

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)

2021 Structured Finance Final Rating Review Report

 **Agusto&Co.**

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: 12 March 2021

Expiry Date: 31 January 2022

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	4
Outlook	6
Rating Definitions	7

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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), ₦12.5 billion 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 1) and ₦1.6 billion 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 2). The assigned rating reflects our opinion on the strong cash-generating capacity of the securitized receivables (CERPAC cards issued for the identification and tracking of foreign national residents in Nigeria) which 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 (443,316 cards outstanding as at 31 January 2021) Combined Expatriate Residence Permit and Alien Cards (CERPAC Cards) in Nigeria. In the unlikely event of a termination of the contract by the FGN during the tenor of the bonds, the assigned issue rating will become invalid.
- Continental Transfert Technique Limited (“the Sponsor”, “the Seller”, “CTTL” or “the Company”) the sponsor of the SPV, remains the sole company in Nigeria with the mandate to produce the CERPAC cards for and on behalf of the Nigerian Immigration Service (NIS) based on a 1999 contract awarded by the Federal Government of Nigeria through the Ministry of Internal Affairs (now Ministry of Interior). CTTL is a member of the Contec Global Group (“Contec Global” or “the Group”) with business interests covering the Agro, Power, Oil & Gas, Hospitality, Fintech and Energy Sectors.
- As at 31 January 2021, the SPV had issued a total of ₦18.97 billion bonds in three tranches (Discrete, Series 1 & Series 2) and the proceeds were used to purchase the rights of the Sponsor to its share in the current and future receivables in connection with the CERPAC Scheme. As at the same date, the bonds in issue had an aggregate outstanding principal value of ₦9.96 billion.
- Based on the Joint Trustees Report as at 31 January 2021, total CERPAC collections since the issuance of the Bond in January 2018 allocated to the Transaction Collection Account (now 55%, formerly 65%, of CERPAC sales proceeds) amounted to ₦42.7 billion. Out of this, ₦19.1 billion was transferred to the Bond Collection Account (BCA) based on the Bond Trustees Instruction over the period to cover bond obligations. As at the same date, total coupon payments and principal repayments made to the Discrete, Series 1 & 2 Bondholders stood at ₦16.2 billion, leaving a balance of ₦1.2 billion in the BCA after the settlement of bond-

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

related expenses and funding of the Minimum Reserve Account (MRA)¹. We note positively that the MRA has a balance of ₦2.83 billion² as at 31 January 2021, sufficient to cover up to a one-time semi-annual payment obligation on the Discrete, Series 1 & 2 bonds in the unlikely event of a shortfall in the BCA.

- Agosto & Co. notes that the continued fulfilment of the weekly collection of CERPAC Card sales into the designated Transaction Collection Account (TCA) demonstrates the Seller's capacity to generate sufficient cash flows to meet bond obligations. Also, the outstanding bonds plus the proposed Series 3 Bond issuance³ are overcollateralised (Total outstanding CERPAC Card sales due to SPV/Outstanding balance on existing bond obligations and proposed Series 3 Bond) up to 5.67 times, which we consider to be good.
- Premised on the Federal Ministry of Interior's review of the CERPAC fees by 100% to \$2,000 effective 1 January 2019, a lawsuit was filed at the Federal High Court 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) challenging the increment in fees and the case is currently at the Court of Appeal, for which the Solicitors (Olaniwun Ajayi LP) have provided a favourable opinion to the Bond Trustees - that the Bondholders will continue to receive payments from the sale of CERPAC cards until a judgement is obtained from the Court of Appeal. Also, the Solicitors noted that they believe the Judgement at the Court of Appeal will be in favour of CTTL.
- Going forward, we estimate that the funds in the BCA as at 31 January 2021 plus the weekly CERPAC collections dedicated to the BCA (in line with the Bond Trustees Instruction) over the remaining tenor of the Bonds will be adequate to cover the outstanding Discrete, Series 1 & 2 bond obligations 1.05 times, which is considered to be satisfactory. In addition, we note positively that the adherence to the performance covenants⁴ as well as continued maintenance of credit enhancement structures in the review period support the Issuer's ability to meet the bonds' obligations as and when due.
- Based on the aforementioned, we have attached a **stable** outlook to the CERPAC Receivables Funding SPV Plc's Discrete, Series 1 & 2 Bonds, premised on the continued honouring of the CERPAC contract by the FGN.

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 and cash, 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 The sum of ₦1.16 billion out of the MRA is guaranteed by Standard Chartered Bank London through a standby letter of credit, while the outstanding balance is held as cash and cash equivalents under the control and management of the Bond Trustees.

³ The SPV plans to issue a ₦15 billion Series 3 Bond in Q1'2021 under the same terms and conditions as the existing bonds in issue.

