive and embedded power solutions, we expect an uptick in the Company's performance for the remaining part of the year provided the gas supply constraints witnessed in Q1'2023 are managed effectively with alternative supply sources.

In our opinion, Axxela's profitability is good and sustainably buoyed by the continuing strategy to diversify revenue sources by geography and increase the throughput of natural gas to unserved industrial customers.



## CASH FLOW

In line with long-term gas supply agreements, Axxela Limited enjoys 75 days' credit from its major gas suppliers (Nigerian Gas Marketing Company (NGMC) and Shell Petroleum Development Company). As at the end of 2022, the Company had signed additional gas supply agreements with Platform Limited (5 mmscfd), Oceandaire (10 mmscfd) and Accugas/Savannah Energy (5 mmscfd). In addition, there are ongoing gas-sourcing discussions with Seplat (50 mmscfd), MSN (10 mmscfd) and Folawiyo Aje (35 mmscfd). These new contracts will supplement and mitigate gas supply constraints associated with its main gas suppliers, thus strengthening supply reliability going forward. In the year ended 31 December 2022, the Company recorded an average trade credit of 59 days (2021: 53 days) and reported trade receivable days of 43 days (2021: 35 days) which was within the standard trade period of 30 to 60 days typically granted to blue-chip industrial customers as per the Company's credit policy.

In FYE 2022, Axxela Limited recorded a lower operating cash flow (OCF) of ₦6.4 billion when compared to ₦13.4 billion reported in the prior year due to an increase in trade receivables and prepayment for the Mini LNG FX allocation<sup>5</sup> and NNPC Gas Marketing Limited (NGML) receivables on TGNL operations. Notwithstanding, the OCF was sufficient to cover returns to providers of finance comprising interest payments of ₦3.8 billion. Furthermore, the Company's net operating cash flow was adequate to cover the estimated mandatory capital expenditure of ₦1.2 billion but insufficient to fully cover the current portion of long-term borrowings amounting to ₦3.8 billion. Premised on the lower OCF, the Company's operating cash flow to sales ratio plummeted to 5.3% in FYE 2022 (2021: 12.6%), significantly lower than our benchmark of 20%.

The unaudited accounts for the three months ended 31 March 2023 revealed a significant rise in trade receivables and below budgeted collections from customers mainly credited to the general slowdown in economic activities connected with the nationwide general elections resulting in a lower operating cash flow. However, we expect this situation to be reversed in the subsequent quarters as the Company ramps up collections in line with its take-or-pay gas contracts.

In our opinion, Axxela has a good cash generating capacity bolstered by the favourable take-or-pay gas contracts, however operating cash flow position requires improvement given the rising trade receivables.

## FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2022, Axxela Limited's working assets almost doubled from the prior year to ₦35.2 billion with trade receivables from gas customers (40%) and other debtors and prepayments (29%) as the principal drivers. As at the same date, the Company's spontaneous financing (non-interest-bearing liabilities) spiked to a five-year high of ₦43.6 billion (2021: ₦29.8 billion) due to a rise in trade payables to gas suppliers, higher deferred revenue associated with take or pay gas contracts and increased dividend provision. Based on our analysis, Axxela Limited's spontaneous financing was sufficient to cover working assets, leaving a short-term financing surplus of ₦8.3 billion as at FYE 2022. We reckon that the Company has reported short-term financing surpluses over the last five years mainly supported by favourable trade terms with gas suppliers.

<sup>5</sup> This refers to a deposit of ₦4.2 billion with the Central Bank of Nigeria for foreign currency allocation (to open a letter of credit) to purchase specialized equipment for the Mini LNG project. If we adjust the ₦4.2 billion from operating activity due to its transition to a long-term asset in the near term, the Company's OCF would rise to ₦10.6 billion, representing 8.7% of sales, which is still lower than our benchmark of 20%.

As at FYE 2022, the Company's long-term assets stood at ₦83.6 billion (2021: ₦66.9 billion), with the principal driver being the addition of new pipeline assets (and the intangible rights) in the Sagamu axis and Greater Lagos Industrial Area in the period. We note that the Greater Lagos pipeline assets are developed by Axxela on behalf of Nigerian Gas Marketing Company Limited (NGML) based on a concession arrangement to fund, design and construct gas pipelines which expires in 2039. In addition, the Sagamu pipeline development is an Unincorporated Joint Venture (UJV) arrangement with NGML where both parties own the assets based on their ownership stake in the UJV. As at 31 December 2022, the Company's long-term funds which comprised equity (57%) and long-term borrowings (43%) of ₦89.2 billion, was adequate to cover total long-term assets leaving a working capital available of ₦5.6 billion. This coupled with the short-term financing surplus resulted in an overall working capital surplus of ₦13.9 billion as at FYE 2022, which we consider to be satisfactory.

