

PRESCO PLC

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2021 Final Issuer & Issue Rating Report

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 **Agusto&Co.**  
*Research, Credit Ratings, Credit Risk Management*

# PRESCO PLC

## ₦34.5 Billion 12.85% Seven-Year Senior Unsecured Fixed Rate Bonds Due 2029 Under the ₦50 Billion Programme

# A+

**Outlook:** Stable

**Issue Date:** 19 May 2022

**Expiry Date:** 5 April 2023

*\*The rating is valid throughout the life of the Bond but will be subject to annual monitoring and review.*

**Issuer's Rating:** A+

**Issue Date:** 30 December 2021

**Expiry Date:** 30 June 2022

**Industry:** Oil Palm

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**Analysts:**

**Bolaji Balogun**

[bolajibalogun@agusto.com](mailto:bolajibalogun@agusto.com)

**Isaac Babatunde**

[isaacbabatunde@agusto.com](mailto:isaacbabatunde@agusto.com)

**Agusto & Co. Limited**

UBA House (5th Floor)

57, Marina

Lagos

Nigeria

[www.agusto.com](http://www.agusto.com)

*Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.*

## RATING RATIONALE

Agusto & Co. hereby assigns an “A”+ rating to Presco Plc’s ₦34.5 billion 12.85% Seven-Year Senior Unsecured Fixed Rate Bonds Due 2029 (‘the Issue’ or ‘the Bond’). The assigned rating reflects the credit quality of Presco Plc (‘Presco’ ‘the Company’ or ‘the Issuer’) evidenced by its good profitability, strong cash flow position, low leverage and a stable, qualified and experienced management team as well as the Issuer’s position as one of the top players in the Nigerian Oil Palm Industry. The rating is also upheld by the favourable business fundamentals amid rising demand for oil palm, as well as the strong support it enjoys from the government. However, the rating is constrained by the Company’s working capital position, which requires improvement in our opinion.

Presco Plc (‘Presco’, ‘the Company’ or ‘the Issuer’) is a fully-integrated agro-industrial company with oil palm plantations in Edo and Delta states. Presco Plc has a diversified portfolio of speciality fats and oil products. The Company is a member of Societed’Investissement pour l’AgricultureTropicale (‘SIAT sa’) group – a Belgian agro-industrial company specialized in industrial and smallholder plantations of tree crops as well as allied processing industries including palm oil milling, refining in addition to soap making and crumb rubber factories.

Presco Plc issued ₦34.5 billion Seven-Year Senior Unsecured Fixed Rate Bonds due 2029 under its ₦50 billion Bond Issuance Programme by way of an offer for a subscription to qualified investors. The Bonds shall rank pari-passu with the existing obligations of the Issuer and will attract a fixed coupon rate of 12.85% determined through a book-building process payable semi-annually over seven years, while the aggregate principal will be redeemed every six months until maturity in 2029 after the expiration of the moratorium period, which is three years from the issue date.

The Series 1 coupon and principal obligations will be repaid from the operating cash flow of the Issuer. Agusto & Co. has adopted the Issuer’s financial forecasts and based on our review, we believe that the projected operating cash flow will

## TRANSACTION PARTIES

### Issuer:

Presco PLC

### Lead Issuing House:

Stanbic IBTC Capital Limited

### Joint Issuing Houses:

CardinalStone Partners Limited  
Quantum Zenith Capital and Investment Limited

### Trustee:

Stanbic IBTC Trustees Limited

### Legal Adviser to the Trustee:

Udo Udoma and Bello Osagie

### Solicitors to the Issue:

Olaniwun Ajayi LP

### Solicitors to the Issuer:

Abdulai Taiwo & Co

### Stockbrokers

Stanbic IBTC Stockbrokers Limited  
Mega Equities Limited

### Auditors:

Deloitte & Touche

### Reporting Accountants

KPMG Professional Services Limited

### Registrars:

First Registrars & Investor Services Limited

### Receiving Banks:

Stanbic IBTC Bank PLC  
Zenith Bank PLC

## KEY TRANSACTION STRUCTURE

### Bond Tenor:

7-years with semi-annual rental payment and semi-annual repayment of principal after a moratorium period of 36 months.

### Bond Status:

Ranks pari-passu with existing obligations of the Issuer.

### Use of Bond Proceeds:

The net proceeds of the Bond will be used to refinance existing bank borrowings as well as to support the Issuer's working capital needs

### Source of Repayment:

Operating cash flow from the Issuer

be sufficient to repay the interest 10.9 times, while the debt service coverage of 4.1x is good in our view.

In the financial year ended 31 December 2020, Presco generated total revenue of ₦23.9 billion, which represented a 21% increase from the prior year. The revenue growth is on account of the increase in the volume sales of crude oil and refined products. In FYE 2020, Presco posted an operating profit margin of 37.5% (FYE 2019: 30%), largely due to the higher revenue in the year and improvement in the direct cost to sales ratio, which we consider to be good. Overall, the Company posted a pre-tax pre-interest return on assets (ROA) and a pre-tax return on equity (ROE) of 14% and 28% respectively in FYE 2020, which we consider to be good. In our view, the Issuer's profitability level is good and sustainable.

During the year ended 31 December 2020, Presco posted an operating cash flow (OCF) of ₦12.9 billion, which was sufficient to cover returns to providers of finance – comprising interest and dividend payments of ₦3.6 billion. In addition, the Company's OCF to sales ratio of 54% in 2020 and three-year (2018 – 2020) average of 55% are both higher than our benchmarks. Furthermore, the Company's FYE 2020 and three-year (2018 - 2020) average OCF as a percentage of returns to providers of financing of 358% and 212% respectively are better than our expectations, thus laying credence to the Company's good cash flow position premised on favourable terms of trade with suppliers and customers.

In FYE 2020, Presco posted a short term financing surplus (STFS) of ₦23.1 billion, which is similar to the prior year. Due to the capital intensive nature of the Nigerian Oil Palm Industry, Presco posted a long term financing need (LTFN) of ₦22.8 billion, resulting in an overall working capital deficiency of ₦10.2 billion. In our view, the Issuer's working capital position is not sufficient for its current level of operations and requires improvement.

In the year under review, Presco's total liabilities stood at ₦42.7 billion comprising interest-bearing liabilities (46%) and non-interest-bearing liabilities (54%). The Company's interest expense to sales ratio declined to 6.7% (FYE 2019: 9.4%) but was higher than our benchmark of 5%. Presco's FYE 2020 interest cover of 8.1 times is better than our minimum benchmark of 3 times, while the three-year (2018 – 2020) average of 7.6 times is considered to be good. Overall, Presco's leverage position is low, although we expect slight increases in its leverage metrics upon actualization of the proposed bond issuance.

Going forward, Agosto & Co. expects Presco's profitability to maintain an upward trajectory buoyed by its strong industry position coupled with the various proposed growth strategies as well as the continued governmental support for the Industry. Management has disclosed ongoing plans to increase oil palm cultivation through the acquisition of additional arable lands as well as achieving direct cost reduction

**Listing:**

Nigerian Exchange Limited and/or  
FMDQ Private Markets Limited

through improved yield in Fresh Fruit Bunches (FFB) per hectare, continuous expansion of refining capacity as well as the sustained use of bio-methane for energy generation thereby reducing operating expenses. Furthermore, we expect the favourable terms of trade with suppliers and customers to continue to have a positive impact on the Issuer’s operating cash flow position. Also, we foresee some improvement in the Company’s working capital arising from the additional funding buffer from the proposed Series 1 Bond proceeds.

Based on the aforementioned, we have attached a **stable** outlook to Presco Plc and the Company’s ₦34.5 billion 12.85% Seven-Year Senior Unsecured Fixed Rate Bonds due 2029.

