



Credit Rating Announcement

GCR assigns an initial Issuer rating of BBB⁺_(NG) to Valency Agro Nigeria Limited on the credit strengths of its parent company, Outlook Stable.

Rating Action

Lagos, Nigeria, 17 October 2022 – GCR Ratings ("GCR") has assigned national scale long-term and short-term Issuer ratings of BBB⁺_(NG) and A2_(NG) respectively to Valency Agro Nigeria Limited on the credit strengths of its parent company, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Valency Agro Nigeria Limited	Long Term Issuer	National	BBB ⁺ _(NG)	Stable Outlook
	Short Term Issuer	National	A2 _(NG)	

Rating Rationale

The ratings accorded to Valency Agro Nigeria Limited ("Valency Agro" or "the Company") reflect the creditworthiness of the broader Valency International Pte Limited ("Valency International" or "the Group"). This is because Valency International has provided an irrevocable and unconditional full guarantee on the present and future obligations of Valency Agro. As a result, whilst the ratings have been assigned exclusively to Valency Agro, its creditworthiness is supported by the financial and corporate strengths of the parent company. Valency Agro is a wholly subsidiary of Valency International, contributing about 25% to group revenue. The Company contributes to the Group's key agricultural commodities business, with strong operational integration across the value chain and management. Given the full guarantee, the analytical discussion below therefore focuses primarily on Valency International.

The assigned ratings are driven by the Group's strong position within its Sub-Saharan markets, where the bulk of its trading commodities are sourced, and the solid distribution channels of its Singaporean market. However, these rating strengths are counterbalanced by its weak leverage metrics due to elevated gross debt and working capital absorptions.

Valency International is a global agricultural commodity trading group, with strong local and international relationships, which have helped in developing strong sourcing networks directly with farm-gate suppliers, supporting its agricultural commodities export business and agrochemicals trading. However, its competitive position is moderated by its small size when compared with leading players, which have globally competitive brands within the international agro-commodities markets.

The Group has reported strong earnings trajectory over the review period, with recent growth supported by increased processing capacity across its key markets, combined with higher demand and selling prices. The EBITDA margin registered at a review period high of 4.3% for the year ended 31 March 2022 ("FY22"), supported by the higher margin agrochemicals business. GCR projects revenue to improve over the medium term, given Valency International's capacity expansion drive, and the rising demand for food. Notwithstanding periodic volatility in commodity markets, earnings margins are also anticipated to widen in the coming years as sales volume increase within the higher margin agrochemicals business.

The ratings are significantly constrained by Valency International's weak leverage and capital structure due to elevated debt and high working capital pressure. Gross debt rose to USD185.6m at end-June 2022 (FY22: USD182m), from USD121.2m at FY21 due to ongoing working capital absorptions, although capex spend remains modest. In line with the working capital-intensity of its business, debt has been primarily short tenured, but the fact that these loans are revolving in nature reduces much of refinancing risk. The Group is negotiating new long-tenure debt facility in its Nigeria market to partly finance capacity expansion and improve the debt maturity profile. Overall, gross debt is expected to remain high, but net debt to EBITDA should improve to a moderately weak level of 5.1x by FY23 (FY22: 6.5x) if the earnings target is met. Similarly, EBITDA coverage of interest is expected to remain constrained below 3x weak level over the medium term (FY22: 1.7x).

The Group's working capital remains under pressure because of high trade receivables from third parties, amidst rising inventory, which has only been partially offset by creditors. This has resulted in negative operating cash flow (OCF) over the past three years. The ability to drive collection initiatives groupwide should support a positive OCF coverage of debt around 10% by FY23.

Liquidity coverage is estimated at a moderately strong level of 1.4x over the 12-month period to 31 March 2023. This is because Valency International maintains over USD200m in revolving committed facilities groupwide, with a range of lenders, which provides adequate capacity to meet its short-term working capital requirements, reducing the likelihood of a credit event. The projected capex spend will largely be financed by the cash holdings of USD11m at end-March 2022 and the anticipated operating cash flows of about USD19m, thus supporting a neutral consideration for liquidity assessment.

Outlook Statement

The Stable Outlook reflects GCR's view that the available revolving facilities will continue to support the Group's short-term working capital requirements. This should facilitate sustained revenue progression and stable competitive position within the global market.

Rating Triggers

Positive rating migration could emanate from demonstrated stability in earnings over the medium term with better management of cash flows. This should facilitate growth initiatives without as much recourse to debt. Furthermore, GCR will positively consider the lengthening of the debt maturity profile and/or lesser recourse to debt funding that supports improvement in: a) net debt to EBITDA below 3.5x; b) operating cash flow coverage of debt above 30%; and c) EBITDA coverage of interest above 3x.

The ratings could be downgraded; 1) following earnings underperformance, whether due to internal factors or market volatility; 2) continued steep increases in working capital utilisation which heighten cash flow pressures; 3) a rise in debt that results in deterioration in credit protection metrics.

Analytical Contacts

Primary analyst
Lagos, Nigeria

Femi Atere
Femi@GCRratings.com

Senior Analyst, Corporate and Public Ratings
+234 1 9049462

Committee chair
Johannesburg, ZA

Eyal Shevel
Shevel@GCRratings.com

Sector Head: Corporate and Public Ratings
+27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022

Criteria for Rating Corporate Entities, January 2022

GCR Ratings Scales, Symbols & Definitions, May 2022

GCR Country Risk Scores, August 2022

GCR Nigeria Corporate Sector Risk Scores, April 2022

Ratings History

Valency Agro Nigeria Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term Issuer	Initial/last	National	BBB+ _(NG)	Stable	October 2022
Short Term Issuer	Initial/last	National	A2 _(NG)		

RISK SCORE SUMMARY

Risk score	
Operating environment	9.25
Country risk score	6.25
Sector risk score	3.00
Business profile	1.00
Competitive position	1.00
Management and governance	0.00
Financial profile	(3.25)
Earnings	0.25
Leverage & capital structure	(3.50)
Liquidity	0.00
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Risk Score	7.00

Glossary

Credit Rating	See GCR Rating Scales, Symbols and Definitions.
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 as a consequence of holding the security or asset. For a company, its exposure may relate to a particular 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.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Rating horizon	The rating outlook period, typically 18 to 24 months.
Risk Management	The process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

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 Valency Agro Nigeria Limited. 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.

Subsequent to an appeal, the ratings were revised as reflected in the announcement.

Valency Agro Nigeria Limited 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 Valency Agro Nigeria Limited and other reliable third parties to accord the credit ratings included:

- Valency International's 2021 audited financial statement, and prior four years annual financial statements;
- Valency International's 2022 full year management accounts to 31 March 2022;
- Valency Agro's 2021 audited financial statement, and prior four years annual financial statements;
- Valency Agrol's 2022 full year management accounts to 31 March 2022;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;

© 2022 Global Credit Rating Company Limited and/or its licensors and subsidiaries (collectively, "GCR"). All rights reserved.

CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS") AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.