Based on analyst adjustment for IFRIC 12 (Service Concession Agreements), Axxela's rights to pipeline assets (amounting to ₦40.1 billion as at the FYE 2022) qualify as cash-generating assets given that they are valued based on the expected cash flows and capital recoveries over the life of the concession agreement. Therefore, adjusting the cash-generating value of intangibles from the long-term assets, the Company recorded a working capital available of ₦45.7 billion and an improved overall working capital surplus of ₦54 billion as at the end of 2022.

In the three months ended 31 March 2023 (unaudited), Axxela Limited recorded a short-term financing surplus of ₦11.7 billion and an IFRIC 12 adjusted working capital available of ₦36.9 billion, thus resulting in an overall working capital surplus of ₦48.7 billion as at the same date. This is a testament to the Company's robust working capital structure boosted by its persistent short-term financing surpluses and favourable long-term funding structure.

In our opinion, the Company's working capital is adequate for the current business operations.

## LEVERAGE

As at 31 December 2022, Axxela Limited's total liabilities<sup>6</sup> (comprising non-interest-bearing liabilities, 51% and interest-bearing liabilities, 49%) rose markedly to ₦86 billion (2020: ₦46.3 billion) due to increased borrowings in the year. As at the same date, the Company's total interest-bearing liabilities of ₦42.4 billion comprised the outstanding balances on three existing loans<sup>7</sup> (including the Series 1 Bond) and four new loans obtained in the year. The new borrowings in 2022 include ₦8 billion 11-Year FGN 10yr Bond plus 2.5% commercial bank loan taken by GNL (₦7.85 billion outstanding), ₦8 billion 7-Year 9% commercial bank loan by TGNL (₦8 billion outstanding), ₦10 billion 8-Year and 10 months 9% commercial bank loan by Gasnexus (₦10 billion outstanding) and ₦1.5 billion 6-Year 9% Bank of Industry term loan by Axxela (₦1.5 billion outstanding) to fund the Cadbury captive power project.

Agusto & Co. notes positively that as at FYE 2022, all of the Company's borrowings were in local currency and secured against various assets (fixed and floating charges and corporate guarantees) of the Axxela Group, except for the Shareholder's Loan (outstanding balance of USD\$52.5 million with a carrying value of ₦24.2

<sup>6</sup> We have made analyst adjustments to total liabilities to exclude shareholder's loan estimated at ₦24.2 billion as at FYE 2022, which was re-classified to equity, on account of its convertibility option.

<sup>7</sup> ₦11.5 billion 7-year 14.3% Series 1 Bond obtained through a special purpose vehicle (₦8.8 billion outstanding), ₦3.5 billion 3-Year 13.5% commercial bank loan taken by TGNL (₦1.4 billion outstanding) and ₦1.5 billion CHGC term loan (₦0.2 billion outstanding).

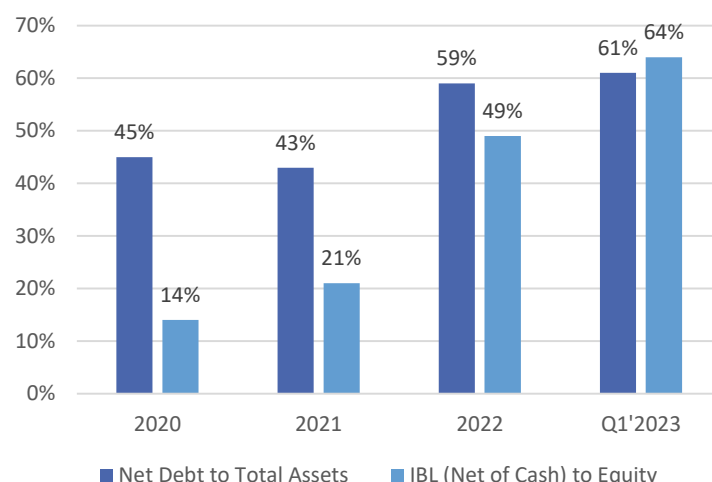


billion as at FYE 2022) which continues to be denominated in foreign currency and hedged appropriately with non-deliverable forward instrument. Based on the convertibility option residing solely with Axxela, we view the Shareholder’s loan as quasi-equity and have classified it as part of equity. In our view, Axxela’s financial liabilities are not materially exposed to fluctuations in the foreign exchange market as the only dollar-denominated shareholder loan gives the Company the option and right to extend or convert into preference shares upon maturity in December 2024, and we consider this to be rating positive.

