

Continental Transfert Technique Limited

2021 Final Corporate Rating Review Report



Research, Credit Ratings, Credit Risk Management

CONTINENTAL TRANSFERT TECHNIQUE LIMITED

Bbb-

Outlook: Stable
Issue Date: 11 March 2022
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Previous Rating: Bbb-

INSIDE THIS REPORT

Rating Rationale	1
Company Profile	4
Financial Condition	7
Ownership, Mgt & Staff	11
Outlook	11
Financial Summary	12
Rating Definition	15

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

RATING RATIONALE

- Agusto & Co. hereby affirms the “Bbb-” rating assigned to Continental Transfert Technique Limited (“CTTL” or “the Company”). The assigned rating reflects the Company’s good profitability and strong cash-generating capacity as well as a stable, qualified and experienced management team. In addition, CTTL operates in a niche technology market with a longstanding contractual relationship with the Federal Government of Nigeria (FGN) as the sole provider of the Combined Expatriate Residence Permit and Alien Cards (CERPAC) for and on behalf of the Nigerian Immigration Service. However, the Company’s performance in the period under review was constrained by rising intercompany receivables especially interest-free Loans to Directors, high finance cost, concentrated ownership structure and corporate governance framework which requires improvement.
- Continental Transfert Technique Limited is a member of the Contec Global Group (“Contec Global” or “the Group”) offering different security technology solutions for e-governance and the authentication of people, objects and documents. The Company’s flagship project in Nigeria which it has operated since 1999 was based on a contract awarded by the Federal Government of Nigeria (“FGN”) through the Ministry of Internal Affairs (now Ministry of Interior). The contract was to develop the Combined Expatriate Residence Permit and Alien Cards (CERPAC) Scheme to provide highly secure documents and cards for the identification and tracking of foreign national residents in Nigeria.
- The contract has been breached several times due to the inability of the FGN to honour the terms of the agreement. However, in 2011, the Company took legal action against the FGN for breach of contractual terms and obtained final judgment settlement against the Federal Government of Nigeria in the Supreme Court of the Federal Republic of Nigeria, in the High Court of London, United Kingdom and in the District Court of the United States of America. One of the key Terms of Settlement of the Judgment Debt of 2011 was an extension of the CERPAC scheme for a term of 3 years or sale of 900,000 CERPAC cards, whichever is the latter.
- As at 31 December 2021, CTTL has cumulatively sold 499,660 cards with 400,340 outstanding out of the 900,000 cards earmarked based on the judgement debt settlement. Agusto & Co notes that based on the average number of cards sold per annum over the last decade, it will take about 7 years for the outstanding CERPAC cards to be sold. Nevertheless, the Company has been awarded additional contracts by the FGN for the deployment of various technology solutions to aid the administration and monitoring of the movement of foreign nationals within the country, but implementation has been put on hold due to the current uncertainties in the political environment.

