



Credit Rating Announcement

GCR downgrades Viathan Funding Plc's national scale long- and short-term issuer ratings to CCC_(NG)/C_(NG), Outlook Negative.

Rating Action

Lagos, 10 December 2021 - GCR Ratings ("GCR") has downgraded Viathan Funding Plc's national scale long and short-term Issuer ratings to CCC_(NG) and C_(NG) respectively, with the Outlook revised to Negative.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Viathan Funding Plc	Long Term Issuer	National	CCC _(NG)	Negative
	Short Term Issuer		C _(NG)	--

Rating Rationale

The downgrade of Viathan Funding Plc's ("Viathan") ratings reflects its inability to scale up operations and generate sustainable earnings and cash flows over the years, amid high interest payments, resulting in persistent net losses. Furthermore, the leverage has remained high and debt service metrics have been at very weak levels, despite the conversion of shareholder's loans to equity in FY19.

GCR takes cognisance of Viathan's operational diversity and integration along the value chain (with five power generating/distribution subsidiaries and a gas processing and distribution company) and a strong client base of over 60 commercial and government off-takers, including a solid pipeline of sizable power supply contracts underway. More so, Viathan is somewhat insulated from the illiquidity problems in the general electricity supply market occasioned by weak collection at the distribution end, while maintaining high level of efficiencies per megawatt ("MW") generated relative to some bigger peers. However, these benefits are offset by the relatively small size and the evident vulnerability to economic cycles as observed during the pandemic-induced lockdowns.

The earnings profile is ratings negative, specifically due to the net losses reported over the review period as earnings have been insufficient to cover finance costs (even if the lease income from the power contracts were treated as revenue). While GCR takes note of the potential for steady revenue growth ahead of the trend, given the recent collaboration agreement with a leading distribution company and key power purchase agreements ("PPAs") being entered, the high operating cost base will continue to weigh down on profitability (which has consistently registered below peers). Exacerbated by the high finance cost, this will likely result in net losses over the outlook period.

The leverage and cash flow assessment is the weakest rating factor. This is due to the material elevation of the debt profile, against low level of earnings as the debt-funded expansion has not translated to sustainable earnings generation. Accordingly, while net debt to EBITDA has moderated from the high of 43x at FY16 to 16x at FY20 (9M FY21: 18x) underpinned by small improvements in earnings, it remains very high and unsustainable. While GCR projects that the metric will in any case remain very weak over the medium term, critical to supporting Viathan's financial position is substantial shareholder support via equity injection.

Furthermore, net operating cash flows have been volatile over the cycle, attributable to the high interest payments and intermittent working capital pressures due to rising debtors' balance, resulting in weak/negative coverage of gross debt over the review years. With planned expansion likely necessitating higher working capital requirements, GCR believes that the operating cash flow coverage of debt will remain at the low range of 10%-20% in FY21-23. Similarly,

operating cash flow coverage of net interests has registered at very low levels at an average of 0.76x in FY16-20 (FY20: 0.21x), with expected slight improvement to an average of 1.92x in FY21-23, albeit remaining low.

The liquidity coverage is estimated at 1.22x over the 12-month period to December 2022. This is predicated on the modest operating cash flow (c.N1bn) projected for FY22 and the small cash holding of N153m at September 2021, which will be supported by N2bn in committed lines from local funders. This should provide adequate coverage of the short-term debt redemption of N2.5bn. Management has indicated plans to fund expansion through commercial paper issue, as a bridge to bond financing option. However, this will materially elevate the refinancing risks, particularly in the event of delays in construction, importation and/or installation of the power facilities, or if Viathan is unable to timeously issue long term funding.

Outlook Statement

The Negative Outlook reflects the high refinancing risks in the near term, with earnings being insufficient to meet debt service obligations. Additional debt issue will also result in a material deterioration in the debt service metrics.

Rating Triggers

A further downgrade could follow further deterioration in the debt profile and credit protection metrics, or if an event of default occurs due to failure to meet debt obligations timeously. Conversely, positive rating action is only possible over the medium term, contingent upon substantial reduction in debt which results in lower interest payments and frees up more cash for operational purposes. A meaningful equity injection could also give some respite to the hitherto high debt service burden while providing additional cash resources for ongoing operations.

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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 Scores, October 2021
 GCR Nigeria Corporate Sector Risk Scores, November 2021

Ratings History

Viathan Funding Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB-(NG)	Stable	July 2017
Short Term Issuer	Initial	National	A3(NG)		
Long Term Issuer	Last	National	BBB-(NG)	Stable	December 2020
Short Term Issuer	Last	National	A3(NG)		

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.

Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with because of holding the security or asset. For a company, its exposure may relate to a product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Issuer	The party indebted or the person making repayments for its borrowings.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the rating 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 rating has been disclosed to Viathan Funding Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Viathan Funding Plc participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Viathan Funding Plc and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- management accounts for the period to 30 September 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;

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