

Lagos Free Zone Company

2022 Corporate Rating Report



Lagos Free Zone Company (LFZC)

Entity Rating

Bbb-

This refers to a company with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.

Outlook: Stable

Issue Date: 18 July 2022

Expiry Date: 30 June 2023

Previous Rating: Bbb-

Industry: Special Economic Zones

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RATING RATIONALE

- Agusto & Co. affirms the “Bbb-” rating assigned to Lagos Free Zone Company (“LFZC” or “the Company”). The rating reflects the expanding stock of infrastructure at the Lagos Free Zone (“LFZ” or “the Zone”) and the strong parental support from Tolaram Group Incorporated (“TGI” or “Tolaram Inc.”), which we consider an enhancement to the credit quality of LFZC based on the financial backing it has continued to enjoy from the Group. However, the assigned rating is constrained by the Company’s lack of capacity to maintain a reasonable scale of operations (during the early stages of business development) to adequately cover operating and finance costs, which are mostly fixed in nature. This is in addition to concerns over the Company’s future earnings as the country’s worsening insecurity and uncertain political landscape continue to erode investors’ confidence, which could adversely affect overall occupancy rates at the Zone. The rating is further moderated by LFZC’s concentrated ownership profile and governance structure that requires strengthening.
- LFZC is the licensee and operator of the Lagos Free Zone – the first privately owned economic zone in Nigeria. The 830-hectare Lagos Free Zone, which is integrated with a deep seaport (“the Lekki Deep Seaport”), is promoted by Singapore-based Tolaram Incorporated. The Zone is being developed based on the “Live-Work-Play” concept and will be equipped with built-up standard industrial and warehouse facilities. About 31 registered enterprises including some notable international brands¹ have operational bases in the Zone as at year-end 2021.
- Established in 2002, LFZC is essentially a wholly-owned subsidiary of Eurochem Corporation Pte. Limited – a Singaporean company owned by Tolaram Group Incorporated. Therefore, LFZC is “the instrumental vessel” for the Group’s planned diversification into the African infrastructure market. The Group has a strong market position in the consumer goods sector across twenty countries (including Nigeria). In recent times, the Group’s focus has expanded into infrastructure and energy sectors with investments in both the Lagos Free Zone and the Lekki Deep Seaport. As at 31 December 2021 (unaudited), the Group’s total assets stood at \$1.7 billion while revenue of \$189.6 million was reported in the same period.

¹ These include Kellogg (USA), Colgate (USA), Indofoods (Indonesia), Arla Foods (Denmark) and BASF (Germany)

Lagos Free Zone Company (LFZC)

- LFZC enjoys strong financial, administrative and technical support from Tolaram. In addition to funding its projects, TGI also facilitates the Company's bank borrowings by providing corporate guarantee as security for such loans. We expect sustained parental backing, especially as the Company is set to scale up industrial and other amenities at the Zone in readiness for the anticipated upsurge in demand for industrial spaces when the Lekki Deep Seaport commences commercial operations in the first quarter of 2023.
- During the financial year ended 2021 (FYE 2021), Lagos Free Zone Company's revenue grew by 12% to \$3.8 million to reflect the increase in operational fees collected from tenants during the period. However, LFZC posted an operating loss of approximately \$1 million in FYE 2021 (2020: -\$0.8 million) after it incurred much higher direct and operating expenses during the same period. Overall, the Company posted a pre-tax profit margin of 404.9% on account of the huge notional incomes recognised during the year. We reckon that LFZC would have incurred a pre-tax loss of about \$6.3 million in FYE 2021 without the notional gains on foreign currency transactions and profit on the sale of assets. Going forward, management expects a quick turnaround in the Company's fortune with commercial activities at the seaport likely to drive near to medium-term growth in occupancy rate at the Lagos Free Zone. In our view, the Company's profitability is weak and requires improvement.
- LFZC posted a negative operating cash flow (OCF) of \$40.2 million in FYE 2021 (2020: -\$21.8 million) as the Company continues to invest heavily to scale up the stock of industrial infrastructure at the Zone. Therefore, the Company had to rely largely on funding support from its parent company to meet interest payments to its lenders during the period. With most of these projects still at their development stages, we expect the Company's frail operating cash flow to persist by year-end 2022. However, the coming on stream of the seaport in early 2023 offers significant growth opportunities for LFZC both in the area of speedy project completion and increased occupancy rate at the Zone.
- Following a ₦20 billion six-month bridge loan obtained from a commercial bank in Nigeria as well as the \$18.4 million² (₦10.5 billion) Series 1 Bond raised through an indirect subsidiary (LFZC Funding SPV Plc) during the year, the Company's interest-bearing liabilities (IBL) more than tripled to \$73.4 million. In the same vein, LFZC's interest expense to revenue ratio rose sharply to reach an unsustainable height of 78.9% in FYE 2021. Notwithstanding, the Company still posted IBL to equity and net debt to total assets ratios of 24% and 45% respectively as at year-end 2021, which were within our benchmarks. In May 2022, LFZC raised another \$41.7 million³ (₦25 billion) Series 2 Bond. Barring additional debt issuance in FYE 2022, we do not anticipate a significant change in the Company's leverage indicators. This is because the bulk of the Series 2 Bond proceeds was used to refinance the existing bridge loan.