- In the financial year ended 31 December 2020 (FYE 2020), the Company's revenue dipped by 23% year-on-year to ₦13.6 billion mainly due to lower sales of CERPAC cards especially in April 2020 owing to the travel restrictions imposed by the Federal Government of Nigeria on account of the COVID-19 pandemic. However, CERPAC card sales volumes have risen marginally in 2021 partly due to the re-opening of the economy and increased international travels as well as the introduction of an online payment system to avoid collection disruptions in the future. Based on the management accounts for the year ended 31 December 2021 (2021m), the Company had sold 46,723 CERPAC cards (2020: 46,061) and reported total revenue of ₦15.8 billion. CTTL's profitability level is good evidenced by an operating profit margin of 63%, return on assets (ROA) of 31% and return on equity (ROE) of 39% in the 2021 management accounts and we expect this trend to be sustained in the near term barring any material change to the business model.
- In FYE 2020, the Company reported an operating cash flow (OCF) of ₦10.1 billion, which was sufficient to cover returns to providers of finance comprising interest payment and dividends. Although CTTL's OCF dipped to ₦5.7 billion in 2021 mainly due to a rise in intercompany receivables, it was still adequate to cover returns to providers of finance wholly comprising interest payment of ₦2 billion. Agusto & Co. notes positively that the Company has continued to maintain good OCF to sales ratios of 74% in 2020 and 36% in 2021. In our view, the Company's overall cash flow position is good but susceptible to deterioration in the short to medium term on account of the continuous rise in unsettled related parties' transactions especially interest-free loans to directors (represented 29% of total assets as at end of 2021). Also, Agusto & Co. notes as a rating concern that there are no binding agreements or contracts in place with the related parties although CTTL's management expects these companies to repay the obligations in the medium term when they become profitable given that they have common control and ownership vested in CTTL's two founding shareholders.
- Over the last three years, Continental Transfert Technique Limited has consistently posted short-term working capital needs owing to the increase in intercompany borrowings and rise in loans and advances to directors, which are both classified as amounts due from related parties (accounting for 73% of total assets as at 2021m). In the same period, CTTL's financing structure has improved due to the issuance of long-tenured bonds and this has provided cover for the short-term funding gap. Nonetheless, we note that CTTL's overall working capital structure is satisfactory but it could become deficient if the intercompany receivables continue to rise and remain unpaid.
- The Company's leverage position is supported by a strong cash-generating capacity boosted by the operating model wherein CTTL collects a portion (55%) of the total CERPAC sales weekly from the designated bank based on an existing standing order instruction of the parties (Ministry of Interior and the Company). CTTL's moderate leverage is also reinforced by its satisfactory funding mix of equity (63%), spontaneous financing (14%) and interest-bearing liabilities (23%) as at end of 2021m. However, high finance cost as a percentage of sales of 13% in 2021m (three-year average of 17%) as

well as interest coverage ratio of 2.8 times, which is below our benchmark of 3 times, requires improvement.

- Going forward, we expect CTTL's overall cash flow and working capital positions to remain pressured on account of the Company's unchanged policy of lending surplus cash as interest-free loans to related parties (mainly directors) to embark on greenfield investments in unrelated business areas. Furthermore, we expect CTTL's leverage level to improve in the near term as the Company fully redeems the existing Discrete, Series 1 & 2 Bonds within the next twelve months. In our view, the Company's profitability level is poised to remain good buoyed by the prospects of higher income from the unsold stock of CERPAC cards.
- Based on the above, we have attached a **stable** outlook to Continental Transfert Technique Limited premised on the continued honouring of the CERPAC contract by the Federal Government of Nigeria.

Figure 1: Rating Triggers

Negative Rating Triggers

- Loan to directors exceeding 40% of total assets
- Cancellation or negative modification of the existing CERPAC Judgement Debt and contract

Figure 2: Strengths, Weaknesses, Opportunities & Threats

Strengths

- Sole provider of intelligent visa solutions to the Federal Republic of Nigeria under a longstanding contract
- Leading player in a niche security technology space in the country
- Good profitability
- Strong cash generating capacity evidenced by CERPAC card sales and receipts in USD
- Qualified, stable and experienced management team

Weaknesses

- Rising intercompany receivables especially loans to directors
- High finance cost
- Weak corporate governance structure
- Concentrated ownership profile

Opportunities

- Leveraging existing expertise and relationship to secure additional long term ancillary services
- Leveraging AfCFTA agreement and free movement of goods and persons within the region.

Threats

- Outright cancellation or negative modification of the existing contracts by government
- Protracted legal tussle
- Uncertainties surrounding implementing newly awarded projects due to potential changes in government administration

COMPANY PROFILE

BACKGROUND

Continental Transfert Technique Limited (“CTTL” or “the Company”) is a member of the Contec Global Group (“Contec Global” or “the Group”). The Contec Group, which was founded in 1984 with headquarters in London and operations spanning across Africa, Asia, Europe and America, is engaged in providing integrated, systems-based solutions in the fields of secure technologies, infrastructure and hospitality. Also, the Group has investments in Security Technologies, Industries, Energy, Agriculture, Hospitality, E-Governance and Military Supplies.

Continental Transfert Technique Limited, also incorporated in 1984, is a technology company with expertise in creating, developing and implementing large scale projects to deliver bespoke security technologies solutions, particularly in automated systems for e-governance and authentication of people, objects and documents. The Company’s flagship project in Nigeria is the Combined Expatriate Residence Permit and Alien Card Scheme (CERPAC) for the Nigerian Immigration Service (NIS), which it has operated since May 1999 following the contract awarded by the Federal Government of Nigeria (“FGN”) through the Ministry of Internal Affairs (now Ministry of Interior). The key terms of the CERPAC contract included the development of a Combined Expatriate Residence Permit and Alien Card Scheme and the provision of highly secure documents and cards for the identification and tracking of foreign national residents in Nigeria. Also, the creation of a database to maintain a record of all foreign national movements, to enable the instant flagging of all undesirable foreign nationals is part of the scheme.

