

CERPAC Receivables Funding SPV Plc

¥4.877 billion 18.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Discrete Bond)

¥12.5 billion 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 1 Bond)

¥1.6 billion 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 2 Bond)

2020 Structured Finance Final Rating Review Report



Research, Credit Ratings, Credit Risk Management

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Issue Rating:

A⁺sf

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

Outlook: Stable

Issue Date: 29 April 2020

Expiry Date: 31 January 2021

The Issue rating for the Discrete Bond, Series 1 Bond and Series 2 Bond will be subject to annual monitoring and review

Previous Issue Rating: A⁺sf

Outline	Page
Rationale	1
Bond Structure & Utilisation of Proceeds	3
Adequacy of Transaction Collection Account	5
Outlook	6
Rating Definitions	7

RATING RATIONALE

- Agusto & Co. hereby affirms the “A⁺sf” rating assigned to the CERPAC Receivables Funding SPV Plc’s (“CERPAC”, “SPV” or “the Issuer”) ₦4.877 billion 18.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Discrete Bond), ₦12.5 billion 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 1 Bond) and ₦1.6 billion 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 2 Bond). The assigned rating is contingent on the Federal Government of Nigeria (FGN) continuing to honour the contract with Continental Transfert Technique Limited for the production and sale of up to 900,000 (488,239 cards outstanding as at 31 January 2020) Combined Expatriate Residence Permit and Alien Cards (CERPAC Cards) in Nigeria. In the event of a termination of the contract by the FGN during the life of the bond, the assigned issue rating becomes invalid.
- In May 2017, Continental Transfert Technique Limited (“the Sponsor”, “the Seller”, “CTTL” or “the Company”) sponsored the incorporation of a special purpose vehicle, CERPAC Receivables Funding SPV Plc (“CRFS”, “the Issuer” or “SPV”) to raise funds in connection with the funding program for the purchase of current and future receivables accruing to the Seller from the sale of the Combined Expatriate Residence Permit and Alien Cards in Nigeria. CTTL is a member of Contec Global Group, with principal activities such as provision of security technologies solutions in automated systems for e-governance and authentication of people, objects and documents. CTTL is the sole company in Nigeria with the mandate to produce the CERPAC cards for and on behalf of the Nigerian Immigration Service.
- As at 31 January 2020, the SPV had a total of ₦18.97 billion bonds in three tranches – Discrete Bond, Series 1 Bond and Series 2 Bond - and a ₦2.78 billion asset backed commercial paper notes (CP), altogether used for the purchase of the rights of the Sponsor to its share in the current and future receivables in connection with the CERPAC Scheme.
- Since issuance of the Discrete Bond in January 2018 up to 31 January 2020, total CERPAC collections (now 55%, formerly 65%, of CERPAC sales proceeds) allocated to the Transaction Collection Account (TCA) amounted to ₦24.3 billion. Based on the Joint Trustees instruction, a total of ₦13.2 billion was transferred from the TCA into the Bond Collection Account (BCA) to meet Bond obligations, while the balance was allocated to the residual claim holders - subordinated noteholders and equity investors. The amount transferred into the BCA over the review period was sufficient to cover coupon and principal repayments to the Discrete, Series 1 & 2

Analysts:

Ikechukwu Iheagwam

ikechukwuiheagwam@agusto.com

Isaac Babatunde

isaacbabatunde@agusto.com

Agusto & Co. Limited

UBA House (5th Floor)

57, Marina

Lagos

Nigeria

www.agusto.com

CERPAC Receivables Funding SPV Plc's Discrete Bond, Series 1 & 2 Bonds

Bondholders amounting to ₦9.8 billion. In addition, the net balance (including investment income) was adequate to cover amounts earmarked for the Minimum Reserve Account¹ and Bond related expenses, leaving a balance of ₦1.7 billion as at 31 January 2020.