As at 31 December 2022, Axxela’s total assets were funded by interest-bearing liabilities (31.1%), non-interest-bearing liabilities (31.9%) and adjusted shareholders’ funds (37%), thus depicting a satisfactory equity cushion. As at the same date, the Company’s IBL (net of cash) to equity ratio at 49% and net debt (total debt less cash) as a percentage of average total assets at 59%, were all in line with our expectations. Also, we note Axxela’s net debt to EBITDA ratio of 1.26x, EBITDA to interest coverage of 5.2 times and interest expense to revenue of 3.2% in FYE 2022 are all satisfactory in our view.

Subsequent to FYE 2022, the Company has continued to deploy the proceeds of the loans obtained in the prior year to various projects. As at the end of the first quarter of 2023 (unaudited), Axxela Limited’s interest-bearing liabilities remained at par with the prior year at ₦42.5 billion representing 28.5% of total liabilities. Our analysis of leverage metrics as at the end of Q1’2023 revealed that the interest expenses to sales ratio inched up marginally to 3.4%, while IBL (net of cash) to equity ratio of 64% and net debt (total debt less cash) as a percentage of total assets of 61% remained in line with our expectations.

**Figure 3: Net Debt to Total Assets & IBL to Equity (2020 - Q1’2023)**



Going forward, while we expect the Company’s leverage position to rise slightly in the near to medium term on the back of the new concessionary loans obtained over the last 24 months following the expiration of moratorium period on some of the debts and full drawdown, we project that the marginal contribution from the new gas pipeline projects will continue to cushion the overall impact of higher debt service obligations in the medium term.

Based on the above, we retain our opinion that Axxela Limited’s overall leverage position is satisfactory.

## OUTLOOK

Axxela Limited continues to be the leader in the natural gas value chain with circa 300 kilometres of gas pipeline infrastructure developed and providing bespoke energy solutions to over 200 industrial customers in Nigeria and the West African region. Premised on the ongoing revenue diversification by geography coupled with enhanced energy solutions including captive and embedded power and sustained rein in on cost, we expect improvement in the Company's overall performance in the near to medium term.

Going forward, we expect Axxela Limited's profitability performance to improve in the short to medium term premised on the commencement of additional gas supply to the Kekeli Power Plant 2 in Togo from September 2022 and exploration of natural gas distribution opportunities to TEMA free zone in Ghana. Also, we expect the ongoing pipeline network expansion initiatives (especially in the Sagamu, VI-Lekki network, Lekki Free Zone and the Ore Industrial Park) as well as the onboarding of new long-term customers to support the Company's growth aspirations.

Furthermore, we project Axxela's operating cash flow to improve in the remaining part of the year supported by favourable terms of trade with gas suppliers and increased collections in line with its take-or-pay gas contracts with industrial customers following the full resumption of business activities after the general elections. Also, the Company's working capital is poised to remain adequate over the medium term bolstered by consistent short-term financing surpluses as well as a favourable long-term funding mix on the back of concessionary intervention loans. Although Axxela Limited's leverage is expected to rise slightly following the full drawdown of the concessionary loans for project expansion, we expect the revenue contribution from the new gas pipeline contracts and increased sale of gas to West African clients to cushion the overall impact of higher debt obligations. Therefore, we expect the Company's leverage level to remain satisfactory in the short to medium term.

Based on the aforementioned, we hereby attach a **stable** outlook to the rating of Axxela Limited.

## FINANCIAL SUMMARY

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-20		31-Dec-21		31-Dec-22		31-Mar-23 Unaudited	
	N'mns		N'mns		N'mns		N'mns	
TURNOVER	82,600	100.0%	106,583	100.0%	120,448	100.0%	30,688	100.0%
OPERATING PROFIT	11,110	13.5%	14,970	14.0%	15,914	13.2%	4,463	14.5%
INTEREST EXPENSE	(3,517)	-4.3%	(3,427)	-3.2%	(3,824)	-3.2%	(1,050)	-3.4%
PROFIT BEFORE TAXATION	10,475	12.7%	13,076	12.3%	13,262	11.0%	3,494	11.4%
TAX (EXPENSE) BENEFIT	(3,376)	-4.1%	(2,977)	-2.8%	(2,571)	-2.1%	(884)	-2.9%
PROFIT AFTER TAXATION	7,098	8.6%	10,099	9.5%	10,690	8.9%	2,610	8.5%
DIVIDEND	(4,700)	-5.7%	(2,824)	-2.7%	(7,818)	-6.5%	-	-
PROFIT RETAINED FOR THE YEAR	1,862	2.3%	6,308	5.9%	1,854	1.5%	2,298	7.5%
PROFIT RETAINED B/FWD	16,318		18,181		24,489		26,343	
PROFIT RETAINED C/FWD	<b>18,181</b>		<b>24,489</b>		<b>26,343</b>		<b>28,692</b>	