² Converted at the exchange rate of ₦571/\$1

³ Converted at the exchange rate of ₦600/\$1

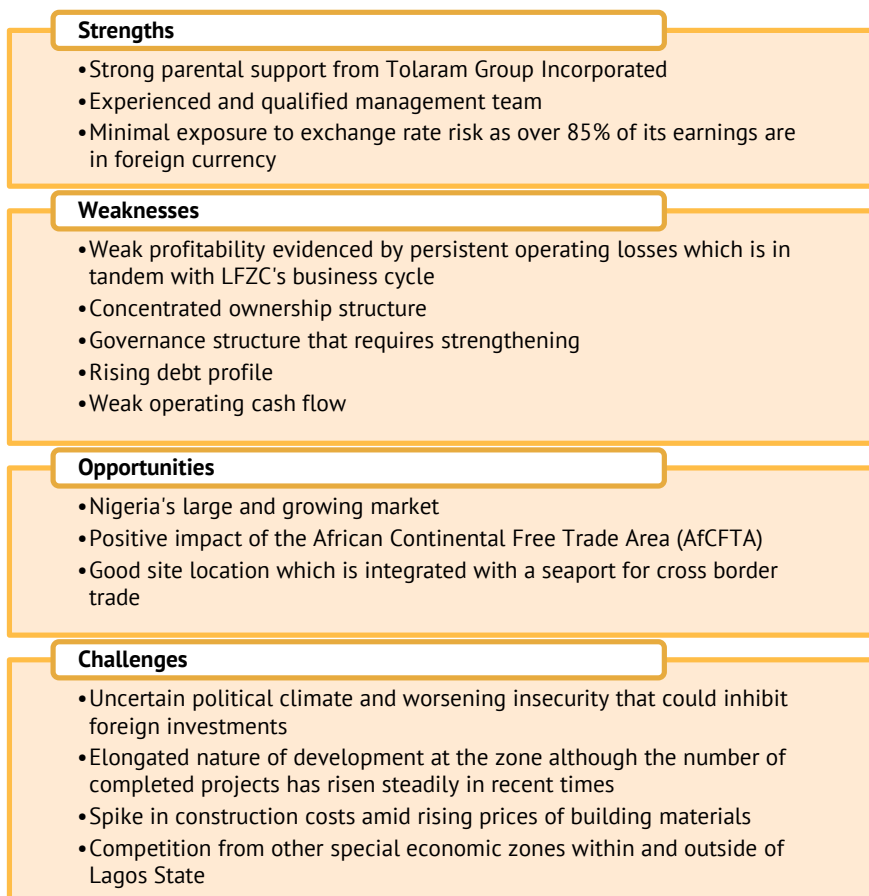


Lagos Free Zone Company (LFZC)

- As at FYE 2021, Lagos Free Zone Company recorded a short-term financing surplus (STFS) of \$98.3 million and a long-term financing need (LTFN) of \$88.6 million, thus resulting in an overall working capital surplus of \$9.7 million. Based on the funding buffer from the portion of the Series 2 Bond being used to support ongoing development at the Zone, we expect the Company’s near-term working capital position to remain adequate.

- Despite its growth prospects and the steady increase in the number of completed infrastructure projects at the Zone, the Company faces potential risks of project delays and a low occupancy rate that may arise from the country’s uncertain business and political environment. However, we believe that the strong financial backing from Tolaram Incorporated will enable the Company to withstand volatility in its operations during this expansionary phase. Therefore, we attach a **stable** outlook to Lagos Free Zone Company.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges



PROFILE OF LAGOS FREE ZONE COMPANY

Overview & Background

Lagos Free Zone Company (“LFZC” or “the Company”) was first incorporated as a private limited liability company on 29 January 2002 under the name Lekki Export Processing Zone Limited but later became Lagos Free Trade Zone in 2006 after the status of the Zone was changed from an export processing to a free trade zone in line with the Nigeria Export Processing Zones Act (NEPZA) of 1992. The Company was subsequently granted a license (which is currently valid till 2067) to operate as a free zone and started operations in 2008. The Company’s name was later changed to Lagos Free Zone Company with the overriding aim being to facilitate industrial development and not just trading activities within the Zone.

Lagos Free Zone Company is engaged in the development, operation and management of the Lagos Free Zone (“LFZ” or “the Zone”), which is located in the south-east quadrant of the 18,500 hectares of land carved out as an industrial development axis by the Lagos State Government. The Lagos Free Zone sits on 850 hectares of land and is integrated with a 90-hectare Lekki Deep Seaport⁴ (“the Port”). The Zone is being promoted by Tolaram – a Singapore-based conglomerate with business interests spanning four continents including Asia, Africa and Europe. The Group’s operations are mainly in the fast-moving consumer goods (FMCG)⁵ segment although it is currently diversifying into infrastructure and financial services sectors.

As at 30 June 2022, Lagos Free Zone Company had 31 registered free zone enterprises although most of these entities are either related to Tolaram or engaged in the ongoing construction at the Lekki Deep Seaport. The development of the Lagos Free Zone is based on the “Live-Work-Play” concept that will include several industrial and logistics clusters, residential areas and other social support infrastructures such as schools and hospitals. Based on the project masterplan, LFZC plans to utilize circa 760 hectares of land (excluding the 90 hectares earmarked for the deep seaport project) as follows – industrial development (70%), logistics (20%) and real estate⁶ (10%).

In addition to the traditional incentive of tax breaks and customs exemption, LFZC offers innovative benefits such as competitive land lease rates, hard and soft infrastructure, simplified investment approval processes and locational advantages. Some of the ancillary services include a parking bay for trucks, solid waste management, internet, piped gas supply, medical facility, security, emergency response and fire services.

The Company, through its indirect subsidiary (LFZC Funding SPV Plc) successfully raised two bonds – a ₦10.5 billion Series 1 Bond and a ₦25 billion Series 2 Bond – from the capital market on 16 September 2021 and 10 May 2022 respectively to fund the expansion of infrastructure projects at the Zone. The Bonds attract fixed interest rates of 13.25% each payable semi-annually for twenty years, while the Bonds’ principal amount will be redeemed every six months after the expiration of a five-year moratorium until their maturities on 16 September 2041 and 10 May 2042 respectively. The Bonds are backed by the unconditional and irrevocable guarantee of Infrastructure Credit Guarantee Company Limited, with the guarantee being 100% of the principal amount and interest payable under the terms of the duly executed Deed of Guarantee. LFZC Funding SPV Plc

⁴ The Lekki Deep Seaport, which is expected to be commissioned in the last quarter of 2022, provides a fast route to both regional and international markets. The key investors include Tolaram Incorporated, the Lagos State Government, the Nigerian Ports Authority and China Harbour Engineering Company (CHEC)

⁵ TGI currently operates 19 factories in Nigeria and some of its brands include Indomie, Power Oil, Hypo, Minimie, Pringles and Dano Milk

⁶ The real estate development will have residential, commercial and mixed-use clusters

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made the first coupon payment to the Series 1 Bondholders on 16 March 2022, with the next coupon payment date being 16 September 2022 – the same due date for the first coupon payment on the Series 2 Bond.

