



## Credit Rating Announcement

GCR affirms Family Homes Funds Limited's Long Term Issuer rating of BBB<sub>(NG)</sub>, Stable Outlook.

### Rating Action

Lagos, Nigeria, 16 September 2021 – GCR Ratings (“GCR”) has affirmed the national scale long-term and short-term Issuer ratings of BBB<sub>(NG)</sub> and A2<sub>(NG)</sub> respectively accorded to Family Homes Funds Limited, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Family Homes Funds Limited	Long Term Issuer	National	BBB <sub>(NG)</sub>	Stable Outlook
	Short Term Issuer	National	A2 <sub>(NG)</sub>	

### Rating Rationale

The ratings are underpinned by Family Homes Funds Limited's (“FHF” or “the Company”) strong capitalisation, solid funding and liquidity profile, and moderate credit risk. These rating strengths are, however, counterbalanced by a weak competitive position given its limited scale and track record.

FHF is a public purpose institution, owned by Nigeria Sovereign Investment Authority and Ministry of Finance Incorporated, with 49% and 51% stakes respectively. The Company was set up specifically as part of the Federal Government's Social Intervention Programme to promote affordable housing in Nigeria. While the Company started-off as a real estate developer, focus has recently shifted to real estate financing (lending), providing funds for the construction of housing units in addition to its development activities in order to achieve scale and meet its mandate.

FHF's competitive position is considered low given its limited track record and scale, having only operated for barely four years, with weak franchise within the Nigerian homes financing market. Reflective of the change in its operating model, interest income now dominates earnings with less reliance on FGN securities related income. However, limited funding sources has constrained ability to scale up lending and achieve set targets.

Capital and leverage is considered a key rating strength for FHF. Operations have historically been funded by Federal Government grants amounting to N65bn at FY20, which have been committed to lending, marketable securities and real estate properties. In July 2021, the Company successfully raised N10bn in Series 1 Sukuk Issue under its N30bn Sukuk Issuance Programme through a special purpose vehicle, Family Homes Sukuk Issuance Programme Plc. The Sukuk net proceeds is to be utilised to support business operations. Based on GCR's computation, FHF's leverage ratio is considered exceptionally strong (averaging 90% over the years) and is expected to remain solid over the outlook period. However, the Company has yet to generate sufficient internal cash flows to enhance funding flexibility.

Risk is a neutral factor to the ratings. FHF's credit risk exposure is considered moderate, with total gross loans representing only 59% of total asset at FY20. The loans are mostly to State governments and are secured by Irrevocable Standing Payment Order as first line charge on the states' statutory allocations, thus enhancing asset quality. While the Company's ability to effectively manage its credit risk has yet to be tested given the limited track record in lending, GCR expects asset quality to remain stable in the short-term. Nevertheless, the position could weaken in the coming years as FHF increases appetite towards lending to the private sectors.

FHF's liquidity profile is viewed to be strong, given the substantial level of its marketable securities over the review period. This is further enhanced by the unutilised committed facility of N3.5bn from FGN Stabilisation Fund and an outstanding balance of N35bn out of the N100bn earmarked for FHF's operations under the FGN's Social Investment Programme. The proceeds from the Series 1 Sukuk Issue is expected to further support its liquidity profile.

## Outlook Statement

The Stable Outlook reflects GCR's view that FHF will continue to benefit from strong financial support from Federal Government of Nigeria. Capital and leverage are expected to remain strong, with sufficient headroom in liquidity.

## Rating Triggers

A positive rating migration is contingent on FHF's ability to scale up project delivery in line with its operating model, achievement of forecasts, as well as establishment of strong franchise and a strong financial track record.

Conversely, negative rating action may follow a.) a change in business model which exposes the Company to higher operational risk; b.) a reduction in the likelihood of government support; and c.) an increased lending to highly exposed sectors, which translate to a deterioration in asset quality.

## Analytical Contacts

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## Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019  
 Criteria for Rating Financial Institutions, May 2019  
 GCR Ratings Scales, Symbols & Definitions, May 2019  
 GCR Nigeria Country Risk Scores, August 2021  
 GCR Nigeria Financial Institutions Sector Risk Scores, February 2021  
 Family Homes Funds Limited Issuer rating report (2020)

## Ratings History

Family Homes Funds Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long term Issuer	Initial	National	BBB <sub>(NG)</sub>	Stable	November 2020
Short Term Issuer	Initial	National	A3 <sub>(NG)</sub>		
Long term Issuer	Last	National	BBB <sub>(NG)</sub>	Stable	April 2021
Short Term Issuer	Last	National	A2 <sub>(NG)</sub>		

## RISK SCORE SUMMARY

<b>Risk score</b>	
<b>Operating environment</b>	<b>5.75</b>
Country risk score	3.75
Sector risk score	2.00
<b>Business profile</b>	<b>(3.50)</b>
Competitive position	(3.50)
Management and governance	0.00
<b>Financial profile</b>	<b>5.00</b>
Capital and leverage	4.00
Risk	0.00
Funding and liquidity	1.00
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Government support floor	0.00
Peer analysis	0.00
<b>Family Homes Funds Limited's Total Risk Score</b>	<b>7.25</b>

## 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.
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 rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Family Homes Funds Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Family Homes Funds 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 the Issuer and other reliable third parties to accord the credit rating included:

- 2020 audited annual financial statement, and prior two years annual financial statements.
- 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;

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