**Figure 1: Presco’s Strengths, Weakness, Opportunities & Threat Analysis**

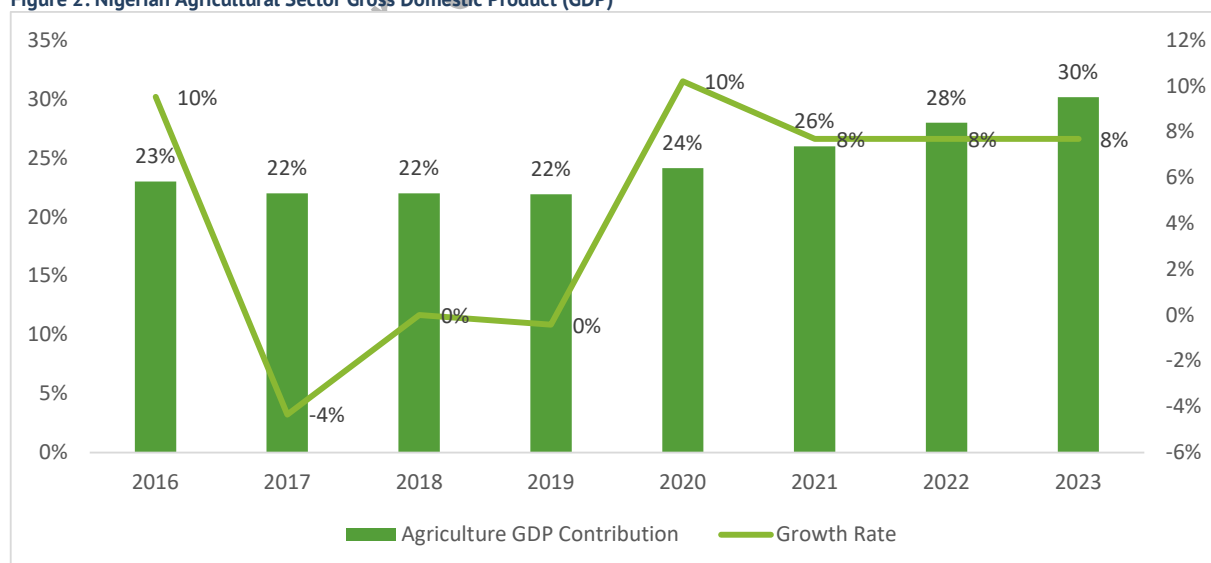


## OVERVIEW OF THE NIGERIAN OIL PALM INDUSTRY

The Nigerian Oil Palm Industry (“the Industry”) is a subset of the Agricultural Sector (“the Sector”), which is divided into crop production, livestock, forestry and fishing. Historically, the Sector has been the largest contributor to Nigeria’s gross domestic product (GDP) averaging circa 23% over the past five years (2016-2020) with crop production accounting for around 90% of the sector’s performance. Agusto & Co. expects the agricultural sector to continue its significant contribution to the country’s GDP in the near term on the back of the Federal Government of Nigeria’s (FGN) effort to diversify the country’s economy away from crude oil occasioned by the price volatility of hydrocarbon, accentuated by the COVID-19 pandemic. The Nigerian Oil Palm Industry falls under crop production although some players operate throughout the value chain - planting, milling, refining and packaging of oil palm products. Nigeria was the largest exporter of oil palm in the world in the 1960s although this changed after the discovery of crude oil in commercial quantity with the country slipping to fifth place in 2020 based on available data.

The Nigerian Oil Palm Industry is highly fragmented and dominated by small farmers in terms of production (circa 80%) while established plantations account for the balance of 20%. Nonetheless, we note that the Industry is largely dominated by Presco Plc and Okomu Oil Palm Company Plc in terms of value as these companies individually hold significant market share. The production dominance of smaller farmers has resulted in lower output relative to the country’s potential due to the crude techniques adopted during the harvesting and refining processes. The major stakeholders in the Nigerian Oil Palm Industry include – Presco Plc, Okomu Oil Palm Company Plc, small scale farmers, new entrants – PZ Wilmar and Dufil Prima, the Central Bank of Nigeria (CBN) that provides subsidised loans, Nigerian Institute of Oil Palm Research (NIFOR), FGN, oil palm producing state governments and the Federal Ministry of Trade and Investment. Agusto & Co. notes that the barrier to entry in the Industry is high due to the substantial amount of capital investments required to set up an oil palm plantation, which according to available data ranges from \$4,000 - \$5,000 per hectare<sup>1</sup> before considering other ancillary costs required for production as well as the long investment horizon.

Figure 2: Nigerian Agricultural Sector Gross Domestic Product (GDP)



Source: National Bureau of Statistics and Agusto & Co. Research

<sup>1</sup> <https://guardian.ng/features/agro-care/boosting-oil-palm-industry-amid-funding-land-challenges/>

The Industry grapples with significant challenges that inhibit productivity – low-quality seedlings, difficulties in acquiring suitable lands for plantation, high cost of land preparation, crude and outdated farming methods and insecurity. Furthermore, the infrastructural deficits particularly poor road networks and epileptic power supply, inadequate storage facilities resulting in post-harvest losses, and a lack of affordable funding to finance day-to-day operations and expansion programmes also plague the Industry. In addition, the incessant smuggling of substandard and cheap crude palm oil (CPO) and crude palm kernel oil (CPKO) through the country's porous borders remains a disincentive to investors and the backward integration program (BIP) aimed at increasing local production. The Industry is also constrained by the lack of farm management expertise as well as cost escalations on the back of the frail macroeconomic environment prevalent in Nigeria.

The FGN has tried to spur Industry growth through the implementation of various policies aimed at stimulating output. Some of these initiatives included the provision of tax exemptions and rebates, the imposition of a 35% duty charge on imported CPO to boost local production and the Anchors Borrowers' Programme<sup>2</sup> aimed at promoting investments in oil palm. This is in addition to the inclusion of oil palm, palm kernel and vegetable oils to the list of items that are not eligible for foreign exchange through the Nigerian inter-bank market as a way of discouraging parallel importation of the product in the country. Also, the allocation of 57,000 hectares of land to small, medium and large scale producers of oil palm in Edo State under the first phase of the Edo State Oil Palm Programme (ESSOP) to tackle the relative difficulty in obtaining the requisite land for planting is expected to drive Industry growth in the medium term. In addition, the National Palm Produce Association of Nigeria (NPPAN) is also actively involved in improving Industry output through the provision of high-quality seedlings to small scale farmers under its 10 million oil palm seedling distribution programme as well as enabling capacity building through training<sup>3</sup>. We expect the aforementioned initiatives to be key drivers of Industry growth in the near to medium term.

Going forward, Agosto & Co. believes that the outlook for the Nigerian Oil Palm Industry is positive. This is premised on a myriad of factors – the rising population in Nigeria, which we expect to culminate in increased demand for cooking oil, beauty products, soaps and lubricants all of which require oil palm. Furthermore, the availability of arable lands in Nigeria also provides huge opportunities for Industry players to scale up output, provided the issues surrounding land acquisition can be significantly resolved. In addition, we note that oil palm can be used as an alternative energy source, which provides opportunities for players in the power sector to tap into the value chain of the Oil Palm Industry. Also, the African Continental Free Trade Area Agreement (AfCFTA) provides operators with access to a wide range of untapped markets on the continent.

Based on the aforementioned, we have attached a **stable** outlook to the Nigerian Oil Palm Industry.

<sup>2</sup> The scheme is aimed at providing single-digit interest rate on loans to farmers through the Deposit Money Banks and other participating Financial Institutions. For the oil palm sector, the interest on the loan facility is at 9% per annum.

<sup>3</sup> <https://www.vanguardngr.com/2021/07/nppan-set-to-empower-youths-women-with-free-20-oil-palm-seedlings/>

## PROFILE OF THE ISSUER

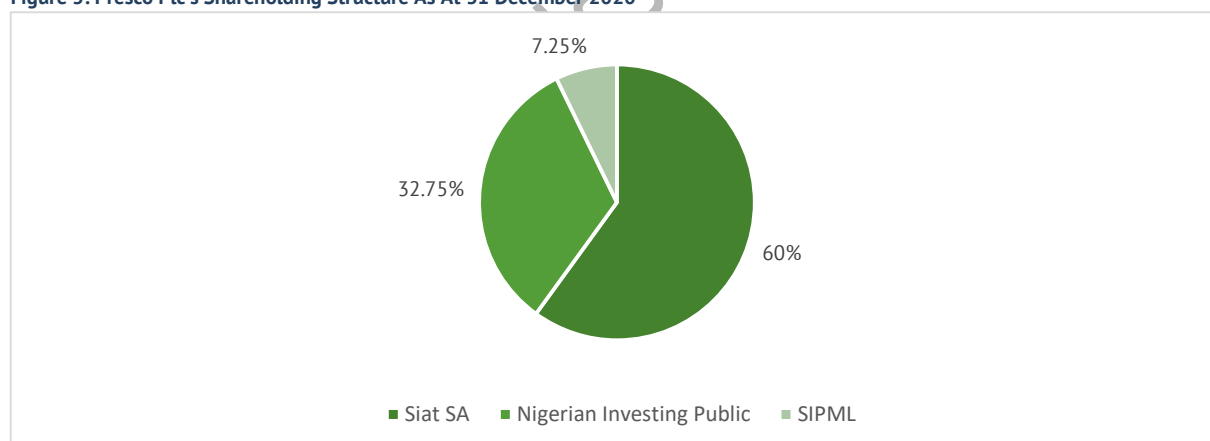
### Overview Of The Issuer

Presco Plc ('Presco', "the Company" or 'the Issuer") was incorporated as a private limited liability company in 1991 and listed on the Nigerian Stock Exchange (NSE) now Nigerian Exchange Limited (NGX) in 2002. Presco Plc is a member of Societed'Investissement pour l'AgricultureTropicale ('SIAT SA) Group – a Belgian agro-industrial company specialized in industrial and smallholder plantations of tree crops as well as allied processing industries including palm oil milling, refining in addition to soap making and crumb rubber factories. SIAT SA operates as a holding company through its subsidiaries in Nigeria, Ghana, Gabon, Côte d'Ivoire, Cambodia and Belgium.