Lagos Free Zone Company also operates through four wholly-owned subsidiaries namely: Free Zone Utilities LFTZ Enterprise (“FZU”), Lekki Bulk and General Cargo Terminal LFTZ Enterprise (“LBGCT”), Elevate Commercial Park Limited (“ECPL”) and Tolaram Port Investment Incorporated (“TPI”). FZU handles the provision of all kinds of utilities and other services to zone users, while LBGCT has exclusive rights to develop and operate the dry bulk and general terminals, which will be integrated with the Lekki Deep Seaport. ECPL⁷ is responsible for the development of a financial and commercial district earmarked as a non-free zone area. TPI, incorporated in the British Virgin Islands, is the special purpose vehicle that manages Tolaram’s stake⁸ in the Lekki Deep Seaport.

Other Information

As at 31 December 2021, Lagos Free Zone Company’s total assets and liabilities stood at \$540.1 million and \$222.1 million respectively, while the total shareholders’ funds were \$318.6 million (2020: \$302.7 million). In FYE 2021, the Company generated a revenue of \$3.8 million and recorded a pre-tax profit of \$15.3 million on the back of huge notional incomes recognised during the period. In the same period, LFZC had an average of 93 persons in its employment (2020: 78 persons).

Table 1: Background Information

Authorized Share Capital	\$500 million
Paid-up Capital	\$223.7 million
Shareholders’ Funds	\$318.1 million
Registered Office	6 th Floor, Block A, NIPOST Office Tower, 23 Adeola Odeku Street, Victoria Island, Lagos, Nigeria.
Principal Business	The development, operation and management of the Lagos Free Zone
Auditors	Deloitte and Touché

Source: Lagos Free Zone Company 2021 Annual Report

⁷ The Company’s indirect stake in LFZC Funding SPV Plc (the Issuer of the Series 1 & 2 Bonds) is held through Elevated Commercial Park Limited

⁸ Tolaram Group Inc. has a 22.5% stake in the Lekki Deep Seaport Project through Tolaram Port Investment Inc. – a wholly owned subsidiary of Lagos Free Zone Company

FINANCIAL CONDITION

ANALYSTS' COMMENTS

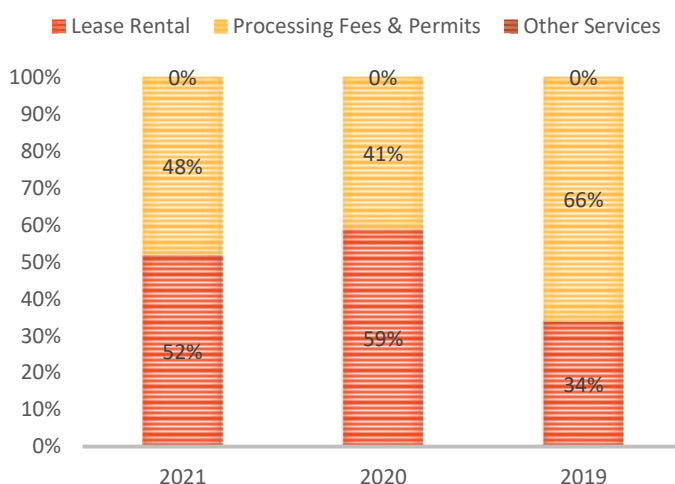
We have analysed the USD-denominated audited financial statements of Lagos Free Zone Company ("LFZC" or "the Company") for the three-year ended 31 December 2021.

PROFITABILITY

Lagos Free Zone Company's primary activities involve the development, operation and management of the Lagos Free Zone ("the Zone") including the sale and leasing of land, standard industrial facilities and warehouses as well as granting of operational licenses to enterprises registered within the zone. In addition, LFZC provides other ancillary services such as processing of documents for export and import, gas supply, truck parking bay, medical services and waste management at a cost to enterprises operating within the Zone. The bulk (85%) of the Company's revenue is denominated in United States Dollars (USD)⁹, thus its earnings are less exposed to foreign exchange risks.

In the financial year ended 31 December 2021, Lagos Free Zone Company revenue grew by 12% to \$3.8 million following an increase in operational fees collected during the period. A breakdown of the Company's FYE 2021 revenue showed that lease rental¹⁰ and processing fees & permits accounted for 52% and 48% respectively. Based on the number of new enterprises which are likely to sign long-term lease contracts in 2022, we expect the Company's revenue to maintain an upward trajectory. Overall, we expect the speedy completion of the ongoing construction of the Lekki Deep Seaport and the development of industrial facilities at the Lagos Free Zone to continue to define the Company's future top-line performances.