The Company also operates the E-PASS scheme which commenced in 2015. Under this scheme, E-PASS stickers are issued to foreigners (on their passport) who are entered the country with Tourist or Business Visas or through the Visa on Arrivals route but decide to extend their stay beyond the 55 days limit. In addition, foreigners with an E-PASS sticker can extend their stay up to one year only with a single-entry provision, unlike CERPAC which allows multiple entries and is renewable annually over the two-year validity subject to further yearly renewals. Both projects are managed by CTTL and they involve the purchase and management of card printing materials and other consumables which are then handed over to the Nigerian Immigration Service for onward delivery to the applicants.

CTTL has an authorized share capital of 250,000,000 ordinary shares divided into ₦1 per share, which is issued and fully paid. As at 31 December 2020, the Company’s ordinary shares were held by Contec Holdings LLC Qatar (99%), Dr Benoy Berry (0.5%) and Mr Roheen Berry (0.5%). The Company’s Board of Directors is made up of the two founding directors - Dr Benoy Berry (Chairman of Contec Global Group and CTTL) and Mr Roheen Berry (Managing Director of Contec Global Group – the parent company of CTTL) and Mr Edu Ayodele Efesoah. The Company does not have operational board committees; however, the board members hold the statutory board of directors meeting as the need arises.

Table 1: Background Information of CTTL as of 31 December 2020

Authorized Share Capital	₦250 million
Issued & fully paid-up Capital	₦250 million
Shareholders’ Funds	₦12.8 billion
Registered Office	8, Langtang Close, Off Ibadan Street, Area 3, Garki, Abuja.
Principal Business	Security Technology Solutions
Auditors	Deloitte & Touche
Number of Employees	195

OVERVIEW OF THE CERPAC SCHEME

In 1999, Continental Transfert Technique Limited and the Federal Government of Nigeria (FGN) entered into a contract wherein the former was expected to invest in information technology infrastructure (hardware and software) to support the operation of the Combined Expatriate Residence Permit and Alien Cards (CERPAC) issued to expatriates working in Nigeria. The FGN failed to honour the terms of the contract (and addendums) and as a result, the Company took legal action against the FGN. In 2011, CTTL obtained a final judgment against the Federal Government of Nigeria in the Supreme Court of the Federal Republic of Nigeria, in the High Court of London, United Kingdom and in the District Court of the United States of America. One of the key Terms of Settlement of the Judgment Debt of 2011 was an extension of the CERPAC scheme for a term of 3 years or sale of 900,000 CERPAC forms, whichever is the latter. Also, as a component of the Judgement Debt Settlement of 2011, an E-PASS scheme was developed and implementation began in 2015.

As part of the 2011 Judgement Settlement, CTTL is expected to provide ancillary services for e-immigration including the provision of a technology hub for visa administration (Nigerian Intelligent Visa Administration (NIVA) and Intelligent Immigration gate management schemes incorporating a Trusted Travelers Scheme (TTS). These have led to the origination and award of various schemes such as E-PASS, E-Move, NIVA and TTS. However, none of these new services (except E-PASS) have been implemented as at date.

Figure 3: Ancillary Services to be provided by CTTL based on Terms of Settlement of Judgment Debt 2011

E-PASS
<ul style="list-style-type: none"> • For expatriates staying beyond 55 days in Nigeria • Applicable fees - 56 to 90 days: \$200; 91 to 180 days: \$1,000 and 181 to 365 days: \$2,000 • The revenue sharing ratio between FGN and CTTL is 28:72
E-MOVE
<ul style="list-style-type: none"> • Travel card for citizens of 15 ECOWAS countries • Approved fees is \$30 per card per annum • The revenue sharing ratio between FGN and CTTL is 50:50
Nigerian Intelligent Visa Administration (NIVA)
<ul style="list-style-type: none"> • Nigerian Intelligent Visa Administration, which is the "Visa on Arrival" scheme • It is estimated that Nigeria receives request between 400,000 and 450,000 for visa on arrivals each year • To identify the categories of residents with a view to improving the security situation in the country
Trusted Travelers Scheme (TTS)
<ul style="list-style-type: none"> • This is similar to the global traveller's scheme • CTTL to provide platform for implementation of Trusted Travellers Certification Platform and design Secured Trusted Traveller Certificate
Intelligent Immigration Gate Management Schemes
<ul style="list-style-type: none"> • CTTL shall design, provide, operate and transfer schemes to monitor entry and exit processes in Nigeria