The Issuer is a fully integrated agro-industrial company with oil palm plantations in Edo and Delta states. Presco Plc produces and supplies speciality fats and oils products including - Special Palm Oil (SPO), Crude Palm Kernel Oil (CPKO), Refined Bleached Deodorized Oil (RBDO), Olein, Stearin, Palm Fatty Acid Distillate (PFAD) and Palm Kernel Cake. Presco holds the Obaretin Estate (a concession of 6,387 hectares), the Ologbo Estate (a concession of 13,545 hectares), both located in Edo State, and the Cowan Estate, a concession of 2,800 hectares in Delta State. The Company recently acquired a new concession called Sakponba Estate also in Edo State of 14,000 hectares, out of which 7,247 hectares have been planted.

### Ownership And Board Structure

Figure 3: Presco Plc's Shareholding Structure As At 31 December 2020



SIAT SA is the major shareholder in Presco Plc, controlling 60% of the Company's equity stake while the remaining shares are held by the Nigerian investing public (32.75%) and Stanbic IBTC Pension Managers Limited (SIPML) (7.25%). Presco Plc is in the process of finalising the acquisition of Siat Nigeria Limited (SINL) – a related company with similar operations to the Issuer's business – towards improving the SIAT SA Group's efficiency. However, management has disclosed that both companies (Presco and SINL) will present their financial performance as separate entities in 2021.

As at 31 December 2020, Presco had a ten-member Board of Directors, which comprised the Chairman, three Executive Directors, two Non-Executive Directors, and four Independent Non-Executive Directors. Paul

Cardoen leads the Board as the Chairman although we expect Mr Dirk Lambrecht to become the new Chairman after his recent nomination by majority shareholder – Siat SA.

The Board operates through five committees – the Risk Management Committee, the Remuneration Committee, the Nominations and Governance Committee, the Complaint Management Committee and the Statutory Audit Committee.

**Table 1: Presco's Board of Directors as at 31 December 2020**

Name	Position
Mr Paul Cordoen*	Chairman
Mr Felix O Nwabuko	Managing Director
Mr Gerald Ray	Chief Operating Officer
Mr William Kenneth Crockett	Chief Financial Officer
Chief James B Erhuero	Non-Executive Director
Mrs Ingrid Vandeweile	Non-Executive Director
Mr Osa Osunde	Independent Non-Executive Director
Chief Bassey E, O Edem	Independent Non-Executive Director
HRH Prince Aiguoabasinmwin O Akenzua	Independent Non-Executive Director
Ambassador Nonye Udo	Independent Non-Executive Director

\*Resigned in 2021

Source: Presco's 2020 Audited Financial Statements

Mr Felix O. Nwabuko leads the management team as the Managing Director while Mr Kenneth Crockett and Mr Gerald Ray are the Chief Financial Officer and Chief Operating Officer respectively. Presco's management team consist of the Managing Director and eighteen senior management personnel covering various segments of the business.

**Table 2: Other Members of Presco's Management Team**

Name	Position
Mr Jagdish Kavathar	Marketing Manager
Mr Oyekunle Fayoyin	Internal Auditor
Mr Jafaru Abu	Procurement Manager
Mr Lee Baines	Factory Manager
Mr John Ogbale	Logistics Manager

Source: Presco PLC

### Other Information

As at 31 December 2020, Presco's total assets and liabilities stood at ₦73.7 billion (2019: ₦71.0 billion) and ₦42.7 billion (2019: ₦43.1 million) respectively, while shareholders' funds amounted to ₦31.0 billion (2019: ₦27.8 billion). In the financial year ended 31 December 2020, the Company generated revenue of ₦23.9 billion and recorded a profit after tax of ₦5.3 billion. In the same period, the Company had an average staff strength of 653 employees (2019: 659 employees).

**Table 3: Background information on Presco as at 31 December 2020**

Authorised Share Capital	₦550 million
Paid-Up Capital	₦500 million
Shareholders' Funds	₦31 billion
Registered Office	Obaretin Estate, KM 22, Benin/Sapele Road, Edo State
Principal Business	Oil Palm Production
Auditors	Deloitte Nigeria

Source: Presco's 2020 Audited Financial Statement

## FINANCIAL CONDITION REVIEW - ISSUER

### ANALYSTS' COMMENTS

For our analysis, we have compared the performance of Presco PLC to that of the other major player in the Oil Palm Industry - Okomu Oil Palm Company Plc

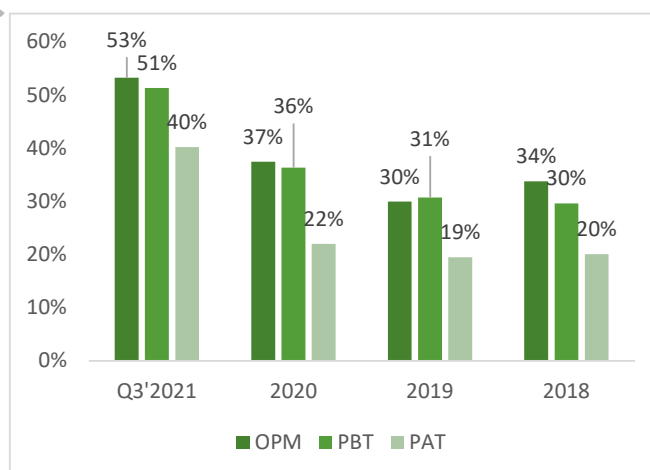
### PROFITABILITY

Presco specialises in the cultivation of oil palm as well as the extraction, processing and refining of crude palm oil into finished products. As a result, the Issuer generates the bulk of its revenue from the sale of crude and refined oil products (98%), while income from fresh fruit branches (FFB) and by-products constitute the balance of 2%.

In the financial year ended 31 December 2020 (FYE 2020), Presco Plc generated revenue of ₦23.9 billion representing a 21% increase when compared to the previous year and marginally higher than the ₦23.4 billion recorded by Okomu Oil Palm Company Plc (Okomu Oil). The revenue growth is due to the increase in the sale of crude oil and refined products in the year under review, which rose by 22% when compared to the prior year and accounted for 98% of the Company's revenue in 2020 as in 2019. Based on the increased output from the newly commissioned 500MT per day refinery in March 2021, we foresee improvement in the Company's product offerings as well as revenue.

The Company's raw materials are locally sourced and constituted 4% of the direct costs in 2020 (2019: 1%). Presco's direct expenses largely comprise costs incurred on refining products, upkeep of mature plants and depreciation of machinery. In FYE 2020, Presco's direct cost to sales ratio improved to 32.7% (FYE 2019: 35.5%) on account of the higher sales achieved during the period. Consequently, the Company posted a better gross profit margin of 67.3% in 2020 (2019: 64.5%), which we consider to be good. However, Presco's gross profit margin in 2020 compared unfavourably with the 80.1% posted by Okomu Oil in the same period. Notwithstanding, we expect Presco's gross profit margin to remain good in the near to medium term occasioned by the sustained demand for crude and refined products by the Nigerian public as oil palm is a key ingredient in the production of other household commodities as well as for food preparation. Despite cost escalations arising from inflationary pressure and currency devaluation, we expect the sustained implementation of various cost containment strategies as well as growth in revenue to have positive impacts on the Company's overall gross profit margin.