Figure 2: Breakdown of revenue by sources (2019 – 2021)



During the FYE 2021, Lagos Free Zone Company's direct cost to revenue¹¹ ratio stood at 3.9% (2020: 4.2%), while its gross profit margin in the same period was 96.1% (2020: 95.8%). However, with a high operating expense to revenue ratio of 121.7% (2020: 119.4%), the Company posted an operating loss of approximately \$1 million in FYE 2021, which is the fifth consecutive year LFZC has recorded an operating loss. Agusto & Co. recognises that the persistent operating losses are not unconnected to the low occupancy rate at the Zone considering that the Lagos Free Zone is still at its developmental stage. However, management has expressed

⁹ Management has disclosed a revenue split of 85:15 in USD to Naira respectively

¹⁰ Lease rental represents amortised portions of lease payment earned during the year

¹¹ LFZC's direct cost include the cost of documentation and examination fees as well as other charges relating to licenses, registration and permits

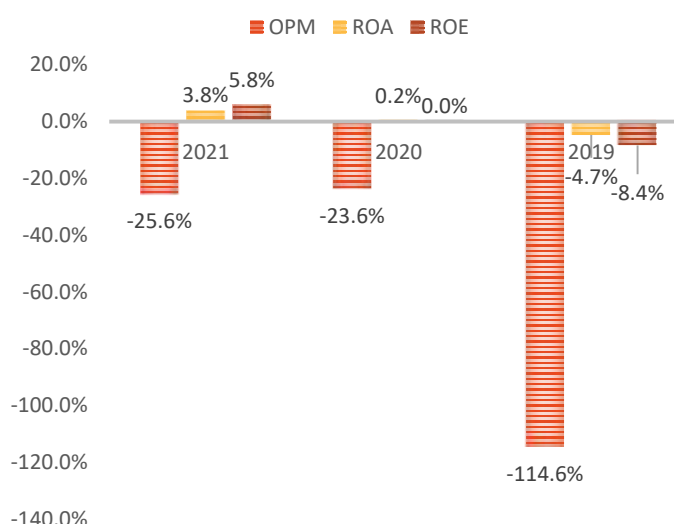
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optimism that the fast pace of development of facilities at the Zone, and the imminent commencement of the Lekki Deep Seaport will trigger a quick turnaround in the fortune of the Company.

In FYE 2021, the Company’s other income arising mainly from exchange gain as well as profit on disposal of property, plant and equipment (PPE) amounted to \$19.2 million, while other expenses of \$2.4 million represented technical consultancy fees, thus resulting in a net other income to revenue ratio of 509%. The profit from the sale of PPE relates to land sold to a wholly-owned subsidiary (Elevate Commercial Park Limited) during the period. While we recognise the significance of the net other income on LFZC’s overall profitability in 2021, it remains an unsustainable income stream for the business. In the same period, LFZC’s finance cost to revenue ratio rose sharply to 78.9% (2020: 30.4%) on account of increased borrowings during the year. The interest burden for the year was without the full impact of the finance cost on the Series 1 Bond, which was issued on 16 September 2021.

Overall, the Company posted a pre-tax profit margin of 405% in FYE 2021 (2020: 1.2%) although we reckon that LFZC would have recorded a pre-tax loss save for the huge notional incomes that were recognised during the year. As a result, the Company’s return on assets (ROA) and return on equity (ROE) ratios rebounded to 3.8% and 5.8% respectively, compared to the ratios recorded in the previous year, but remained well below our benchmarks.

Figure 3: OPM, ROA & ROE (2019 – 2021)



The Company’s unaudited accounts for the five months ended 31 May 2022 showed revenue of \$1.7 million and a pre-tax loss of \$0.8 million to reflect the largely unchanged revenue and cost structures during the period. Going forward, we believe that the Company’s ability to build sustainable earnings depends on creating recurring revenue streams through the speedy completion of the ongoing construction of critical infrastructure (including the completion of the Lekki Deep Seaport), which should spur growth in the Zone’s occupancy rate. This is in addition to making the Zone more attractive to prospective investors by offering competitive lease rates and creating a seamless linkage that will enable easy access to both the local and foreign markets.

With most of the industrial facilities still under construction and not likely to be ready for use until FYE 2023 at the earliest, we expect revenue growth in FYE 2022 to be impaired by a low occupancy rate especially as some investors take a more cautious stance given the country’s worsening insecurity and the uncertainty surrounding the upcoming election.

In our opinion, Lagos Free Zone Company’s profitability requires improvement.

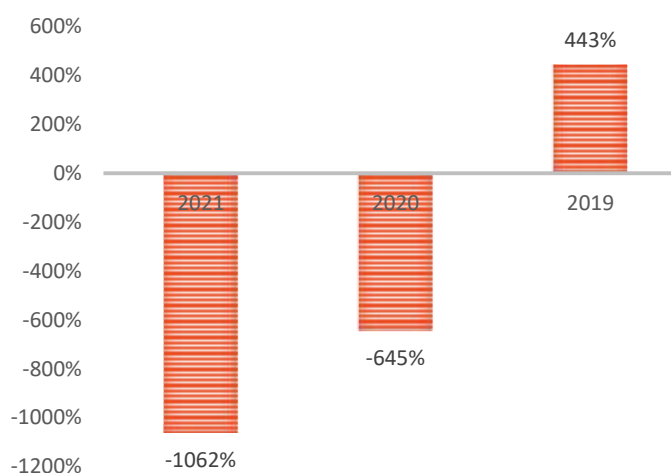
CASH FLOW

The Company generates cash from two principal sources – lease rental and service charges (utility bills, annual licensing and onboarding fees, document processing fees for import or export and other operational fees). LFZC has existing lease contracts mostly with 16 out of the 33 registered operators. These lease agreements are for periods ranging from 1 – 89 years. Lease rentals are received in advance and amortised annually over the tenure of the lease agreement.

Based on the terms of the subsisting lease agreement, LFZC is expected to receive \$14.5 million per annum from its associate company – Lekki Port LFTZ Enterprise Limited as rent for the 90 hectares of land leased to the latter for the construction of the Lekki Deep Seaport. In addition, the lease rental is receivable for an initial twenty-five years starting from the earlier of (i) the Commercial Operations Date of the container terminal, or (ii) 1 September 2023, until the expiration of the lease term.

Lagos Free Zone Company recorded a negative operating cash flow (OCF) of \$40.2 million for the second consecutive year in FYE 2021 (2020: -\$21.7 million) as the Company continues to invest heavily to scale up the stock of industrial infrastructure at the Zone. Considering that these investments are not likely to have an immediate impact on its cash-generating capacity, we expect the Company’s frail operating cash flow to persist during the expansionary period. As a result, we expect Lagos Free Zone Company to continue to rely on funding support from Tolaram Inc. pending when the occupancy rate at the Zone is at a level that will be sufficient to generate enough cash flow to cover business costs, mandatory capex and returns to providers of financing.

