



Credit Rating Announcement

GCR upgrades Lekki Gardens Estate Limited's national scale issuer ratings and accords an issue rating to its Senior Secured Bonds.

Rating Action

Lagos, Nigeria, 27 September 2021 – GCR Ratings ("GCR") has upgraded Lekki Gardens Estate Limited's national scale long-term and short-term Issuer ratings to BBB⁺_(NG) and A2_(NG) respectively. Concurrently, GCR has accorded a national scale long term issue rating of A_(NG) to Lekki Gardens Estate Limited's N3.5bn Senior Secured Fixed Rate Bond Issue. The Outlook on the ratings is Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook
Lekki Gardens Estate Limited	Long Term Issuer	National	BBB ⁺ _(NG)	Stable
	Short Term Issuer	National	A2 _(NG)	
N3.5bn Senior Secured Bonds Issuance	Long Term Issue	National	A _(NG)	Stable

Rating Rationale

The ratings reflect Lekki Gardens Estate Limited's ("LGE" or "the Company") strong competitive position within the Nigerian real estate sector, evidenced by its strong track record of project delivery, which has supported rising earnings, stable cash flows, and moderate gearing metrics.

LGE is one of the leading real estate development companies in Nigeria, with a relatively strong track record, having delivered over 10,000 projects, across the residential, commercial, and retail property segments. The Company's good cost management has enabled pricing flexibility and thus a strong reputation amongst potential customers, strengthening its competitive position. Furthermore, the entrenched relationships with major industry players have enabled it to secure a substantial project pipeline. Although the uncertainties within the operating environment have increased downside risk for the sector, the longer-term prospects of the residential property market and LGE's strong presence across key markets should continue to support its competitive positioning.

Management and governance factors are currently considered to be neutral to the ratings.

Despite the COVID-19 crisis and the attendant impact on the already challenged operating climate in Nigeria, the Company remained resilient, with revenue increasing by 6.7% to N20.9bn in FY20, underpinned by rising off-take and sale volumes. EBITDA margin remained firmer and well above peers at 10%, supported by delivery of higher-margin projects and cost rigour. As of 1H FY21, LGE has achieved a 29% annualised growth in revenue, with EBITDA margin registering at 18%. GCR expects the latent housing demand to continue to drive growth prospects, but the deferral of key discretionary spend, such as home purchases will likely impact demand and pricing. Furthermore, rising inflationary pressures will impact on construction costs (largely cement prices), will continue to constrain earnings margins to around 10x-14x over the rating horizon.

Operations have historically been funded by customer deposits from the presale of units, which represent more than 90% of funding sources. While this has reduced the need for debt through to 3Q FY20, the rising capex needed for business expansion has necessitated debt funding. Accordingly, LGE obtained N3bn loan facility from Providus Bank

Limited towards end-FY20 and raised N3.5bn through a senior secured bond issuance in March 2021. Following part repayment, gross debt declined to N3.8bn at 1H FY21. The Company is planning to raise additional debt before year-end 2021 through the capital market to finance its expansion strategy. Notwithstanding the new amount to be raised, GCR expects the Company to continue to demonstrate moderate financial flexibility, with net debt to EBITDA expected to remain below 1x over the outlook period. However, the ratio of operating cash flow of debt is expected to remain below low level of 30% due to higher debt, while net interest coverage will remain around 5x.

LGE's uses vs. sources liquidity coverage is estimated to register at 1.4x over the next 18-month period. This is predicated on strong cash holdings of around N6.8bn and the expected increase in cash flows, which will be utilised for short-term debt redemption and to finance timely project delivery. Any new debt raised will also be directed to project development. GCR also takes cognisance of the established relationships with domestic financial institutions and the improved access to the debt capital market.

The N3.5bn senior secured bonds are secured by mortgaged properties. The bonds constitute direct, unconditional, senior and secured obligations of LGE and shall at all times rank *pari passu* and without any preference or priority among themselves. The coupon rate on the bonds is 12%, with a tenor of three (3) years, and expected maturity in 2024. The rating of the bonds follows the receipt of final and executed transaction documents and is derived by applying a notching up approach, starting from the long term unsecured corporate rating of the Company. The notching approach involves an assessment of the stressed estimated recovery rate expected from the market values of the mortgaged properties that serve as security for the Issuer's outstanding bond obligation, under the assumption that the Issuer is in default.

Based on GCR's computation, the stressed estimated recovery rate is 76%. As such, a two-notch uplift is deemed appropriate based on GCR's Criteria for Rating Secured Bonds.

Outlook Statement

The Stable Outlook reflects GCR's view that LGE will sustain its strong earning progression, while maintaining a modest funding profile. This will help mitigate the increased risks within the Nigerian operating environment.

Rating Triggers

The ability to develop and successfully deliver large scale projects on a consistent basis will support improved earnings. This should lead to strong internal cash generation and thereby reduce the need for external funding to meet development requirements. Conversely, project delays driving material cost overruns, subdued uptake of large developments or poor delivery could place pressure on earnings and impair credit protection metrics.

A downgrade in the rating of the Company and/or an adverse change in the recovery prospects could trigger a negative rating action on the secured bond rating.

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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 Nigeria Country Risk Scores, August 2021
GCR Nigeria Corporate Sector Risk Scores, August 2021
Lekki Gardens Estate Limited rating report (2020)

Ratings History

Lekki Gardens Estate Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long term Issuer	Initial	National	BBB _(NG)	Stable	May 2020
Short Term Issuer	Initial	National	A3 _(NG)		
Long term Issuer	Last	National	BBB _(NG)	Stable	December 2020
Short Term Issuer	Last	National	A3 _(NG)		
N3.5bn Senior Secured Bond - LT	Initial/Last	National	A _(NG) (IR)*		

*IR stands for Indicative Rating

RISK SCORE SUMMARY

Risk score	
Operating environment	5.50
Country risk score	3.75
Sector risk score	1.75
Business profile	0.50
Competitive position	0.50
Management and governance	0.00
Financial profile	1.00
Earnings	0.50
Leverage & capital structure	0.00
Liquidity	0.50
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.
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 Lekki Gardens Estate 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.

Lekki Gardens Estate 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 Lekki Gardens Estate Limited and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and four years annual financial statements,
- A six-month management accounts to 30 June 2021,
- Internal and/or external management reports,
- A breakdown of facilities available and related counterparties,
- Information specific to the rated entity and/or industry was also received.

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