Figure 4 OPM, PBT, and PAT (2018 – Q3'2021)



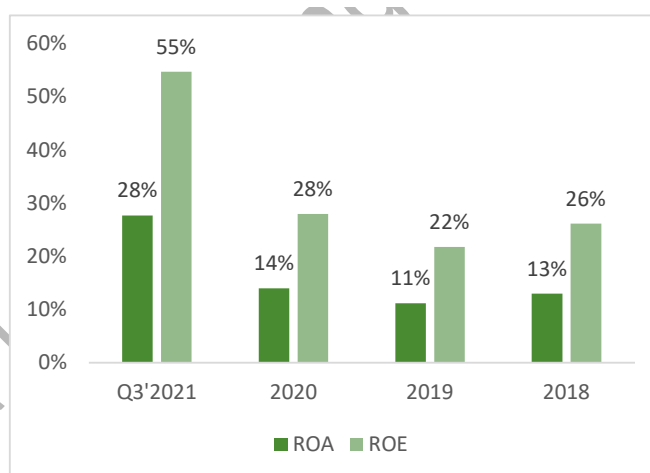
In FYE 2020, the Company's operating expense rose by 5% to ₦7.1 billion owing to the marked increase in transportation and travel costs, exchange losses and other ancillary expenses incurred during the year.

Nonetheless, the Company’s operating expenses to sales ratio improved to 30% (FYE 2019: 35%) as the Issuer continued to benefit from economies of scale in its operations. Consequently, the Company posted an operating profit of ₦8.9 billion, which is 52% higher than the prior-year translating to an operating profit margin (OPM) of 37.5% (FYE 2019: 30%), which is good in our view but below the 43% posted by Okomu Oil. The Company’s three-year (2018 – 2020) average OPM of 34% is also good in our opinion.

In the year under review, Presco Plc’s other income/expenses largely comprising inflows from ancillary operations and fair value gains on biological assets amounted to ₦1.3 billion (representing 5.6% of revenue). Although, Presco’s interest expense to revenue ratio moderated to 6.7% in 2020 (2019: 10.2%), it remained higher than our benchmark of 5%. Notwithstanding, Presco posted a profit before tax (PBT) of ₦8.7 billion (FYE 2019: ₦6.1 billion). In addition, the Issuer posted a PBT margin of 36.4% (FYE 2019: 30.7%), which is good in our view although marginally below that of Okomu Oil of 37.8% (FYE 2019: 39.2%).

In FYE 2020, Presco posted a pre-tax pre-interest return on asset (ROA) of 14% and a three-year weighted average ROA of 13%, which are in line with our expectations although below the FYE 2020 and three-year (2018 – 2020) average of 16% and 18% respectively posted by Okomu Oil. In the same vein, Presco’s pre-tax return on equity (ROE) in 2020 and three years (2018 – 2020) of 28% and 26% respectively, were better than the average yield on government securities over similar periods. We note that Presco’s 2020 ROE of 28% is higher than that of Okomu’s of 25% while the three year average of 26% is the same for both entities.

Figure 5: ROA & ROE – (2018 – Q3’2021)



In the nine months (unaudited) period ended 30 September 2021, Presco posted revenue of ₦34.2 billion representing an increase of 91% when compared to the sales figures posted in FYE 2020. This significant revenue growth is on account of the higher sales volume owing to the improved refining and distribution capacity during the period. Furthermore, the Company’s cost of sales grew by 37% to ₦10.7 billion resulting in a gross profit margin of 68.7%, which is marginally higher than the 67.3% posted in FYE 2020. In addition, Presco reported an OPM of 53.3% and an annualised ROA and ROE of 28% and 55% respectively, which are in line with our expectations. Agusto & Co. expects Presco’s profitability to maintain an upward trajectory going forward on account of the Company’s strong industry position coupled with the various proposed growth strategies. Management has indicated plans to improve oil palm cultivation through the acquisition of more arable lands as well as achieving some moderation in business costs through improved yield in FFB per hectare. Furthermore, we believe that the continuous expansion of the Company’s refining capacity in addition to the sustained use of bio-methane for energy generation will reduce operating expenses and improve profitability.

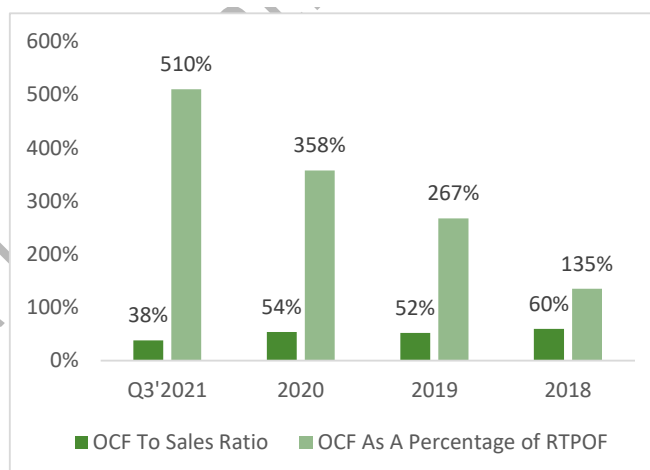
In our opinion, Presco’s profitability level is good and sustainable.

## CASH FLOW

Presco Plc generates cash from the sale of crude and refined oil palm products and by-products from milling and fresh fruit branches (FFB). Although the bulk of its sales are on a cash basis, Presco sometimes grant credits to key distributors that meet its internal criteria as determined by the Risk Management Committee. This mitigates the Company’s risk of financial losses from defaults. In the year under review, we note positively that the average trade receivables period declined to 8 days (FYE 2019: 13 days), while the average trade payables period increased to 80 days from 45 days in the prior year evidencing the Company’s favourable terms of trade with its customers and suppliers.

In FYE 2020, Presco posted an operating cash flow (OCF) of ₦12.9 billion (FYE 2019: ₦10.3 billion). The improvement in the OCF position is largely due to a spike in trade creditors, amounts due from related parties, obligations under unfunded pension schemes and deferred tax liabilities. In the year under review, Presco’s OCF was more than sufficient to cover the returns to providers of financing (RTPOF) of ₦3.6 billion - comprising interest (44%) and dividend (56%). Over the past three years (2018 – 2020), Presco recorded an OCF position of ₦35.9 billion, which was sufficient to cover the cumulative RTPOF of ₦17 billion over the same period.

Figure 6: OCF to Sales Ratio & OCF to RTPOF (2018 – Q3'2021)



In the year under review, Presco’s OCF as a percentage of sales improved marginally to 54% (FYE 2019: 52%), which is higher than the 43% posted by Okomu Oil in the same period. Also, we note that the three years (2018 – 2020) average of 55% is in line with our benchmark and evidences the Company’s strong cash-generating capacity, which we expect to continue going

forward due to its favourable terms of trade with customers. In addition, the Company’s FYE 2020 and three years (2018 -2020) OCF as a percentage of RTPOF of 358% and 212% respectively are in line with our expectations although, lower than the 505% and 229% posted by Okomu Oil.

In the nine months ended 30 September 2021, Presco’s OCF amounted to ₦13 billion although, the OCF to sales ratio declined to 38% due to the higher inventory levels and trade receivables position in the period. The Company’s OCF was more than sufficient to cover the RTPOF of ₦2.5 billion – comprising interest and dividend payments of ₦500 million and ₦2 billion respectively while the operating cash flow as a percentage of return to providers of finance of 510% is in line with our benchmark.

In our opinion, Presco’s overall cash flow position is good and sustainable.

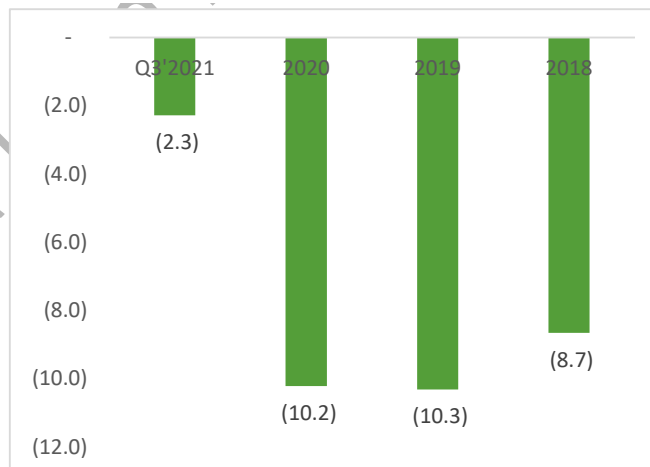
## FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2020, Presco’s working assets stood at ₦10.5 billion representing an increase of 4% when compared to the prior year. The Company’s working assets comprised amounts due from related parties (54%), inventories (34%), other debtors (7%) and trade debtors (5%). The amounts due from related parties are occasioned by the intercompany receivables of ₦5.7 billion due to transactions consummated with NV Siat SA and Siat Nigeria Limited in the year under review.