⁴ As at 31 January 2021, 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)

CERPAC Receivables Funding SPV Plc issued ₦4.87 billion 18.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Discrete Bond) out of a proposed ₦25 billion bond issuance programme in January 2018. The Discrete Bond coupon is being paid semi-annually over the five-year expected tenor of the Bond⁵, while the principal is being redeemed bi-annually from the date of issuance. The Discrete Bond proceeds were used to purchase the rights of the Seller, Continental Transfert Technique Limited, to the current and future receivables in connection with the CERPAC Scheme⁶ under the Receivables Sales and Purchase Agreement (RSPA). In turn, the Sponsor utilized the Discrete Bond proceeds to fund projects as detailed in Table 1 below:

Table 1: Schedule of Utilization of Discrete Bond Proceeds as at 31 January 2021

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%	Completed
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%	

In tandem with the duly executed RSPA, the Discrete 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 2021, the Discrete Bondholders had received a total coupon payment amounting to ₦2.21 billion and total principal redemption of ₦2.41 billion. As at the same date, the balance in the Discrete Bond Reserve Account stood at ₦0.76 billion, following periodic contributions since the issuance of the Bond.

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

In May 2018, the SPV issued an additional ₦12.5 billion 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 ("Series 1 Bond") as part of the ₦25 billion Bond issuance programme to purchase current and future rights of Continental Transfert Technique Limited, in connection with the Combined Expatriate Residence Permit and Alien Cards scheme in Nigeria. The terms and conditions of the Series 1 Bond are the same as the Discrete Bond, save for the tenor which was reduced to match the maturity date of the Discrete Bond. As a result, the Series 1 Bond has the same coupon payment date, principal repayment date and maturity date as the Discrete Bond. The Series 1 Bond proceeds were used to fund the Seller's rights to its share in the current and future receivables of the CERPAC Scheme, while the Seller, in turn, utilized the proceeds to finance projects as detailed in table 2 on the next page.

Table 2: Schedule of Utilization of Series 1 Bond Proceeds as at 31 January 2021

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

⁵ The Discrete Bond has a seven-year legal final maturity due in 2025. However, the Bond obligations are being repaid in line with the 5-year expected maturity period.

⁶ 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

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	500,000,000.00	4.0%	Completed
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 partly converted into a Standby Letter of Credit obtained from Standard Chartered Bank, London. The standby letter of credit is 100% cash-backed and payable to the Joint Trustees within five days.

As at 31 January 2021, total coupon payments of ₦4.41 billion and principal repayments of ₦5.96 billion had been made to the Series 1 Bondholders in line with the Pricing Supplement. As at the same date, ₦1.83 billion was held as the Series 1 Reserve Account Balance split as follows – ₦1.16 billion held with Standard Chartered Bank London as a standby letter of credit and ₦0.67 billion held as cash with the Bond Trustees.

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

In July 2018, CERPAC Receivables Funding SPV Plc raised ₦1.6 billion 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 ("Series 2 Bond") in addition to the earlier Discrete and Series 1 Bond to purchase the rights of the Seller, in the current and future receivables accruing from the sale of CERPAC cards in Nigeria. The operating structure of the Series 2 Bond is the same as the Discrete and the Series 1 Bonds, except the tenor which was unified with the maturity dates of the existing Bonds. Table 3 below shows the utilization of the Series 2 Bond proceeds by the Seller – Continental Transfert Technique Limited:

Table 3: Schedule of Utilization of Series 2 Bond Proceeds as at 31 January 2021

Description	Amount ₦	% of Proceed	Status
Upgrade of Existing CERPAC Centres	1,317,052,086.48	82.32%	Completed
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%	

In line with the Receivables Sales and Purchase Agreement (2nd addendum), the proceeds from the weekly share of CERPAC forms sold are also available to meet the Series 2 Bond obligations as and when due. As at 31 January 2021, the Series 2 Bondholders had received a total cumulative coupon payment of ₦0.55 billion and a total cumulative amortised principal of ₦0.65 billion. As at the same date, the balance in the Series 1 Bond Reserve Account stood at ₦0.23 billion, following periodic remittances since the issuance of the Bond.

ADEQUACY OF TRANSACTION COLLECTION ACCOUNT

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

In line with the transaction structure, the CERPAC Sales Collection Bank (Polaris Bank Limited) weekly (based on an existing one-time standing instruction from the Trustees) pays directly from the CERPAC Sales Escrow Account into a designated Transaction Collection Account (TCA) held with the Account Bank (Zenith Bank Plc) the share of the CERPAC sale proceeds due to the Seller. In the same vein, the weekly deduction amount expected to accrue to cover the Bond obligations (based on an existing one-time standing instruction from the Trustees) is transferred to a Bond Collection Account (BCA) to meet the existing Bond obligations as and when due. Thereafter, the balance in the TCA is transferred

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

to the residual claim holders. Agosto & Co. notes that the Bond Trustees (DLM Trust Company Limited and ARM Trustees Limited) have only viewing rights over the CERPAC Sales Escrow Account but are responsible for managing and controlling the operations of the TCA and BCA for the Discrete Bond, Series 1 & 2 Bonds.