Source: Continental Transfert Technique Limited Management Presentation

The CERPAC form, which is sold to foreigners living in Nigeria is priced in united states dollars and payable in naira at the prevailing exchange rate, is processed by the Nigerian Immigration Service using CTTL consumables and technology platform, to generate a CERPAC card, which is valid for one year. The proceeds from the sale of the CERPAC forms are paid into a central collection account domiciled with Polaris Bank Limited (formerly Skye Bank Plc) before being distributed weekly to the relevant stakeholders based on an approved sharing formula. CERPAC

has 36 operating centres spread across the country, which are operated and manned by officers of the Nigerian Immigration Service, who utilise CTTL's highly secured technology systems to produce the CERPAC cards.

Following a series of amendments to the Terms of Settlement of Judgement Debt of 2011 (the last of which was the fourth amendment dated 15 December 2014), CTTL has made additional investments in the creation of more production centres. Since 1 January 2019, the CERPAC card fees were reviewed¹ to \$2,000 from \$1,000 by the Federal Government of Nigeria, through the Ministry of Interior and the revised sharing formula of proceeds from the sale of CERPAC cards is now split in the following proportion: CTTL (40%), FGN (33%), Nigeria Immigration Service (7%), CTTL expenses (15%) and Ministry of Interior (5%).

Based on historical information provided by CTTL (see table 2), an average of circa 52,000 CERPAC cards are sold annually. However, Agusto & Co. notes that due to the adverse impact of the COVID-19 pandemic (especially in April 2020), CTTL's total CERPAC sales reduced to 46,061 cards in 2020 (the lowest in the last 8 years) and has marginally risen to 46,723 as at end of 2021. As at 31 December 2021, CTTL had cumulatively produced 499,660 cards with about 400,340 cards left to be sold out of the 900,000 cards based on the Terms of Settlement of Judgement Debt of 2011. Furthermore, we estimate that the sale of the total outstanding cards will translate to circa ₦328.2 billion (at an average exchange rate of ₦410/\$1) while the portion due to CERPAC based on the sharing formula of 55%, will amount to ₦180.5 billion. Based on the average number of cards sold per annum over the last decade, we estimate that it will take CTTL about 7 years to issue the outstanding CERPAC cards and fulfil the judgment requirement

Table 2: Historical CERPAC Cards Sales

Historical CERPAC Card Sales Volume (2011 – 2021)											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
January	3,699	2,619	4,172	4,215	5,127	5,191	4,406	4,906	4,901	5,033	3,747
February	4,323	4,972	4,124	4,604	4,677	4,723	4,121	4,506	4,066	4,790	4,238
March	5,047	4,741	4,045	6,108	5,243	4,995	4,995	4,915	5,608	4,878	5,069
April	3,545	3,720	4,134	5,585	4,449	5,377	3,931	4,967	5,189	460	3,585
May	4,916	3,000	4,397	5,252	4,816	4,980	4,723	5,438	5,642	3,977	3,357
June	4,715	3,000	3,823	4,611	5,644	4,998	4,004	4,807	4,493	3,980	3,872
July	4,370	3,000	4,207	4,439	5,385	4,192	4,110	4,680	5,233	3,540	3,300
August	4,344	3,111	3,518	4,300	4,901	4,486	4,028	4,251	4,486	3,394	3,478
September	4,448	4,258	4,199	5,258	4,620	3,988	3,850	4,087	4,434	3,563	3,770
October	4,072	4,266	4,087	4,737	5,686	4,181	4,388	5,406	4,933	3,194	3,972
November	4,068	4,719	4,345	5,373	5,203	4,724	4,902	5,318	4,746	4,976	4,601
December	3,399	2,931	3,229	3,964	4,486	3,426	3,575	3,253	4,004	4,276	3,734
Total	50,946	44,337	48,280	58,446	60,237	55,261	51,033	56,534	57,735	46,061	46,723
Monthly Average	4,245	3,695	4,023	4,870	5,020	4,605	4,253	4,711	4,811	3,838	3,893

Source: Continental Transfert Technique Limited Management Presentation

¹ At inception in 1999, CERPAC forms were sold at \$250, but has since increased to \$350, \$700 and \$1,000 in 2002, 2007 and 2012 respectively. However, a discounted fee of \$400 applies for missionaries and students who make up less than 2% of total card sales.