In FYE 2020, Presco’s spontaneous financing (non-interest-bearing liabilities) increased by 26% year on year to ₦23.1 billion mainly due to the marked increase in trade creditors, amounts due to related parties and deferred taxation. Presco’s non-interest-bearing liabilities comprised deferred taxation (39%), amounts due to related parties (32%), other creditors and accruals (11%) and trade creditors (7%). The Company’s spontaneous financing was more than sufficient to cover the working assets, resulting in a short term financing surplus (STFS) of ₦12.6 billion, which is consistent with the past three years.

In the financial year ended 31 December 2020, the Company’s long term assets comprising plant and equipment (86%) and other long term assets (14%) stood at ₦60.6 billion. As at the same date, Presco’s long-term funds of ₦37.8 billion, which comprised shareholder’s equity (82%) and long term borrowings (18%) were insufficient to cover the long-term assets, leaving a long term financing need (LTFN) of ₦22.8 billion due to the capital intensive nature of the Nigerian Oil Palm Industry. In addition, the Company’s short term financing surplus was insufficient to cover the LTFN in 2020, resulting in an overall working capital deficiency of ₦10.2 billion.

Figure 7: Overall Working Capital ₦ Billions (2018 – Q3'2021)



In the nine months ended 30 September 2021, Presco posted a short term financing surplus and long term financing need of ₦6.2 billion and ₦8.5 billion respectively resulting in an overall working capital deficiency of ₦2.3 billion, which is consistent with the prior years.

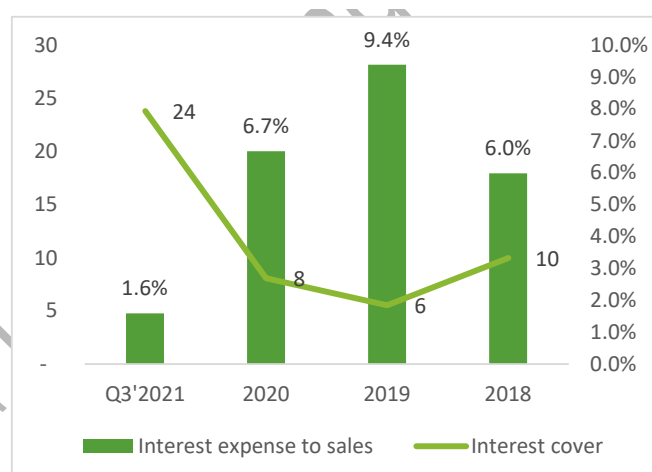
In our opinion, the Company’s working capital position is inadequate for its current level of operations and requires improvement.

## LEVERAGE

As at 31 December 2020 Presco's total liabilities amounted to ₦42.7 billion, representing a marginal decrease of 1% when compared to the previous year and split into non-interest-bearing liabilities (56%) and interest-bearing liabilities (44%). The Issuers' Non-Interest Bearing Liabilities (NIBL) amounted to ₦23.1 billion (FYE 2019: ₦18.4 billion) and largely consisted of deferred taxation (39%), amounts due to related parties (32%), other creditors and accruals (7%) and trade creditors (7%). As at the same date, the Company's Interest-Bearing Liabilities (IBL) component of ₦19.6 billion comprised - short term borrowings (33%), the current portion of long term loans (33%) and long term borrowings (35%).

During the year, the Company's interest cost declined by 14% to ₦1.6 billion as Presco repaid a portion of outstanding long term borrowings amounting to ₦9.1 billion obtained from various financial institutions in Nigeria. As a result, the Company's interest expense to sales ratio declined to 6.7% (FYE 2019: 9.4%) but remained higher than our benchmark of not more than 5%. Agosto & Co expects the interest expense to sales ratio to rise in the near term occasioned by the debt capital raising program the Company is undertaking. Nonetheless, we expect the projected revenue increases to have some cushioning effect on the Company's interest expense to sales ratio.

Figure 8 Interest Expense to sales and Interest Cover (2018 – Q3'2021)



In the year under review, Presco recorded interest cover<sup>4</sup> of 8.1 times, which we consider to be good. Over the past three years (2018 – 2020), the Company's average interest cover of 7.6 times is better than our benchmark of 3 times and is considered to be good. As at FYE 2020, the Company's total assets were financed by shareholder's funds (42%) and total liabilities (58%), which does not reflect a good equity cushion in our opinion. As at FYE 2020, the Issuers' net debt (total liabilities less cash and cash equivalent) as a percentage of average total assets and IBL (net of cash) to equity ratio of 44% and 55% respectively are within our benchmarks.

Presco Plc's Q3'2021 management account revealed changes in the leverage metrics as the Company's interest cover grew significantly to 23.8 times, due to the lower interest costs recorded in the period. Furthermore, the Company's interest expense to sales ratio declined markedly to 1.6%, while the net debt as a percentage of average total assets and IBL (net of cash) to equity ratio of 24% and 31% are good in our view.

In our opinion, Presco's leverage position is low although we expect marginal elevation in the leverage metrics in the near term on account of the debt capital raising program the Company is undertaking.

<sup>4</sup> Interest cover is calculated as OCF divided by finance cost

## TRANSACTION STRUCTURE

### Overview

On 5 April 2022, Presco Plc issued ₦34.5 billion Seven-Year Senior Unsecured Fixed Rate Bonds Due 2029 under its ₦50 billion Bond Issuance Programme. The Bond attracts a fixed coupon rate of 12.85% payable semi-annually over seven years, while the aggregate principal will be redeemed every six months until maturity in 2029 after the expiration of the moratorium period, which is three years from the issue date. The coupon payment and bond repayment will be from the operating cash flow of the Issuer.

### Use of Proceeds

The net proceeds from the Series 1 Bond issuance shall be used to refinance the Issuer's existing bank loans as well as fund its working capital needs as detailed in the table below:

**Table 4: Utilisation of Series 1 Bond Proceeds by Presco**

S/N	Use of Proceeds	Amount (₦' million)	%	Estimated Completion Period
1	Refinance Bank facilities	25,860.56	75%	Immediately
2	Working capital	8,045.71	23.3%	Up to 12 Months
3	Offer costs and expenses	593.73	1.7%	Deducted from gross proceeds
4	Total	34,500.00	100%	

Source: Series 1 Bond Pricing Supplement

### Bond Repayment

The Bond shall be redeemed primarily from the Issuer's operating cash flow. A Payment Account (which will be in the name and under the sole control of the Bond Trustee) shall be opened no later than five (5) business days after the Issue Date. The coupon on the Series 1 Bond shall be payable semi-annually on the scheduled coupon payment date over its 7-year tenor (see table 5 below). The first coupon payment will be in six months from the issue date. The Series 1 Bond's principal shall be redeemed on an amortising basis after the moratorium period of 36 months until maturity in 2029.

**Table 5: Tranche A Bond Repayment Schedule<sup>5</sup>**

Bond obligations Repayment Interval	Semi-Annual Coupon (₦' 000)	Principal Amount Repaid (₦'000)	Outstanding Obligation (₦'000)
Bond issuance	-	-	34,500,000
5-Oct-22	2,216,625	-	34,500,000
5-Apr-23	2,216,625	-	34,500,000
5-Oct-23	2,216,625	-	34,500,000
5-Apr-24	2,216,625	-	34,500,000
5-Oct-24	2,216,625	-	34,500,000
5-Apr-25	2,216,625	-	34,500,000
5-Oct-25	2,216,625	4,312,500	30,187,500
5-Apr-26	1,939,547	4,312,500	25,875,000
5-Oct-26	1,662,469	4,312,500	21,562,500
5-Apr-27	1,385,391	4,312,500	17,250,000
5-Oct-27	1,108,313	4,312,500	12,937,500
5-Apr-28	831,234	4,312,500	8,625,000
5-Oct-28	554,156	4,312,500	4,312,500
5-Apr-29	277,078	4,312,500	-

Source: Presco Plc Series 1 Pricing Supplement

The Series 1 Bond constitutes an unsecured, direct fixed-rate obligation of the Issuer and shall always rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Series 1 Bond and in respect of the principal and any interest thereon shall always rank higher than all other subordinated and secured indebtedness of the Issuer, present and future, except for obligations mandatorily preferred by the law applying to companies generally.