- In our opinion, the continued fulfillment of the weekly collection of CERPAC Card sales into the designated Transaction Collection Account demonstrates the Seller's capacity to generate sufficient cash flows to meet bond obligations. In addition, the outstanding bonds plus the commercial paper² in issue are overcollateralised (Total CERPAC Card sales due to SPV/Outstanding Bond obligations and CP face value at maturity) up to 11.9 times, which we consider to be good. However, the pledged assets in the custody of Joint Trustees has a market value of ₦4 billion (forced sales value of ₦2.38 billion) compared to the originally pledged collateral value of ₦11.2 billion. Agosto & Co. notes that the pledged assets only provide 60% cover for the Discrete Bond and Series 2 Bond. Notwithstanding the aforementioned, we recognize that the Issuer has maintained a minimum cash reserve account of ₦1.07 billion (for Discrete and Series 2 Bond) and has a stand-by letter of credit from Standard Chartered Bank, London in the sum of ₦1.83 billion under the custody of the Joint Trustees, which acts as a buffer to meet the semi-annual bond payment obligations in the event of a short fall in the BCA.
- In December 2018, the Federal Ministry of Interior reviewed the CERPAC fees to \$2,000 from \$1,000 effective 1 January 2019. On the back of this 100% hike in the CERPAC fees, a law suit at the Federal High Court was instituted against the Ministry of Interior in SUIT NO: FHC/L/CS/289/2019 FEMI FALANA, SAN V MINISTER OF INTERIOR & 2 OTHERS (Comptroller General of Immigration and Continental Transfert Technique Limited), which is currently at the Court of Appeal. The Solicitors to the CERPAC Bond transaction, Olaniwun Ajayi Legal Practitioners, have provided an opinion to the Bond Trustees, which gives the latter comfort that the Bondholders will continue to receive payments from the sale of CERPAC cards until determination of the appeal by the Court of Appeal, for which the Solicitors believe will be in the favour of CTTL.
- Barring any unforeseen circumstances (political or legal), that could result in the termination of the CERPAC contract by the Federal Government of Nigeria, Agosto & Co. estimates that the funds in the BCA as at 31 January 2020 plus the outstanding weekly CERPAC collections dedicated to the BCA over the remaining tenor of the Bonds will be adequate to cover the outstanding Discrete, Series 1 & 2 bond obligations. In addition, the adherence to the performance covenants³ as well as continued maintenance of credit structures in the review period supports the Issuer's ability to meet the bonds obligations as and when due.

¹ The Reserve Account for the Discrete Bond was partially funded from the bond proceeds to cover 50% of the Reserve Account Balance, whilst the remainder was funded from the cash flows due to the Subordinated Bondholder over a 12-month period. The Series 1 Bond Reserve Account was substituted with a Standby Letter of Credit from Standard Chartered Bank London, while the Series 2 Bond Reserve Account was fully funded from the net proceeds. The Reserve Accounts were created as a buffer in the event of a shortfall in meeting semi-annual bond obligations.

² CERPAC Receivables Funding SPV Plc issued a ₦2.784 billion 235-days Series 1 Asset Backed Commercial Paper Notes on 4 November 2019 and is due to mature on 26 June 2020

³ As at 31 January 2020, the Joint Trustees reported that all the performance covenants (number of weekly CERPAC forms sold to be less than 1,375 forms, cash accumulation trigger, early amortization trigger and DSCR not lower than 1.2 times cover) were complied with

BOND STRUCTURE & UTILISATION OF PROCEEDS

₦4.877 Billion 18.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Discrete Bond)

In January 2018, CERPAC Receivables Funding SPV Plc issued a total of ₦4.877 billion⁴ 18.25% Future Flow Receivables Backed Securitisation Bond Due 2025 ("Discrete Bond") out of a proposed ₦25 billion bond issuance to purchase the rights of the Seller, Continental Transfert Technique Limited, to the current and future receivables in connection with the CERPAC Scheme⁵ under the Receivables Sales and Purchase Agreement (RSPA).

The Discrete Bond coupon is being paid semi-annually over the tenor of the Bond, while the principal is redeemed bi-annually from the date of issuance. In line with the duly executed RSPA, the Bond obligations are being paid from the portion of the weekly cash flows that accrue to the SPV from the sale of the CERPAC forms. As at 31 January 2020, the Discrete Bondholders had received total coupon payment amounting to ₦1.63 billion and total principal redemption of ₦1.46 billion.

The Discrete Bond proceeds were utilized by the Sponsor in line with the duly executed Pricing Supplement and Trust Deed. A breakdown of the Discrete Bond utilization of proceeds by CTTL is detailed in Table 1 below.

Table 1: Schedule of Utilization of Discrete Bond Proceeds as at 31 January 2020

Description	Amount ₦	% of Proceed	Status
Projects & Investment	3,215,573,747.69	65.9%	Ongoing
Outstanding Expenses (Payment of Software Licensing & Professional Charges)	1,100,000,000.00	22.6%	Ongoing
Reserve Account	382,060,442.81	7.8%	Completed
Issue Cost	179,365,809.50	3.7%	Done
Total	4,877,000,000.00	100%	

₦12.5 billion 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 1 Bond)

Subsequent to the issuance of the Discrete Bond in January 2018, the SPV issued a ₦12.5 billion 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 ("Series 1 Bond") in May 2018 in connection with the funding program for the purchase of current and future receivables accruing from the sale of the Combined Expatriate Residence Permit and Alien Cards in Nigeria.