Figure 4: Operating Cash Flow to Sales Ratio (2019 – 2021)



Moving ahead, management has expressed optimism that the Lekki Deep Seaport will be ready for commissioning in the last quarter of 2022, while the commercial operation is expected to begin in the first quarter of 2023. In addition to the extra rental income to be generated, we expect the speedy completion of the Lekki Deep Seaport to boost the attractiveness as well as the occupancy rate at the Zone. With the country facing its lowest Foreign Direct Investment (FDI) in over a decade against the backdrop of a series of overlapping security, political and economic crises, we are cautiously optimistic about the impact of the seaport’s operations on the cash-generating capacity of LFZC, especially as these uncertainties continue to weigh on investors’ confidence.

In our opinion, Lagos Free Zone Company’s overall cash flow position is weak.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2021, Lagos Free Zone Company's working assets stood at \$50.3 million, which represented a 39% increase from the prior year on account of the upsurge in amounts due from related parties and advance payments made to suppliers and contractors during the period. The key components of LFZC's working assets as at FYE 2021 were amounts due from related parties (78%), advance payment to suppliers (14%) and trade debtors¹² (7%). A breakdown of amounts due from related parties as at FYE 2021 showed that LFZC's three subsidiaries - Free Zone Utilities LFTZ Enterprise, Tolaram Port Investments Incorporation and Lekki Bulk & General Cargo Terminal LFTZ Enterprise accounted for over 89% of the total sum, while the rest were receivables from other sister companies for lease rentals.

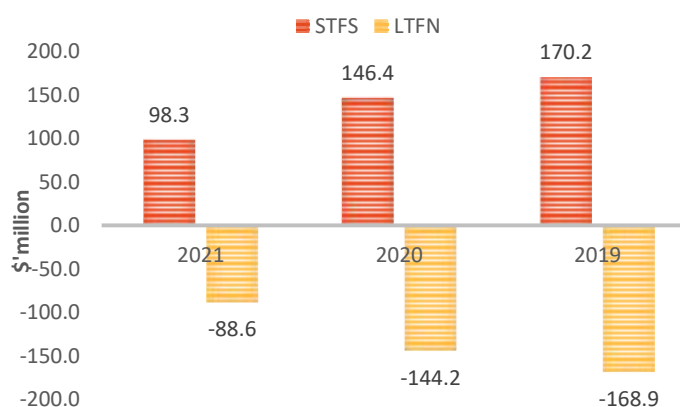
As at FYE 2021, the Company's spontaneous financing decreased by 19% to \$148.7 million after the outstanding sums owed to Tolaram Group Inc. (the ultimate parent company) were repaid during the year. Nevertheless, the Company's spontaneous financing was still sufficient to cover working assets, leaving a short-term financing surplus (STFS) of \$98.3 million as at year-end. The Company has consistently recorded a STFS over the last three years to reflect the huge funding support from related entities to help sustain ongoing construction at the Zone. Barring any significant change in LFZC's funding structure, we expect this trend to continue given that the Company is still in the development stage of its life cycle.

As at 31 December 2021, Lagos Free Zone Company's long-term assets stood at \$480.1 million (2020: \$470.9 million), while long-term funds, which comprised

equity (81%) and long-term borrowings (19%), amounted to \$391.5 million. The long-term funds were insufficient to finance long-term assets, resulting in a long-term financing need (LTFN) of \$88.6 million. Similar to the prior year, LFZC's STFS was more than sufficient to cover the LTFN, leaving an overall working capital surplus of \$9.7 million. Although the current funding structure indicates a mismatch, we reckon that the intercompany loan from the parent company (amounting to \$89.5 million), could be considered a quasi-equity investment based on its unique features (unsecured loans with flexible repayment structures and no definite tenors). Therefore, we believe that Lagos Free Zone Company has a financing and working capital structure that best reflect its current business lifecycle and operations.

Despite the addition of a ₦25 billion¹³ 20-Year 13.25% Series 2 Bond into its capital structure in May 2022, we do not anticipate a significant improvement in the Company's long-term funding capacity as the bulk of the Series 2 Bond proceeds were used to refinance a six-month bridge loan from a commercial bank. Overall, we consider Lagos Free Zone Company's working capital position to be adequate.

Figure 5: STFS vs LTFN (2019 – 2021)



¹² The outstanding trade receivables as at FYE 2021 represented lease rental from by SANA Building System LFTZ Enterprise, which will become due in 2022 based on the terms of the lease agreement.

¹³ When converted to USD using ₦600/\$, this translates to about \$41.7 million.

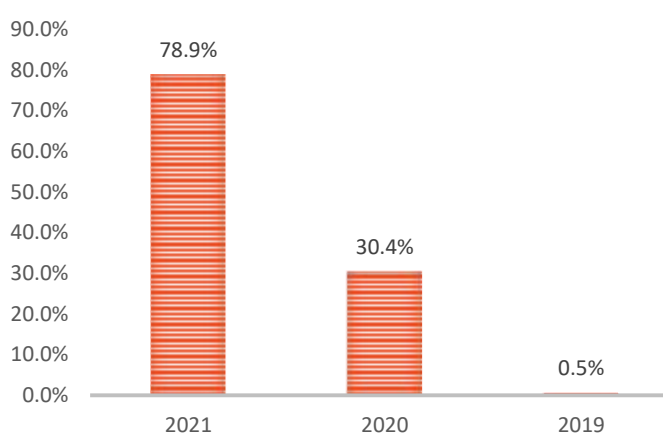
LEVERAGE

As at FYE 2021, Lagos Free Zone Company's total assets of \$540.1 million were funded by equity (58.9%) and total liabilities (41.1%), thus depicting a satisfactory equity cushion. As at 31 December 2021, LFZC's total liabilities stood at \$222.1 million, comprising non-interest-bearing liabilities (75%) and interest-bearing liabilities (25%). About two-thirds of the interest-free liabilities represented the outstanding portion of the intercompany loan from the parent company – Eurochem Corporation Pte Limited, while the rest were payables to non-trade creditors and accruals as at year-end. The intercompany loan from Eurochem Corporation Pte Limited is quasi-equity financing provided to LFZC to support ongoing expansion at the Zone.