The Series 1 Bonds shall include a Call Option to effect early redemption of the Bonds, either in part or in whole, which can be exercised by the Issuer from the expiration of 48 months from the Issue Date (“exercisable window”), under the provisions of the Series 1 Trust Deed. The exercise of the Call Option by the Issuer shall be subject to a notice period between 30 to 60 days, and the scheduled early redemption payment may only occur on a coupon or principal payment date.

### Details of Indebtedness of the Issuer

As at 30 September 2021, Presco’s total borrowings comprising - bank overdrafts and term loans amounted to ₦25.2 billion. We expect the Issuers’ gross debt to inch up marginally given that circa 77% of the Series 1 Bond proceeds will be used to refinance existing bank facilities. Nonetheless, we expect Presco’s strong revenue growth prospects occasioned by the good Oil Palm Industry fundamentals to cushion any effects of the anticipated rise in finance costs.

<sup>5</sup> Based on issue size of ₦34.5 billion and a coupon rate of 12.85% payable semi-annually over seven years.

## FINANCIAL FORECAST

Presco has prepared a 7-year financial projection from 2022 to 2029 together with the underlying assumptions. We have reviewed the financial forecasts covering revenue, expenditure and cash flows. Some of the critical assumptions supporting the projections are stated below.

**Table 6: Presco's Assumptions and Bases for Financial Forecast**

Description	Issuer's Assumptions	Agusto & Co.'s Adjusted Assumptions
Revenue	<ul style="list-style-type: none"> <li>The projected revenue will be generated largely from the sale of RBDO and Palm Olein to customers. The Issuer expects revenue from these sources to account for circa 74% of its earnings over the next seven years.</li> <li>As a result, the Issuer expects to generate ₦853 billion in revenue in the next seven years. Presco expects revenue to grow at an average of 19% over the next seven years largely driven by its intention to continuously improve its processing, refining and distribution capacity.</li> </ul>	<ul style="list-style-type: none"> <li>We have adopted the revenue estimates of the Issuer over the forecast period. Our basis of adoption is largely due to the spike in revenue experienced by the Issuer upon the commissioning of the 500 MT refining plant at the Obaretin Plantation Estate. In addition, Presco's management has indicated plans to gradually increase production and refining capacity over the medium to long term, which we believe will continue to drive revenue growth.</li> </ul>
Direct Cost to Sales Ratio	<ul style="list-style-type: none"> <li>Direct costs include palm upkeep, harvesting and collection, palm kernel overheads as well as the purchase of palm products and other production expenses incurred in the refining of palm.</li> <li>The Issuer estimates a direct cost to sales ratio of 41% over the next seven years., translating to a gross profit margin of 59%.</li> </ul>	<ul style="list-style-type: none"> <li>Over the past three years, the Issuer's direct cost to sales ratio has hovered around 30%. Agusto &amp; Co. has adopted the Issuer's projected 41% direct cost to sales ratio over the seven years on account of the expected cost escalations as the Issuer scales up its operations in addition to the frail economic environment prevalent in Nigeria, which we believe will continue to impact direct expenses.</li> </ul>

Source: Presco & Agusto & Co.

In March 2021, Presco Plc commissioned its 500 MT refining plant at the Obaretin Estate, which has significantly increased its processing capacity and revenue mix resulting in an impressive 91% annualised growth at the end of Q3'2021 (based on unaudited management accounts) to reflect the upsurge in the sale of refined products - RBDO and Palm Olein during the period. Agusto & Co. also notes the Issuer's acquisition of additional arable lands for planting (the Sakpoba Estate) in Edo State to increase its capacity in the medium to long term. In addition, the Issuer has indicated plans to continuously invest in R&D to develop high-yielding palm hybrids in its production process to achieve operational efficiencies and reduce cost. Also, we note the

positive Oil Palm Industry fundamentals as well as the rise in Nigeria’s population, which will continue to drive demand in the near to medium term. On the back of the foregoing, the Issuer forecasts revenue of ₦853 billion in the next seven years largely driven by sales of RBDO and Palm Olein, which we consider reasonable.

Over the next seven years, the Issuer projects cumulative direct costs of ₦351 billion, which represents 41% of sales. In tandem with the cost escalations from inflationary pressures and currency devaluation over the past three years (2018 – 2020), we believe this to be reasonable. Consequently, the projected gross profit margin of 59% over the next seven years is reasonable in our opinion. Furthermore, cumulative overheads, management fees and utilities are estimated at ₦51 billion, ₦14 billion and ₦9 billion respectively resulting in earnings before interest, tax, depreciation and amortization (EBITDA) of ₦428 billion.

The Issuer forecasts a cumulative profit before-tax (PBT) of ₦388 billion over the next seven years, translating to a PBT margin of 46% which is higher than the three–year (2018-2020) average of 32.2%. Nonetheless, we believe the higher forecasted PBT margin will be driven by the expected growth in the sale of RBDO and Palm Olein during the forecast period.

**Table 7: Operating Cash Flow Statement**

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns
Operating Cash Flow	34,972	12,504	36,420	42,828	43,322	47,709	57,682	275,437
Expected Coupon on Series 1 Bond	(4,433)	(4,433)	(4,433)	(4,156)	(3,048)	(1,940)	(831)	(23,275)
Interest on existing debt	-	-	(51)	(1,888)	-	-	-	(1,939)
<b>Total Interest Payment</b>	<b>(4,433)</b>	<b>(4,433)</b>	<b>(4,485)</b>	<b>(6,044)</b>	<b>(3,048)</b>	<b>(1,940)</b>	<b>(831)</b>	<b>(25,214)</b>
Repayment of existing loans	-	-	(410)	(6,500)	-	-	-	(6,910)
Series 1 Bond Principal Obligation	-	-	-	(8,625)	(8,625)	(8,625)	(8,625)	(34,500)
<b>Total Principal Payment</b>	<b>-</b>	<b>-</b>	<b>(9,035)</b>	<b>(15,125)</b>	<b>(8,625)</b>	<b>(8,625)</b>	<b>(8,625)</b>	<b>(41,410)</b>
<b>Interest Coverage</b>	<b>7.89</b>	<b>2.82</b>	<b>8.12</b>	<b>7.09</b>	<b>14.21</b>	<b>24.60</b>	<b>69.39</b>	<b>10.9</b>
<b>Debt Service Coverage<sup>6</sup></b>								<b>4.1</b>

Source: Presco & Agusto & Co Estimates

Overall, we believe that the Issuer’s operating cash flow will be sufficient to cover the estimated interest on outstanding borrowings of ₦10.4 billion as well as the Series 1 Bond obligation. Based on our estimation, the Issuers’ cumulative operating cash flow will be more than sufficient to cover the Bond obligations resulting in a good interest and debt service coverage ratios of 10.9x and 4.1x respectively, over the seven years.

<sup>6</sup> This includes interest on existing borrowings of the Issuer

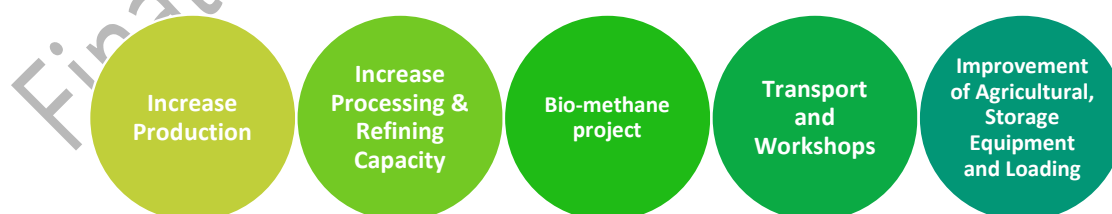
## OUTLOOK

Despite the challenges operators in the Nigerian Oil Palm Industry grapple with, we note that the Industry remains an attractive proposition for investors given the country’s favourable demographics, which we believe will continue to drive demand. As a result of this, we expect Industry operators’ financial performance and cash flows to maintain the upward growth trajectory while the governmental support for the Agricultural Sector will also be sustained.

