

## CREDIT RATING ANNOUNCEMENT

GCR assigns initial issuer ratings of BBB<sub>(NG)</sub> / A3<sub>(NG)</sub> to Veritasi Homes & Properties Plc on good franchise and sound operating performance

### Rating action

Lagos, 05 September 2024 - GCR Ratings (GCR) has assigned initial national scale long-term and short-term issuer ratings of BBB<sub>(NG)</sub> and A3<sub>(NG)</sub> respectively to Veritasi Homes & Properties Plc, with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook
Veritasi Homes & Properties Plc	Long-term issuer	National	BBB <sub>(NG)</sub>	Stable
	Short-term issuer	National	A3 <sub>(NG)</sub>	

### Rating rationale

The ratings of Veritasi Homes & Properties Plc (Veritasi or the company) reflect its moderately strong competitive position bolstered by its complementary product offerings, which has supported good earnings and cash flow generation. Moreover, the moderate leverage metrics are noted. However, the ratings are constrained by the high refinancing risk arising from the high short-term debt, which has weakened liquidity.

Veritasi is one of the fastest growing real estate and property development companies in Nigeria. The company's competitive position is supported by its strong operating performance relative to peers. This is characterised by varied product offerings and low cash conversion cycle (of less than six months compared to peers), which have fostered diverse revenue streams and consistent cash flows. Particularly advantageous in this regard is its sizeable land bank, providing operating flexibility in terms of monetising land sales or longevity to future projects, or both. Also, the company has benefited from strong historic shareholder support, which has enabled the successful delivery of over 3,000 housing units (over 400 units delivered in 2023) since the inception of operation. However, we have noted its limited track record and the small number of delivered units, having operated for only six years. To expand its footprint and enhance earnings stability, the company plans to diversify into commercial property segment via the development of student accommodation in public and private universities across Nigeria. Furthermore, we believe that the growing population, expanding urbanisation, and Nigeria's huge housing deficit present growth prospects for the company.

The company's earnings profile is a positive rating factor, underpinned by good revenue progression and strong earnings margins. Revenue grew by a five-year CAGR of 54.3% to NGN27.2 billion (\$78.0 million) in financial year 2022 which ended 31 December 2022 (financial 2022) largely driven by ramp up in land sales and supplemented by demand for housing units and construction services. However, the rising cost of construction and significant Naira devaluation amid the general inflationary pressures constrained demand for properties, pressurising land sales and construction services. Consequently, revenue declined by 17.5% in 2023 and further by 8.2% (annualised) during the 4M 2024. Similarly, EBITDA margins also receded to 15.8% in 2023 from 38.2% in 2022 due to escalated cost of construction and a moderation in higher margin land sales. Nevertheless, earnings compare favourably to peers. While we expect macroeconomic pressures to continue to impact future revenue growth, we anticipate earnings to remain solid over the forecast period as delivery of all remaining projects nears completion, new projects ramp up and land sales continue to progress.

The leverage and capital structure assessment is neutral to the ratings, balancing the robust earnings generation against the higher debt utilisation. This, in addition with the continued support from the shareholder, as further demonstrated by the recent equity injection of NGN4.0 billion in April 2024, should continue to underpin conservative leverage metrics over the outlook period. Gross debt spiked to NGN8.3 billion as of April 2024 from NGN2.3 billion at December 2021 due to increased funding requirements to finance new projects and boost sales. Against solid earnings, net debt to EBITDA has been sustained within the strong level of below 1x over the last five years. Conversely, operating cash flow (OCF) coverage of debt remains volatile due to the high working capital needs of the business and timing of projects. Furthermore, interest cover moderated to 4.4x in 2023 from 9.5x in 2022 before rising to 6.8x in April 2024 due to the higher finance charge attributable to the rising debt.

We negatively view the high proportion of short-term debt (68% as of April 2024) in the capital structure. The company intends to refinance this with longer tenor debt and is looking to raise two tranches of NGN5.0 billion each in 2024 and 2025 respectively.

We view liquidity as somewhat weak, given the high refinancing risk arising from the large proportion of short-term debt. The available liquidity sources include cash holding of NGN3.7 billion as of April 2024 and an estimated NGN2.1 billion in operating cash flow. Liquidity uses comprise short-term debt around NGN6.7 billion maturing by December 2024 and capital spending of NGN371.2 million. Accordingly, the liquidity coverage is estimated at a thin 1x each over the eight-month to December 2024 and 20-month to December 2025. Nevertheless, we have positively considered the company's relatively short cash conversion cycle and strong access to funding sources, which should continue to support liquidity requirements.

## Outlook statement

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The Stable Outlook reflects our expectation that Veritasi will sustain sound cash flows owing to its diversified product offering, ensuring adequate liquidity over the construction phase and ample cash resources to settle debt at maturity.

## Rating triggers

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A rating upgrade could follow timely completion and delivery of various anticipated projects that supports sustained robust earnings growth and cash generation, according to projections. This would allow Veritasi to fund its expansion internally and strengthen leverage metrics and liquidity. Furthermore, lower concentration of short-term debt funding would also be necessary.

Conversely, weaker than anticipated sales or delays to the completion of projects or collections, which result in operating cash flows below projections, would be viewed negatively. In addition, if debt rises materially that places pressure on leverage metrics and weakens liquidity could lead to a ratings downgrade.

## Analytical contacts

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Related criteria and research

- Criteria for the GCR Ratings Framework, May 2024
- GCR Country Risk Scores, August 2024
- Criteria for Rating Corporate Entities, May 2024
- GCR Ratings Scales, Symbols & Definitions, May 2023
- GCR Nigeria Corporate Sector Risk Scores, June 2024

Ratings history

Veritasi Homes & Properties Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
N/A	Initial Last	National National	N/A	N/A	N/A

Risk score summary

Rating Components & Factors		Score
<b>Operating environment</b>		<b>5.25</b>
Country risk score		3.50
Sector risk score		1.75
<b>Business profile</b>		<b>0.50</b>
Competitive position		0.50
Sustainability		0.00
<b>Financial profile</b>		<b>0.25</b>
Earnings		0.50
Leverage & cash flow		0.00
Liquidity		(0.25)
<b>Comparative profile</b>		<b>0.00</b>
Group support		0.00
Peer analysis		0.00
<b>Total Risk Score</b>		<b>6.00</b>

## Glossary

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Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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.
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.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
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.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term	Current; ordinarily less than one year.
Upgrade	The rating has been raised on its specific scale.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.



### Salient points of accorded rating

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 ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- 2023 audited annual financial statement, and prior four years annual financial statements;
- Four-month management account to 30 April 2024;
- Internal and/or external management reports;
- 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.
- Exchange Rate Source: Central bank of Nigeria. Average exchange rate for 2022: NGN423.299/USD.

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