Credit Rating Announcement

GCR affirms Geregu Power Plc's national scale long term and short term Issuer ratings of A(NG) and A1(NG) respectively, Outlook Stable.

Rating Action

Lagos, Nigeria, 13 December 2021 – GCR Ratings ("GCR") has affirmed Geregu Power Plc's national scale long term and short-term Issuer ratings of A(NG) and A1(NG) respectively, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Geregu Power Plc	Long Term Issuer Short Term Issuer	National	A(NG) A1(NG)	Stable

Rating Rationale

The ratings accorded to Geregu Power Plc ("Geregu" or "the Company") reflect its position as one of the major power generating companies in Nigeria, with strong revenue progression and conservative leverage position. However, this is balanced against the high levels of receivables due to the general illiquidity in the Nigerian Electricity Supply Industry, and working capital pressures on the back of large dividend upstreaming amid high capex/debt issue plans.

Geregu's competitive position is underpinned by its status as one of the major power generating companies in Nigeria, with total installed capacity of 435MW and 6% contribution to the national grid. The Company intends to further increase its scale through the acquisition of a 435MW power plant while embarking on a major overhaul of the existing facility in FY22.

Management and governance assessment is considered neutral to the ratings. However, GCR notes the substantial intercompany receivables reported in respect of huge advance payments for dividend to its parent company, Amperion Power Distribution Company. While this has not warranted any negative adjustment at the moment, an aggressive management behaviour, especially in view of the planned debt-funded expansion could be negatively viewed.

Earnings performance is a neutral rating factor, primarily due to earnings concentration to a sole customer, the Nigerian Bulk Electricity Trading Plc. This notwithstanding, GCR notes the strong revenue progression with a five-year CAGR of 42.7%, resulting in a review high top line of N53.7bn in FY20 (FY19: N42.2bn). This was attributable to increase in energy sales (on the back of steady gas supply) and tariff increases during the period. Furthermore, the EBITDA margin has been sustained at an average of 46% over the cycle, on the back of strong cost management. The bottom line earnings has also been supported by fair value movements in respect of foreign exchange differentials, with pre-tax profit improving to N20.6bn in FY20 (FY19: N15.5bn). Overall, GCR anticipates sound revenue growth over the outlook period supported by the planned optimisation of the existing power plant and the planned strategic acquisition.

Leverage and cash flow is the key rating strength, given the conservative gearing over the years. Although, gross debt registered at N10.2bn at 1H FY21 (from a net ungeared position at FY20) due to working capital facility secured from a commercial bank, net debt to EBITDA remained very strong at 0.07x at 1H FY21. Despite the plan to raise N40bn through bond issuance in the near term, GCR expects the metric to remain below 1x over the outlook period given the anticipated strong earnings and substantial cash holding. Although operating cash flow ("OCF") coverage of gross debt has trended at the strong range through to FY20, it registered at a negative position during 1H FY21, due to the huge advance payments for dividends. While such payments may continue to exert pressure on OCF over the outlook period, this would likely be cushioned by the expected strong cash generation. The interest coverage has also been sustained at an average of 130x, given the strong earnings and negligible finance costs and is expected to be sustained at strong levels despite the planned debt issue.

Liquidity assessment is also a rating strength as sources vs uses liquidity coverage is estimated to be around 1.7x over the short term. This is predicated on the substantial cash holding of N7.6bn at 1H FY21 and operating cash flows of N29.8bn expected in FY22. Assuming that the proposed bond is not issued, major outflows would only relate to short-term debt redemption N1.9bn and dividend payments, while capex spend would be limited to the plant overhaul, estimated at N21.5bn. However, if the proposed bond is successful, GCR anticipates a capex spend of N46.5bn for plant acquisition and overhauling, which will moderate the liquidity coverage to 1.6x in the short term.

GCR has factored a negative peer comparison into the rating reflecting the continued challenges around collections in the entire power supply value chain resulting in volatile operating cash flow. Consequently, the escalation in receivables continues without a definite payment plan as the various FGN interventions have been exhausted. Likewise, payables have increasingly accumulated to N34bn in FY20 (FY19: N28bn) stated at the original invoiced value. GCR expects these constraints to persist until there is a significant reduction in Aggregate Technical and Commercial Collection Losses ("ATC&C Losses") which translates into improved liquidity in the entire value chain.

Outlook Statement

The Stable Outlook reflects GCR's view that earnings will materially increase on the back of capacity expansion which will result in a sustained low gearing metrics as a reasonable level of dividend payment is maintained.

Rating Triggers

Positive rating action is dependent on significant ramp up of earnings margins. Discretionary cash flow coverage of debt remains robust on the back of sound cash generation. Conversely, a rating downgrade could follow a.) aggressive dividend payments, resulting in liquidity pressure; b.) a significant spike in debt, which translate to net debt to EBITDA rising beyond 1x.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Score, October 2021
GCR Nigeria Corporate Sector Risk Scores, November 2021

Ratings History

Geregu Power Plc					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial/Last	National	A(NG)	Stable	September 2020
Short Term Issuer	Initial/Last		A1 (NG)		

RISK SCORE SUMMARY

Rating Components & Factors	Risk score
Operating environment	**7.00**
Country risk score	3.75
Sector risk score	3.25
Business profile	**0.25**
Competitive position	0.25
Management and governance	0.00
Financial profile	**3.00**
Earnings	0.00
Leverage & capital structure	2.00
Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Peer analysis	(2.00)
Total Risk Score	**8.25**

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to Geregu Power Plc. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Geregu Power Plc participated in the rating process *via* tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Geregu Power Plc and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- Audited Interim financial statements as at 30 June 2021;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;