The terms and conditions of the Series 1 Bond is the same with the Discrete Bond, save for the tenor which was reduced to match the maturity date of the Discrete Bond. Consequently, the Series 1 Bond will now have the same coupon payment date, principal repayment date and maturity date with the Discrete Bond. Agusto & Co. notes that the funds earmarked for the initial ₦25 billion bond issuance from the weekly share of CERPAC forms sold, continues to be available to meet the Series 1 Bond obligations as and when due. As at 31 January 2020, a total of ₦3.14 billion as coupon and ₦3.57 billion as principal repayments had been made to the Series 1 Bondholders in line with the amortization schedule.

⁴ The SPV initially issued a ₦4.83 billion bond and subsequently accepted additional sums totalling ₦47 million all totalling ₦4.877 billion. Agusto & Co. notes that the additional funds of ₦47 million was registered with the Securities and Exchange Commission (SEC) but no subsequent amendments were made to the relevant transaction documents.

⁵ Under the CERPAC Scheme, Continental Transfert Technique Limited ("CTTL", "Seller" or "Sponsor") is the sole company in Nigeria with the mandate to produce the Combined Expatriate Residence Permit and Alien Card Scheme (CERPAC) for and on behalf of the Nigerian Immigration Service.

CERPAC Receivables Funding SPV Plc's Discrete Bond, Series 1 & 2 Bonds

Similar to the Discrete Bond, the proceeds of the Series 1 Bond were used to fund the purchase of the Seller's rights to its share in the current and future receivables of the CERPAC Scheme. Table 2 below shows how the net proceeds of the Series 1 Bond are being utilized by CTTL.

Table 2: Schedule of Utilization of Series 1 Bond Proceeds as at 31 January 2020

Description	Amount ₦	% of Proceed	Status
Loan Refinancing to Polaris Bank Limited (formerly Skye Bank Plc)	1,900,000,000.00	15.2%	Completed
Establishment of New Bio-fertilizer and Pesticide Plant	2,700,000,000.00	21.6%	Ongoing
Establishment of Tissue Culture Production at Abuja	1,010,000,000.00	8.1%	Ongoing
Establishment of Tissue Culture Production at Plateau, Oyo & Edo States	2,928,616,930.81	23.4%	Ongoing
Investment in Banana Cultivation in a 5,600-acre Plantation	1,360,162,465.86	10.9%	Ongoing
Purchase of Agricultural Commodities (Corn, Cocoa, Soya Bean, Ginger & Cassava)	500,000,000.00	4.0%	Ongoing
Provision for Reserve Account*	1,831,481,779.99	14.7%	Completed
Cost of Issue	269,738,823.34	2.2%	Done
	12,500,000,000.00	100%	

*The Provision for Reserve Account was converted into a Stand-by Letter of Credit obtained from Standard Chartered Bank, London. The stand-by letter of credit is 100% cash backed and payable to the Joint Trustees within five days of demand period.

₦1.6 billion 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 2 Bond)

Following the issuance of the Discrete and Series 1 Bonds, CERPAC Receivables Funding SPV Plc raised additional ₦1.6 billion 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 ("Series 2 Bond") in July 2018 to purchase additional rights of the Seller, in relation to the current and future receivables accruing from the sale of Combined Expatriate Residence Permit and Alien Cards in Nigeria.

The transaction and operating structure of the Series 2 Bond is the same with the Discrete and the Series 1 Bond, except the tenor which was unified with the maturity dates of the existing Bonds. Similarly, the funds earmarked for the initial ₦25 billion bond issuance from the weekly share of CERPAC forms are available to meet the Series 2 Bond obligations as and when due. As at 31 January 2020, the Series 2 Bondholders had received a total cumulative coupon payment of ₦367.3 million and total cumulative amortised principal of ₦361.9 million.

Similar to the Discrete and Series 1 Bonds, the proceeds of the Series 2 Bond were used to fund the purchase of the Seller's rights to its share in the current and future receivables of the CERPAC Scheme. Table 3 below shows the schedule of utilization of the Series 2 Bond proceeds by CTTL.