In September 2021, LFZC successfully raised its maiden ₦10.5 billion 20-Year 13.25% Series 1 Bond¹⁴ through a special purpose vehicle – LFZC Funding SPV Plc. The Bond, which has a five-year moratorium on principal, is fully guaranteed by Infrastructure Credit Guarantee Company Limited (InfraCredit). The Series 1 Bond proceeds were essentially used to repay shareholders' advances previously utilised to undertake ongoing construction at the Lagos Free Zone. The Company also obtained a ₦20 billion bridge finance from a commercial bank in December 2021 to scale-up infrastructure expansion at the Zone. The six-month bridge loan which attracted a 15% interest per annum has been refinanced using the Series 2 Bond proceeds in May 2022.

As a result of the incremental borrowings, LFZC's interest expense to sales ratio more than doubled to a high of 78.9% in FYE 2021 (2020: 30.4%). The Company's IBL to equity ratio (excluding revaluation surplus) increased to 27.6% as at FYE 2021 (2020: 9.6%) but remained within our benchmark, while its net debt to total assets ratio remained unchanged at 45.5% as at year-end 2021 to underscore its moderate leverage position. However, if we adjust for the quasi-equity funds from the parent company, LFZC's IBL to equity and net debt to total assets ratios would have been much lower at 20.8% and 27.1% respectively as at FYE 2021.

Figure 6: Interest Expense to Revenue Ratio (2019 – 2021)



Given the low revenue and cash generating capacity associated with the expansionary phase of the Company's life cycle, we reckon that the constant accumulation of interest-bearing debts could pose a default risk should the ongoing development of critical infrastructure be delayed or the occupancy rate at the Zone should fall below projected levels. Overall, we expect the incremental borrowings to continue to pressure the Company's earnings and cash flow position in the near to medium term.

In our view, Lagos Free Zone Company has a moderate position.

¹⁴ This is the longest tenored debt instrument ever issued by any company in Nigeria

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2021, Lagos Free Zone Company's authorized share capital stood at \$500 million split into 500 million units of Class B ordinary shares at \$1 each, while the issued and fully paid-up share capital as at the same date was \$223.7 million. Tolaram Group Incorporated indirectly controls a 99.92% equity stake in Lagos Free Zone Company through its wholly-owned subsidiary (Eurochem Corporation Pte. Limited), while the remaining shares (which represent less than 1% equity stake) are controlled by Q Triangle Limited. In our opinion, LFZC has a concentrated ownership structure.

Lagos Free Zone Company has a five-member Board of Directors which comprised four Non-Executive Directors and an Executive Director. Mr. Mohan K. Vaswani doubles as the Chairman of both Tolaram Incorporated and Lagos Free Zone Company, while Mr. Dineshi Rathi is the Company's CEO. LFZC's Board operates through a newly constituted three-man Audit Committee led by Mrs. Adesuwa Ladoja (Independent Director) with support from the CEO and a Non-Executive Director. Augusto & Co believes that LFZC's Board requires a greater breadth of experience to further strengthen its governance structure considering its highly concentrated ownership profile. However, we recognise that plans are underway to appoint new Independent Directors as well as establish additional committees to oversee the activities of the Board.

Table 2 - Current Directors

Name	Designation	Nationality
Mr. Mohan K. Vaswani	Chairman	Singaporean
Mr. Dinesh Rathi	Chief Executive Officer	Indian
Mr. Harkishin Ghanshamdas Aswani	Non-Executive Director	Singaporean
Mr. Navin Nahata	Non-Executive Director	Indian
Mrs. Adesowa Ladoja	Independent Director	Nigerian

Source: LFZC's 2021 Annual Report and Management Presentation

LFZC's management team consists of the Chief Executive Officer and ten senior management personnel covering various segments of the business. We note that the majority of the management team have worked within the Tolaram ecosystem in different capacities and countries in the past, and possess relevant qualifications and experience.

As at 31 December 2021, Lagos Free Zone Company's total staff strength increased by 19% to 93 employees in tandem with the ongoing expansion of infrastructure projects at the Zone. The Company's average cost per employee fell by 8% to \$9,100 in 2021, while contribution (operating profit before deducting staff cost) per employee remained in the negative territory in 2021 as a result of the operating loss in the period, thus depicting weak staff productivity

Management Team

Mr. Dinesh Rathi is the Chief Executive Officer of Lagos Free Zone Company and is responsible for the overall strategic leadership, direction and guidance of the business. Before he was appointed the CEO of LFZC, he was the Group Chief Financial Officer of Tolaram Africa Business in Nigeria. Mr. Rathi has about two decades of experience working in both India and Nigeria. He started his career with Unilever Group and has also worked for ICICI Bank (India's private sector commercial bank). He joined Tolaram Group Inc. in November 2004 as Financial Controller of Lucky Fibres Limited and later became a General Manager in June 2005. Mr. Rathi has

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expertise in strategy, finance, accounting and mergers & acquisitions. He is an alumnus of the Indian Institute of Management Ahmedabad (IIMA) and a member of the Institute of Chartered Accountants of India (ICAI).