In the year under review, we note that Presco Plc maintained its position as one of the major players in the Nigerian Oil Palm Industry, which we expect to continue going forward premised on the Issuer’s strategy (see Figure 9). Management has indicated plans to continually increase production capacity across its 4 plantation estates, sustain investments in research and development to produce high-yield FFB and oil production per hectare of land cultivated as well as enter into offtaking agreements with smaller farmers to guarantee oil palm for its business. In addition, Presco upgraded the processing capacity of its palm oil mill to achieve efficiency in the supply chain by installing various units of fully automated sterilizers. Furthermore, the Company recently commissioned a 500 MT vegetable oil refining plant at the Obaretin Estate, while the palm oil milling facility was expanded from 60 MT to 90 MT. Agusto & Co. notes positively that the increased processing and refining capacities have resulted in improved sales volume as its annualized revenue in 2021 grew about 91% when compared to FYE 2020.

Also, we note Presco’s energy cost reductions as the Issuer generates energy from waste biomass and palm oil mill effluent (POME) under its Waste to Wealth Policy, which has greatly reduced the Company’s dependence on fossil fuels. We expect the Company’s Waste to Wealth Policy to continue to result in energy cost reduction in the future. In the same vein, Management plans to continually invest in the Company’s fleet and workshops, which are considered critical for the seamless movement of the Company’s input materials and finished products. Furthermore, the Company intends to sustain investments in improving its agricultural, storage and loading equipment to reduce bottlenecks in the harvesting process. The Company also plans to improve its tipping truck mechanism to drive operational efficiencies particularly concerning the fruit collection turnaround time as well as upgrading the tank farms storage capacity to cope with the increased production and sales.

Figure 9: Presco’s Strategy For Accelerated Growth



Source: Presco Plc

Presco Plc issued ₦34.5 billion 12.85% Senior Unsecured Fixed Rate Bonds Due 2029 under its ₦50 billion Bond Issuance Programme. The Series 1 Bond attracts a fixed coupon rate of 12.85%, determined through a book-building process payable semi-annually over seven years, while the Bond principal will enjoy a three-

year moratorium period. The net proceeds of the Series 1 Bond will be used to refinance existing bank borrowings as well as to support the Company's working capital needs.

We have adopted the Company's forecasts as we consider them reasonable in line with economic realities, Industry fundamentals and Presco's business prospects. We believe that the Company's operating cash flow will be sufficient to meet interest payment (based on a coupon rate of 12.85%) and total Bond service obligations of 10.9x and 4.1x respectively over the tenor of the Series 1 Bond.

Going forward, we expect the growth prospects of the Nigerian Oil Palm Industry to continue while Presco's ability to serve the industry will also be sustained. This optimism is premised on the Company's track record of producing high-quality crude and refined palm oil products and the strong governmental support enjoyed by the Industry, which we expect to continue going forward on account of the FGN's drive to reduce import dependence by boosting local production, thus supporting Presco's profitability and margins. Furthermore, we expect Presco's cash flow position to remain strong in the near term occasioned by the Company's favourable terms of trade with suppliers. However, we expect a marginal increase in the Company's leverage metrics due to the ongoing debt capital raising programme Presco is undertaking. Furthermore, we believe the working capital position will rebound as a portion of the Bond proceeds will be used to fund the Company's working capital needs.

Based on the aforementioned, we attach a **stable** outlook to Presco and the ₦34.5 billion 12.85% Seven-year Senior Unsecured Fixed Rate Bonds Due 2029.

## FINANCIAL SUMMARY OF THE ISSUER

STATEMENT OF FINANCIAL POSITION AS AT	30-Sep 21		31-Dec-20		31-Dec-19	
			₺'000		₺'000	
<b>ASSETS</b>						
IDLE CASH	15,018,679	17.2%	2,585,092	3.5%	5,934,937	8.4%
MARKETABLE SECURITIES & TIME DEPOSITS			-		-	
<b>CASH &amp; EQUIVALENTS</b>	15,018,679	<u>17.2%</u>	2,585,092	<u>3.5%</u>	5,934,937	<u>8.4%</u>
FX PURCHASED FOR IMPORTS			-		-	
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS			-		-	
STOCKS	4,917,311	5.6%	3,549,206	4.8%	3,290,993	4.6%
TRADE DEBTORS	8,183,795	9.4%	498,463	0.7%	706,600	1.0%
DUE FROM RELATED PARTIES			5,693,859	7.7%	5,408,071	7.6%
OTHER DEBTORS & PREPAYMENTS			770,437	1.0%	717,736	1.0%
			-		-	
<b>TOTAL TRADING ASSETS</b>	13,101,106	<u>15.0%</u>	10,511,965	<u>14.2%</u>	10,123,400	<u>14.3%</u>
INVESTMENT PROPERTIES						
OTHER NON-CURRENT INVESTMENTS						
PROPERTY, PLANT & EQUIPMENT	50,103,998	57.3%	52,109,564	70.6%	48,211,859	67.9%
SPARE PARTS, RETURNABLE CONTAINERS, ETC						
GOODWILL, INTANGIBLES & OTHER LT ASSETS	9,162,800	10.5%	8,562,374	11.6%	6,740,444	9.5%
<b>TOTAL LONG TERM ASSETS</b>	59,266,798	<u>67.8%</u>	60,671,938	<u>82.2%</u>	54,952,303	<u>77.4%</u>
<b>TOTAL ASSETS</b>	<b>87,386,583</b>	<b>100.0%</b>	<b>73,768,995</b>	<b>100.0%</b>	<b>71,010,640</b>	<b>100.0%</b>
<i>Growth</i>	18.5%		3.9%		21.0%	
<b>LIABILITIES &amp; EQUITY</b>						
SHORT TERM BORROWINGS	2,160,852	2.5%	6,364,154	8.6%	7,093,237	10.0%
CURRENT PORTION OF LONG TERM BORROWINGS	15,133,029	17.3%	6,425,272	8.7%	9,155,154	12.9%
LONG-TERM BORROWINGS	7,935,282	9.1%	6,810,189	9.2%	8,487,757	12.0%
<b>TOTAL INTEREST-BEARING LIABILITIES (TIBL)</b>	25,229,163	<u>28.9%</u>	19,599,615	<u>26.6%</u>	24,736,148	<u>34.8%</u>
TRADE CREDITORS	5,375,554	6.2%	1,715,763	2.3%	869,336	1.2%
DUE TO RELATED PARTIES			7,436,181	10.1%	5,108,463	7.2%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS			733,854	1.0%	944,604	1.3%
OTHER CREDITORS AND ACCRUALS	953,889	1.1%	2,609,426	3.5%	2,423,195	3.4%
TAXATION PAYABLE	4,726,454	5.4%	628,181	0.9%	1,562,333	2.2%
DIVIDEND PAYABLE						
DEFERRED TAXATION	7,570,083	8.7%	9,055,816	12.3%	6,784,632	9.6%
RETIREMENT BENEFIT OBLIGATION	704,551	0.8%	938,705	1.3%	694,053	1.0%
MINORITY INTEREST						
REDEEMABLE PREFERENCE SHARES						
<b>TOTAL NON-INTEREST BEARING LIABILITIES</b>	19,330,531	<u>22.1%</u>	23,117,926	<u>31.3%</u>	18,386,616	<u>25.9%</u>
<b>TOTAL LIABILITIES</b>	44,559,694	<u>51.0%</u>	42,717,541	<u>57.9%</u>	43,122,764	<u>60.7%</u>
SHARE CAPITAL	500,000	0.6%	500,000	0.7%	500,000	0.7%
SHARE PREMIUM	1,173,528	1.3%	1,173,528	1.6%	1,173,528	1.7%
IRREDEEMABLE DEBENTURES						
REVALUATION SURPLUS					-	
OTHER NON-DISTRIBUTABLE RESERVES	(140,088)	0.2%	(140,088)	-0.2%	(41,737)	-0.1%
REVENUE RESERVE	41,293,449	<u>47.3%</u>	29,518,014	<u>40.0%</u>	26,256,085	<u>37.0%</u>
SHAREHOLDERS' EQUITY	42,826,889		31,051,454	<u>42.1%</u>	27,887,876	<u>39.3%</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>87,386,583</b>		<b>73,768,995</b>	<b>100.0%</b>	<b>71,010,640</b>	<b>100.0%</b>