Table 3: Schedule of Utilization of Series 2 Bond Proceeds as at 31 January 2020

Description	Amount ₦	% of Proceed	Status
Upgrade of Existing CERPAC Centres	1,317,052,086.48	82.32%	Ongoing
Provision for Reserve Account	235,765,353.52	14.74%	Completed
Cost of Issue	47,182,560.00	2.95%	Done
	1,600,000,000.00	100%	

ADEQUACY OF TRANSACTION COLLECTION ACCOUNT

The Bond (Discrete, Series 1 & 2) obligations are being repaid from the portion of the cash flows that accrue to the SPV from the sale of the CERPAC forms - 55% of total CERPAC collections (formerly 65%) effective 1 January 2019. The rights to the portion of this cash flow has been assigned through a True Sale to the Issuer in line with the Receivables Sales and Purchase Agreement.

As part of the continuing operational structure, the Seller on a weekly basis based on a standing instruction with the Collection Bank, pays directly from the Escrow Account⁶ into a designated Transaction Collection Account (TCA) the share of the sale proceeds of CERPAC forms due to the Seller. Based on the Trustees standing instruction, the weekly deduction amount expected to accrue to cover the Bond obligations is transferred to a Bond Collection Account (BCA) to meet the Bond obligations as and when due. Thereafter, the balance in the TCA after transferring the weekly deduction amount is transferred to the residual claim holders - subordinated noteholders and equity investors.

The Transaction Collection Account and Bond Collection Account for the Discrete Bond, Series 1 & 2 Bonds are being administered by a team of two trustees – ARM Trustees Limited and DLM Trust Company Limited for the benefit of the bondholders. ARM Trustees Limited replaced the erstwhile Stanbic IBTC Trustees Limited, who resigned from their role as Bond Trustee to the CERPAC Discrete Bond and Series 1 & 2 Bonds with effect from 1 June 2019, mainly on grounds of non-compliance by the Issuer to certain conditions enshrined in the transaction documents relating to the pledged security assets.

As at 31 January 2020, CTTL had produced and issued circa 411,761 cards, out of the approved 900,000 cards following the 2011 judgment in favour of CTTL, leaving about 488,239 cards to be produced and sold. Based on the average number of cards sold per annum over the last 10 years, Augusto & Co. estimates that it will take about 9 years for the outstanding CERPAC cards to be issued and sold, whereas the existing Bonds has an outstanding expected 3-year or 5-year legal final maturity period.

Since the issuance of the Discrete Bond in January 2018 up to 31 January 2020, total collections from sale of CERPAC cards into the Escrow account held with Polaris Bank Limited amounted to ₦44.3 billion. This amount is shared among the respective parties on a weekly basis based on a standing instruction as follows: CTTL (40%), FGN (33%), Nigeria Immigration Service (7%), CTTL expenses (15%) and Ministry of Interior (5%). As at 31 January 2020, the total cumulative amount transferred to the Transaction Collection Account (TCA) held with Zenith Bank Plc on a weekly basis representing 55% of the CERPAC sales proceeds (formerly 65%) stood at ₦24.3 billion.

Out of the amounts transferred into the TCA since issuance of the Bonds up to 31 January 2020, a total of ₦13.2 billion was allocated to the Bond Collection Account (BCA) based on the instruction of the Joint Trustees to meet the Bond obligations as and when due. This amount was sufficient to cover coupon and principal payments due to the Discrete, Series 1 & 2 Bondholders all totaling ₦9.8 billion. In addition, the net balance (including earned investment income) was distributed to fund the remaining portion of the Reserve Account⁷ and bond related expenses, leaving a balance of ₦1.7 billion as at 31 January 2020. Augusto & Co. notes that amounts standing to the credit of the TCA after payment of priority claims (coupon and principal to bondholders, reserve account and bond related expenses) were transferred as residual payments to subordinated holders on a weekly basis.

⁶ The Escrow Account held with Polaris Bank (formerly Skye Bank) is the sales proceeds account into which all CERPAC sales proceeds accrue on a weekly basis prior to distribution to all parties. The Joint Trustees have viewing rights over this account and have provided the Skye Bank with a one-time instruction to distribute on a weekly basis the weekly deduction amount into the TCA held with Zenith Bank Plc.

⁷ The Reserve Account for the Discrete Bond was partially funded from the bond proceeds to cover 50% of the Reserve Account Balance, whilst the remainder was funded from the cash flows due to the Subordinated Bondholder over a 12-month period. The Series 1 Bond Reserve Account was substituted with a Standby Letter of Credit from Standard Chartered Bank London, while the Series 2 Bond Reserve Account was fully funded from the net proceeds.