Mr. Ashish Khemka is the Chief Finance Officer of Lagos Free Zone Company. He is a Chartered Accountant with over ten years of experience working in both India and Nigeria. He started his career with Ernst and Young as an Associate and has also worked with ICICI Bank in India. Mr. Khemka joined Tolaram Group Inc. in February 2013 and has been actively involved in the corporate function of the Group in Nigeria. He is also a key member of Tolaram’s merger and acquisition team. He was appointed CFO of LFZC in 2017. He is an alumnus of the London Business School (LBS) and a member of the ICAI and the Association of National Accountants of Nigeria (ANAN).

Table 3: Other members of LFZC’s management team

Mr. Shrinivas Palakodety	Technical Head
Mrs. Ololade Oladipupo	Head, Legal Services
Mr. Tejaswi Avasarla	Head, Marketing and Business Development
Mrs. Chinju Udaró	Marketing Manager
Mrs. Oghenetega Oscar-Ede II	Customer Service Manager
Mr. Vishal Chandrakant Shah	Chief Sustainability Officer
Mr. Nikhil Khandelwal	Chief Technology Officer
Mr. Valliyappan Kumar	General Manager, Projects
Mr. Gokil Rajan	General Manager, Security

OUTLOOK

The Company’s main focus is to increase the attractiveness and revenue-generating capacity of the Lagos Free Zone through the speedy completion of the Lekki Deep Seaport, expansion of existing industrial facilities, warehouses and other utilities, and ensuring service optimisation for import and export processing. Based on its “Live-Work-Play” concept, LFZC hopes to grow the number of registered enterprises (tenants), which currently stands at thirty-one, by creating industrial clusters fused with residential areas and other social support infrastructure. As at 30 June 2022, the total committed investment by both the zone promoter and other investors stood at \$2.1 billion, and management estimates that nearly three-quarters of this amount has already been spent on various infrastructure projects at the Zone.

While we recognise efforts to improve the number of anchor tenants, we believe that the positive impact of some of the current marketing strategies on LFZC’s earnings capacity will be felt in the medium to long term when the Zone becomes fully functional. Therefore, we expect LFZC to continue to rely on funding support from its parent company to meet business expenses and interest payments to lenders. With the Company’s interest burden expected to more than double following incremental borrowing (Series 2 Bond), it is unlikely for the Company to record a profit in 2022 considering the prolonged gestation period of investments of this nature.

In addition, we expect the Company’s cash-generating capacity, which continues to reflect the current occupancy rate at the Zone, to remain constrained during this expansionary phase. Buoyed by the enhanced

Lagos Free Zone Company (LFZC)

long-term funding buffer from the incremental borrowing and financial support from Tolaram Inc., we expect the Company's overall working capital position to remain adequate, while its rising debt profile and interest burden are expected to persist.

With the built-up industrial and warehouse facilities nearing full occupancy, management has disclosed ongoing plans to speed up the construction of Standard Industrial Facility II and Warehouse II by year-end 2022 in readiness for the anticipated upsurge in demand arising from the commercial operation of the Lekki Deep Seaport. Ahead of the official commissioning of the seaport, the Nigerian Ports Authority (NPA), on 1 July 2022, received the first-ever vessel (Zhen Hua 28) to berth at the port. In addition to providing a viable maritime gateway that will connect Nigeria to the rest of the world, we believe that the seaport remains a critical infrastructure to the success of the Lagos Free Zone. However, the country's worsening insecurity and uncertain political landscape could increase project delays as well as low occupancy rates at the Zone.

Notwithstanding, we expect the strong parental support from Tolaram Group Incorporated to be sustained in the near to medium term considering the strategic importance of the Lagos Free Zone operations to the Group's ongoing diversification initiative on the African continent. Based on the above, we attach a **stable** outlook to Lagos Free Zone Company.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-Dec-21		31-Dec-20		31-Dec-19	
	\$'000		\$'000		\$'000	
ASSETS						
IDLE CASH	4,673	0.9%	2,202	0.4%	1,254	0.3%
MARKETABLE SECURITIES & TIME DEPOSITS	5,043	0.9%	-	-	220	0.0%
CASH & EQUIVALENTS	9,716	1.8%	2,202	0.4%	1,474	0.3%
FX PURCHASED FOR IMPORTS	-	-	-	-	-	-
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	7,089	1.3%	5,138	1.0%	4,790	1.0%
STOCKS	-	-	-	-	-	-
TRADE DEBTORS	3,706	0.7%	6,246	1.2%	8,591	1.8%
DUE FROM RELATED PARTIES	39,205	7.3%	24,621	4.8%	10,304	2.2%
OTHER DEBTORS & PREPAYMENTS	335	0.1%	152	0.0%	493	0.1%
TOTAL TRADING ASSETS	50,335	9.3%	36,157	7.1%	24,178	5.0%
INVESTMENT PROPERTIES	-	-	-	-	-	-
OTHER NON-CURRENT INVESTMENTS	50,304	9.3%	50,287	9.9%	50,102	10.5%
PROPERTY, PLANT & EQUIPMENT	429,551	79.5%	420,390	82.6%	403,062	84.2%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-	-	-	-	-	-
GOODWILL, INTANGIBLES & OTHER I T ASSETS	222	0.0%	213	0.0%	162	0.0%
TOTAL LONG-TERM ASSETS	480,077	88.9%	470,890	92.5%	453,326	94.6%
TOTAL ASSETS	540,128	100.0%	509,249	100.0%	478,978	100.0%
<i>Growth</i>	6.1%		6.3%		0.7%	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	-	-	-	-	134	0.0%
CURRENT PORTION OF LONG-TERM BORROWINGS	-	-	18	0.0%	-	-
LONG-TERM BORROWINGS	73,401	13.6%	23,964	4.7%	-	-
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	73,401	13.6%	23,982	4.7%	134	0.0%
TRADE CREDITORS	-	-	-	-	74	0.0%
DUE TO RELATED PARTIES	89,501	16.6%	121,385	23.8%	162,793	34.0%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-	-	-	-	-	-
OTHER CREDITORS AND ACCRUALS	59,167	11.0%	61,157	12.0%	31,554	6.6%
TAXATION PAYABLE	-	-	-	-	-	-
DIVIDEND PAYABLE	-	-	-	-	-	-
DEFERRED TAXATION	-	-	-	-	-	-
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	-	-	-	-	-	-
MINORITY INTEREST	-	-	-	-	-	-
REDEEMABLE PREFERENCE SHARES	-	-	-	-	-	-
TOTAL NON-INTEREST-BEARING LIABILITIES	148,668	27.5%	182,542	35.8%	194,421	40.6%
TOTAL LIABILITIES	222,069	41.1%	206,524	40.6%	194,555	40.6%
SHARE CAPITAL	223,745	41.4%	223,745	43.9%	319,370	66.7%
SHARE PREMIUM	-	-	-	-	-	-
IRREDEEMABLE DEBENTURES	-	-	-	-	-	-
REVALUATION SURPLUS	51,893	9.6%	52,136	10.2%	34,139	7.1%
OTHER NON-DISTRIBUTABLE RESERVES	26,805	5.0%	26,805	5.3%	(2,650)	-0.6%
REVENUE RESERVE	15,616	2.9%	39	0.0%	(66,436)	-13.9%
SHAREHOLDERS' EQUITY	318,059	58.9%	302,725	59.4%	284,423	59.4%
TOTAL LIABILITIES & EQUITY	540,128	100.0%	509,249	100.0%	478,978	100.0%