Presco PLC – 2021 Issuer and Bond Issue Due 2029 Rating Report

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	30-Sep 21	31-Dec-20		31-Dec-19		
			₦'000		₦'000	
TURNOVER	34,236,787	100.0%	23,891,766	100.0%	19,723,641	100.0%
COST OF SALES	(10,711,955)	-31.3%	(7,803,248)	-32.7%	(7,001,810)	-35.5%
GROSS PROFIT	23,524,832	68.7%	16,088,518	67.3%	12,721,831	64.5%
OTHER OPERATING EXPENSES	(5,284,596)	-15.4%	(7,133,558)	-29.9%	(6,813,620)	-34.5%
OPERATING PROFIT	18,240,236	53.3%	8,954,960	37.5%	5,908,211	30.0%
OTHER INCOME/(EXPENSES)	(113,395)	-0.3%	1,329,699	5.6%	2,003,149	10.2%
PROFIT BEFORE INTEREST & TAXATION	18,126,841	52.9%	10,284,659	43.0%	7,911,360	40.1%
INTEREST EXPENSE	(545,048)	-1.6%	(1,594,308)	-6.7%	(1,851,677)	-9.4%
PROFIT BEFORE TAXATION	17,581,793	51.4%	8,690,351	36.4%	6,059,683	30.7%
TAX (EXPENSE) BENEFIT	(3,806,359)	-11.1%	(3,428,422)	-14.3%	(2,220,937)	-11.3%
PROFIT AFTER TAXATION	13,775,434	40.2%	5,261,929	22.0%	3,838,746	19.5%
NON-RECURRING ITEMS (NET OF TAX)						
MINORITY INTERESTS IN GROUP PAT						
PROFIT AFTER TAX & MINORITY INTERESTS	13,775,434	40.2%	5,261,929	22.0%	3,838,746	19.5%
DIVIDEND	(2,000,000)	-5.8%	(2,000,000)	-8.4%	(1,987,540)	-10.1%
PROFIT RETAINED FOR THE YEAR	11,775,434	34.4%	3,261,929	13.7%	1,851,206	9.4%
SCRIP ISSUES						
OTHER APPROPRIATIONS/ ADJUSTMENTS					1,964,686	
PROFIT RETAINED B/FWD	29,518,014		26,256,085		22,440,193	
PROFIT RETAINED C/FWD	41,293,449		29,518,014		26,256,085	
<b>ADDITIONAL INFORMATION</b>			<b>31-Dec-19</b>		<b>31-Dec-18</b>	
Staff costs (₦'000)	39,623		1,232,598		1,205,444	
Average number of staff	670		653		659	
Staff costs per employee (₦'000)	777		1,888		1,829	
Staff costs/Turnover	0%		5%		6%	
Capital expenditure (₦'000)	586,141		7,382,775		8,750,197	
Depreciation expense - current year (₦'000)	142,005		1,759,029		1,431,275	
Number of 50 kobo shares in issue at year end ('000)	1,000,000		1,000,000		1,000,000	
Market value per share of 50 kobo (year end)	349		349		349	
Market capitalisation (₦'000)	3,490,000		3,490,000		3,490,000	
Market/Book value multiple			0		0	
Non-operating assets at balance sheet date (₦'000)	0		0		-	
Average age of depreciable assets (years)	0		6		8	
Sales at constant prices - base year 1985 (₦'000)	175,348		122,365		101,017	
Auditors	N/A		DELOITTE		GRANT THORNTON	
Opinion	N/A		CLEAN		CLEAN	

## Presco PLC – 2021 Issuer and Bond Issue Due 2029 Rating Report

<b>CASH FLOW STATEMENT FOR Y/E</b>	<b>30-Sep 21</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>
	<b>=N='000</b>	<b>=N='000</b>	<b>=N='000</b>
<b>OPERATING ACTIVITIES</b>			
Profit after tax	13,775,434	5,261,929	3,838,746
<b>ADJUSTMENTS</b>			
Interest expense	545,048	1,594,308	1,851,677
Minority interests in Group PAT	-	-	-
Depreciation	142,005	1,759,029	1,431,275
(Profit)/Loss on sale of assets	2,449,702	-	-
Other non-cash items	2,449,702	(98,351)	1,862,328
<b>Potential operating cash flow</b>	<b>19,361,891</b>	<b>8,516,915</b>	<b>8,984,026</b>
<b>INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:</b>			
Trade creditors	3,659,791	846,427	(110,443)
Due to related parties	(7,436,181)	2,327,718	(492,314)
Advance payments and deposits from customers	(733,854)	(210,750)	944,604
Other creditors & accruals	(1,655,537)	186,231	359,596
Taxation payable	4,098,273	(934,152)	(288,479)
Deferred taxation	(1,485,733)	2,271,184	1,049,531
Obligations under unfunded pension schemes	(234,154)	244,652	244,551
Minority interest	-	-	-
<b>Cash from (used by) spontaneous financing</b>	<b>(3,787,395)</b>	<b>4,731,310</b>	<b>1,707,046</b>
<b>(INCREASE)/DECREASE IN WORKING ASSETS:</b>			
FX purchased for imports	-	-	-
Advance payments and deposits to suppliers	-	-	-
Stocks	(1,368,105)	(258,213)	1,340,722
Trade debtors	(7,685,332)	208,137	231,668
Due from related parties	5,693,859	(285,788)	(1,416,597)
Other debtors & prepayments	770,437	(52,701)	(584,906)
<b>Cash from (used by) working assets</b>	<b>(2,589,141)</b>	<b>(388,565)</b>	<b>(429,113)</b>
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>12,985,355</b>	<b>12,859,660</b>	<b>10,261,959</b>
<b>RETURNS TO PROVIDERS OF FINANCING</b>			
Interest paid	(545,048)	(1,594,308)	(1,851,677)
Dividend paid	(2,000,000)	(2,000,000)	(1,987,540)
<b>CASH USED IN PROVIDING RETURNS ON FINANCING</b>	<b>(2,545,048)</b>	<b>(3,594,308)</b>	<b>(3,839,217)</b>
<b>OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCE</b>	<b>10,440,307</b>	<b>9,265,352</b>	<b>6,422,742</b>
<b>NON-RECURRING ACTIVITIES</b>			
Non-recurring items (net of tax)			
<b>CASH FROM (USED IN) NON-RECURRING ACTIVITIES</b>			
<b>INVESTING ACTIVITIES</b>			
Capital expenditure	(586,141)	(7,382,775)	(8,750,197)
Sale of assets	(2,449,702)	1,726,041	1,452,582
Purchase of other long term assets (net)	(600,426)	(1,821,930)	(2,653,186)
Sale of other long term assets (net)	-	-	-
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(3,636,269)</b>	<b>(7,478,664)</b>	<b>(9,950,801)</b>
<b>FINANCING ACTIVITIES</b>			
Increase/(Decrease) in short term borrowings	(4,203,302)	(729,083)	1,067,287
Increase/(Decrease) in long term borrowings	9,832,850	(4,407,450)	5,844,024
Proceeds of shares issued			
<b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>5,629,548</b>	<b>(5,136,533)</b>	<b>6,911,311</b>
<b>CHANGE IN CASH INC/(DEC)</b>	<b>12,433,586</b>	<b>(3,349,845)</b>	<b>3,383,252</b>
OPENING CASH & MARKETABLE SECURITIES	2,585,093	5934937	2551685
<b>CLOSING CASH &amp; MARKETABLE SECURITIES</b>	<b>15,018,679</b>	<b>2,585,092</b>	<b>5,934,937</b>

## RATING DEFINITIONS

<b>Aaa</b>	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on local currency debt in a timely manner.
<b>Aa</b>	High-quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.
<b>A</b>	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.
<b>Bbb</b>	Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.
<b>Bb</b>	Below average quality with moderate to high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
<b>B</b>	Weak quality with high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
<b>C</b>	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
<b>D</b>	In default.

### Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

Final Issuer and Issue Rating Report

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UBA House (5th Floor)

57 Marina Lagos

Nigeria.

P.O Box 56136 Ikoyi

+234 (1) 2707222-4

+234 (1) 2713808

Fax: 234 (1) 2643576

Email: [info@agusto.com](mailto:info@agusto.com)

Final Issuer and Issue Rating Report