CERPAC Receivables Funding SPV Plc's Discrete Bond, Series 1 & 2 Bonds

Table 4: Transaction Collection Account Schedule as at 31 January 2020

Description	₦'000
Total CERPAC Card sales into Escrow Account since Bond issuance (100% of CERPAC Sales)	44,338,827
Total Receipts into the Transaction Collection Account – (initially 65% of CERPAC Proceeds & 55% from 1 Jan 2019)	24,386,354
Amount allocated to the Bond Collection Account based on Joint Trustees Instruction	13,219,084
Earned Investment Income till date	308,623
Total Coupon & principal payment – Discrete Bondholders	(3,088,624)
Total Coupon & principal payment – Series 1 Bondholders	(6,715,433)
Total Coupon & principal payment – Series 2 Bondholders	(729,340)
Reserve Account (excluding SBLC for Series 1 Bond)	(999,846)
Bond Expenses	(257,499)
Balance as at 31 January 2020	1,736,965
Estimated collections due to CERPAC Bond Collection Account for Bond Repayment till expected maturity in January 2023	17,423,331
Total estimated collections due to CERPAC Bond till maturity	19,160,296
Outstanding Bond Obligations (coupon & principal) – Discrete, Series 1 & 2 Bonds	13,581,998
Bond Collection Account Adequacy Coverage ratio	1.41 times

Agusto & Co. estimates that the balance in the BCA as at 31 January 2020 plus the remaining weekly collections (to be transferred into the BCA based on the Bond Trustees instruction) over the tenor of the Bond will be adequate to cover the outstanding Discrete, Series 1 & 2 Bond obligations 1.41 times, which we consider to be satisfactory.

OUTLOOK ON DISCRETE BOND, SERIES 1 & 2 BONDS REPAYMENT

Pursuant to the 100% upward review of CERPAC fees to \$2,000 and change in sharing formula to 55% (formerly 65%) in favour of the CTTL effective 1 January 2019 by the Ministry of Interior, there has been a legal suit challenging principally the rise in CERPAC fees, amongst others. As at end of February 2020, a court order granting stay of execution on the earlier judgement of the Federal High Court has been obtained pending the ongoing case at the Court of Appeal. Based on the aforementioned, the Solicitors to the transaction (Olaniwun Ajayi Legal Practitioners), have provided clarification and an opinion to the Bond Trustees, that the Bondholders will continue to receive payments from the sale of CERPAC cards until the judgment from the Court of Appeal. In addition, the Solicitors have noted that that in their opinion, they believe the Judgement at the Court of Appeal will be in favour of CTTL.

Agusto & Co. notes that about 488,239 cards out of the 900,000 cards approved by the FGN are yet to be produced and sold by CTTL under the CERPAC scheme as at 31 January 2020. Therefore, we estimate that it will take about 9 years for the outstanding CERPAC cards to be issued and sold, which compares favourably to the legal final maturity of the bonds estimated at January 2025, which is 5 years away. Furthermore, we note that the success of the Bond transaction is hinged principally on the Federal Government of Nigeria continuing to honour the contract with Continental Transfert Technique Limited for the production and sale of the CERPAC Cards in Nigeria. Furthermore, the cash collections accruable from the sale of CERPAC cards are very strong considering the upward review of the CERPAC fees.

Agusto & Co. estimates that the funds in the BCA as at 31 January 2020 of ₦1.7 billion plus the remaining weekly collections (to be transferred into the BCA based on the Bond Trustees instruction) over the tenor of the Bond will be adequate to cover the outstanding Discrete, Series 1 & 2 Bond obligations 1.41 times, which we consider to be satisfactory, provided the contract for production and sale of CERPAC cards between the Company and FGN continues to be honoured.

Based on the aforementioned, Agusto & Co. hereby attaches a **stable** outlook to the CERPAC Receivables Funding SPV Plc's Discrete Bond, Series 1 Bond and Series 2 Bond.

RATING DEFINITIONS

Aaa^{sf}	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on local currency debt in a timely manner.
Aa^{sf}	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.
A^{sf}	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.
Bbb^{sf}	Satisfactory quality debt with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.
Bb^{sf}	Below average quality debt with moderate to high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
B^{sf}	Weak quality debt with high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
C^{sf}	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
D^{sf}	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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© Agosto&Co.
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