Lagos Free Zone Company (LFZC)

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-21		31-Dec-20		31-Dec-19	
	\$'000		\$'000		\$'000	
TURNOVER	3,787	100.0%	3,376	100.0%	1,788	100.0%
COST OF SALES	(148)	-3.9%	(142)	-4.2%	(147)	-8.2%
GROSS PROFIT	3,639	96.1%	3,234	95.8%	1,641	91.8%
OTHER OPERATING EXPENSES	(4,608)	-121.7%	(4,031)	-119.4%	(3,690)	-206.4%
OPERATING PROFIT	(969)	-25.6%	(797)	-23.6%	(2,049)	-114.6%
OTHER INCOME/(EXPENSES)	19,291	509.4%	1,863	55.2%	(18,912)	-1057.7%
PROFIT BEFORE INTEREST & TAXATION	18,322	483.8%	1,066	31.6%	(20,961)	-1172.3%
INTEREST EXPENSE	(2,988)	-78.9%	(1,027)	-30.4%	(9)	-0.5%
PROFIT BEFORE TAXATION	15,334	404.9%	39	1.2%	(20,970)	-1172.8%
TAX (EXPENSE) BENEFIT	-		-		-	
PROFIT AFTER TAXATION	15,334	404.9%	39	1.2%	(20,970)	-1172.8%
NON-RECURRING ITEMS (NET OF TAX)	-		-		-	
MINORITY INTERESTS IN GROUP PAT	-		-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	15,334	404.9%	39	1.2%	(20,970)	-1172.8%
DIVIDEND	-		-		-	
PROFIT RETAINED FOR THE YEAR	15,334	404.9%	39	1.2%	(20,970)	-1172.8%
SCRIP ISSUES	-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS	243		66,436		-	
PROFIT RETAINED B/FWD	39		(66,436)		(45,466)	
PROFIT RETAINED C/FWD	15,616		39		(66,436)	
ADDITIONAL INFORMATION	31-Dec-21		31-Dec-20		31-Dec-19	
Staff costs (\$'000)	848		774		711	
Average number of staff	93		78		52	
Staff costs per employee (\$'000)	9.1		9.9		14	
Staff costs/Turnover	22%		23%		40%	
Capital expenditure (\$'000)	12,507		4,060		4,986	
Depreciation expense - current year (\$'000)	1,147		1,037		787	
(Profit)/Loss on sale of assets (\$'000)	(11,629)		(8)		17,453	
Number of 50 cent shares in issue at year end ('000)	447,490		447,490		638,740	
Market value per share of 50 cent (year-end)	-		-		-	
Market capitalisation (\$'000)	-		-		-	
Market/Book value multiple	-		-		-	
Non-operating assets at balance sheet date (\$'000)	50,304		50,287		50,102	
Market value of tradeable assets (\$'000)	-		-		-	
Revaluation date - Investment properties	-		-		-	
Revaluation date - Other properties	-		-		-	
Average age of depreciable assets (years)	-		-		-	
Auditors	Deloitte		Deloitte		Deloitte	
Opinion	CLEAN		CLEAN		CLEAN	

Lagos Free Zone Company (LFZC)

	31-Dec-21	31-Dec-20	31-Dec-19
CASH FLOW STATEMENT FOR THE YEAR ENDED	\$'000	\$'000	\$'000
Operating cash flow (OCF)	(40,212)	(21,763)	7,915
Less: Returns to providers of finance	(2,988)	(1,027)	(9)
OCF after returns to providers of finance	(43,200)	(22,790)	7,906
Non-recurring items	-	-	-
Free cash flow	(43,200)	(22,790)	7,906
Investing activities	1,295	(596)	(6,500)
Financing activities	49,419	24,114	6
Change in cash	7,514	728	1,412
PROFITABILITY			
Operating profit margin	-25.6%	-23.6%	-114.6%
EBITDA margin	514%	62%	-1128%
Return on asset	3.8%	0.2%	-4.7%
Return on equity	5.8%	0.7%	-8.4%
Sales growth	12.2%	88.8%	164.1%
CASH FLOW			
Interest cover (times)	(13.5)	(21.2)	879.4
Principal payback (years)	-	-	-
WORKING CAPITAL			
Working capital need (days)	-	-	-
Working capital deficiency (days)	-	-	36
LEVERAGE			
Interest bearing debt to Equity	20%	7.2%	-
Total debt to Equity	66.8%	67.5%	67.9%
IBD net of cash and Equiv. as a % of Equity without rev.	23.9%	8.7%	-
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	45.5%	45.5%	43.5%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	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.

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