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-20		31-Dec-21		31-Dec-22		31-Mar-23 Unaudited	
	N'mns		N'mns		N'mns		N'mns	
<b>ASSETS</b>								
CASH & EQUIVALENTS	10,957	12.1%	6,683	7.2%	17,719	13.0%	8,548	5.7%
TOTAL TRADING ASSETS	21,266	23.6%	19,713	21.1%	35,227	25.8%	41,909	28.1%
TOTAL LONG TERM ASSETS	57,992	64.3%	66,943	71.7%	83,619	61.2%	98,632	66.2%
<b>TOTAL ASSETS</b>	<b>90,216</b>	<b>100.0%</b>	<b>93,341</b>	<b>100.0%</b>	<b>136,566</b>	<b>100.0%</b>	<b>149,089</b>	<b>100.0%</b>
<i>Growth</i>	20.8%		3.5%		46.3%		9.2%	
<b>LIABILITIES &amp; EQUITY</b>								
TOTAL INTEREST BEARING LIABILITIES (TIBL)	16,994	18.8%	16,519	17.7%	42,436	31.1%	42,516	28.5%
TOTAL NON-INTEREST BEARING LIABILITIES	31,100	34.5%	29,775	31.9%	43,566	31.9%	53,660	36.0%
TOTAL LIABILITIES	48,095	53.3%	46,294	49.6%	86,002	63.0%	96,176	64.5%
SHAREHOLDERS' EQUITY	42,120	46.7%	47,046	50.4%	50,564	37.0%	52,912	35.5%
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>90,216</b>	<b>100.0%</b>	<b>93,341</b>	<b>100.0%</b>	<b>136,566</b>	<b>100.0%</b>	<b>149,089</b>	<b>100.0%</b>

CASH FLOW STATEMENT FOR Y/E	31-Dec-20	31-Dec-21	31-Dec-22	31-Mar-23 Unaudited
	N'mns			
<b>OPERATING ACTIVITIES</b>				
POTENTIAL OPERATING CASH FLOW	12,962	11,983	15,971	(1,420)
CASH FROM (USED BY) SPONTANEOUS FINANCING	3,296	(89)	5,973	14,278
CASH FROM (USED BY) WORKING ASSETS	(6,561)	1,552	(15,513)	(6,681)
CASH FROM (USED IN) OPERATING ACTIVITIES	9,697	13,446	6,431	6,176
<b>RETURNS TO PROVIDERS OF FINANCING</b>				
INTEREST PAID	(3,517)	(3,427)	(3,824)	(1,050)
DIVIDEND PAID	(3,567)	(4,060)		(4,185)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	2,612	5,958	2,606	941
CASH FROM (USED IN) INVESTING ACTIVITIES	(2,638)	(9,757)	(17,486)	(16,693)
CASH FROM (USED IN) FINANCING ACTIVITIES	6,996	(475)	25,916	80
CHANGE IN CASH INC/(DEC)	6,970	(4,273)	11,036	(9,171)
OPENING CASH & MARKETABLE SECURITIES	3,986	10,957	6,683	17,719
CLOSING CASH & MARKETABLE SECURITIES	10,957	6,683	17,719	8,548

KEY RATIOS	31-Dec-20	31-Dec-21	31-Dec-22	31-Mar-23 Unaudited
<b>PROFITABILITY</b>				
Sales growth	10%	29%	13%	2%
Operating profit margin	13.5%	14%	13.2%	14.5%
Return on asset	15.5%	17.7%	12.5%	12.2%
Return on equity	24.9%	27.8%	26.2%	24.6%
<b>CASH FLOW</b>				
OCF as % of returns to providers of financing	137%	180%	168%	118%
OCF as % of Sales	11.7%	12.6%	5.3%	20.1%
<b>WORKING CAPITAL</b>				
Working capital need (days)	-	-	-	-
Overall working capital deficiency (days)	-	-	-	-
<b>LEVERAGE</b>				
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	45%	43%	59%	61%
Interest cover (times)	2.8	3.9	1.7	5.9
<b>OTHER ASSETS/(LIABILITIES) IN FCY</b>				
Net exposure to currency risk (\$'000)	(59,701)	(53,163)	(52,506)	(52,506)
<b>ADDITIONAL INFORMATION</b>				
Average number of staff	72	72	82	82
Capital expenditure (₹ million)	2,373	3,870	2,612	73
Auditors	EY	EY	EY	
Opinion	CLEAN	CLEAN	CLEAN	Unaudited

## RATING DEFINITIONS

<b>Aaa</b>	A company with the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
<b>Aa</b>	A company with very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
<b>A</b>	A company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
<b>Bbb</b>	A company with satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
<b>Bb</b>	A company with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
<b>B</b>	A company with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
<b>C</b>	A company with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
<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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