As at 31 January 2021, CTTL had produced and issued circa 456,684 cards, out of the earmarked 900,000 cards, leaving about 443,316 cards to be produced and sold. Based on the average number of cards sold per annum historically, we estimate that it will take about 8 years for the outstanding CERPAC cards to be issued and sold, while the existing Bonds have an expected maturity period of two years (or 4 years legal final maturity period).

Since the issuance of the Discrete Bond in January 2018 up to 31 January 2021, total income from the sale of CERPAC cards into the CERPAC Sales Escrow Account amounted to ₦77.8 billion. This amount was shared among the respective parties weekly based on a standing instruction as follows: CTTL (55%), FGN (33%), Nigeria Immigration Service (7%) and Ministry of Interior (5%).

Based on the Trustees Report as at 31 January 2021, the total amount transferred to the TCA representing 55% of the CERPAC sales proceeds stood at ₦42.8 billion. Out of this, a total of ₦19.1 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 total coupon payments and principal repayments due to the Discrete, Series 1 & 2 Bondholders amounting to ₦16.2 billion. In addition, the net balance in the BCA after deductions for cash reserve account and bond-related expenses including earned investment income stood at ₦1.2 billion as at 31 January 2021. Agosto & Co. notes that amounts standing to the credit of the TCA after payment of priority claims above were transferred to the residual claim holders weekly in line with the Trust Deed.

Table 4: Transaction Collection Account Schedule as at 31 January 2021

Description	₦'000
Total CERPAC Card sales into Escrow Account since Bond issuance (100% of CERPAC Sales)	77,810,045
Total Receipts into the Transaction Collection Account – (initially 65% of CERPAC Proceeds & 55% from 1 Jan 2019)	42,795,525
Amount allocated to the Bond Collection Account based on Joint Trustees Instruction	19,083,143
Earned Investment Income till date	301,307
Total Coupon & principal payment – Discrete Bondholders	(4,616,866)
Total Coupon & principal payment – Series 1 Bondholders	(10,378,396)
Total Coupon & principal payment – Series 2 Bondholders	(1,200,871)
Cash Reserve Account (excluding SBLC for Series 1 Bond)	(1,667,182)
Bond Expenses	(313,210)
Balance as at 31 January 2021	1,207,925
Estimated collections due to CERPAC Bond Collection Account for Bond Repayment till expected maturity in 2023	11,615,554
Total estimated collections due to CERPAC Bond till maturity	12,823,479
Outstanding Bond Obligations (coupon & principal) – Discrete, Series 1 & 2 Bonds	12,171,731
Bond Collection Account Adequacy Coverage ratio	1.05 times

Going forward, Agosto & Co. estimates that the funds in the BCA as at 31 January 2021 of ₦1.2 billion (excluding cash reserve balance) plus the remaining weekly collections (to be transferred into the BCA from the TCA based on the Trustees instruction) over the tenor of the Bond will be adequate to cover the outstanding Discrete, Series 1 & 2 Bond obligations 1.05 times, which we consider to be satisfactory.

OUTLOOK ON DISCRETE BOND, SERIES 1 & 2 BONDS REPAYMENT

The revised CERPAC fees of \$2,000 and change in sharing formula of 55% in favour of the CTTL has remained effective since 1 January 2019 and another review is due in January 2022 in line with the contractual agreement to review the fee structure every three years by the Federal Ministry of Interior. However, there is still an ongoing lawsuit challenging the rise in CERPAC fees in 2019, for which the Solicitors (Olaniwun Ajayi LP) have provided a favourable opinion to the Bond Trustees - that the Bondholders will continue to receive payments from the sale of CERPAC cards until a judgement is obtained from the Court of Appeal. Also, the Solicitors noted that they believe the Judgement at the Court of Appeal will be in favour of CTTL.

Agusto & Co. notes that about 443,316 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 2021. Therefore, we estimate that it will take circa 8 years for the outstanding CERPAC cards to be issued and sold, which is longer than the legal final maturity of the bonds of January 2025, which is 4 years away. Furthermore, we note that the overcollateralisation coverage ratio (value of outstanding CERPAC Card receivables divided by outstanding liabilities (Discrete, Series 1 & 2 Bonds) including the proposed Series 3 Bond⁷) of 5.67 times is considered good in our opinion.

Going forward, we estimate that the funds in the BCA as at 31 January 2021 of ₦1.2 billion, plus the remaining weekly collections (to be transferred into the BCA based on the Bond Trustees instruction) over the tenor of the Bonds will be adequate to cover the outstanding Discrete, Series 1 & 2 Bond obligations 1.05 times, which we consider to be satisfactory. However, we note that the continued repayment of the Discrete, Series 1 & 2 bond obligations 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.

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.

⁷ The SPV intends to issue an additional ₦15 billion as Series 3 Bond in Q1'2021 under the same terms and operating structure as the earlier issuances.

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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