FINANCIAL CONDITION

ANALYSTS' COMMENTS

We have analysed the financial condition of Continental Transfert Technique Limited for the financial year ended 31 December 2020 (FYE 2020) and also reviewed the 31 December 2021 management accounts (2021m).

PROFITABILITY

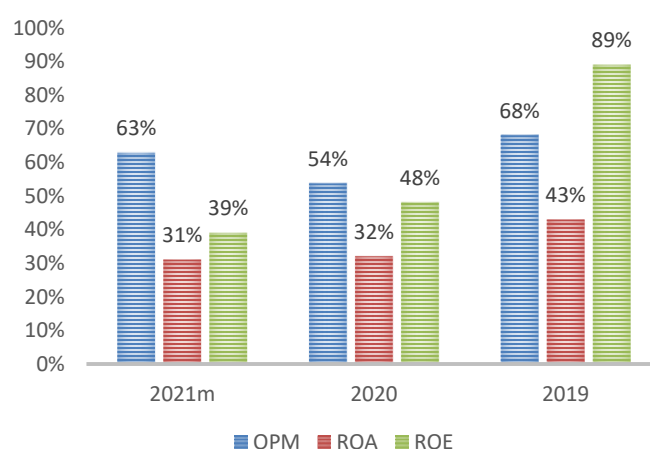
Continental Transfert Technique Limited's primary source of revenue includes the sale of Combined Expatriate Residence Permit and Alien Card Scheme (CERPAC) forms as well as income from E-PASS projects. The CERPAC forms are priced in United States dollars but payments are made in naira at the prevailing bank rate through a designated commercial bank.

In the financial year ended 31 December 2020 (FYE 2020), the Company recorded revenue of ₦13.6 billion, which was 23% lower than the prior year. The decline is principally attributed to lower sales of CERPAC cards, especially in April 2020 due to the complete lockdown imposed by the Federal Government of Nigeria on account of the COVID-19 pandemic. Proceeds due to CTTL from the sale of CERPAC forms accounted for 95% of revenue in 2020 (2019: 94%), while the sale of E-PASS² forms represented the balance. Although CTTL reported a lower CERPAC card sales volume of 46,061 for 2020 when compared to the last three years, we note that the Company has marginally increased CERPAC card sales volumes in 2021 and this is partly due to the re-opening of the economy as well as the introduction of online payment system to avoid collection disruptions in the future. Based on the management accounts for the year ended 31 December 2021 (2021m), the Company had sold 46,723 CERPAC cards in 2021 translating to total revenue of ₦15.8 billion.

In FYE 2020, CTTL recorded a cost to income ratio of 21.9% which further increased to 23.3% in 2021m, due to higher arbitration expenses and direct costs associated with the ongoing CERPAC project. The Company's management notes that the rise in arbitration expenses is mainly linked with the accumulated amounts over the last three years due to its lawyer (Adewole Adebayo & Co – House of Law) which were settled in 2020 as well as higher inflationary pressures on CERPAC project expenses in 2021. Consequently, CTTL's gross profit margin declined to 78.1% in 2020 (2019: 87%) and further to 76.7% in 2021m.

In the review period, the Company's operating expenses wholly comprising administrative expenses rose as a percentage of revenue to 24% in FYE 2020 (2019: 19%) due to higher professional fees and an increase in impairment charges on related party transactions. However, administrative expenses both in absolute terms and as a percentage of revenue tapered down to 14% in 2021m driven mainly by lower professional charges, reduced travelling expenses and a decline in repairs & maintenance costs. Overall, CTTL reported a good operating profit margin (OPM) of 53.7% in FYE 2020 and 62.7% in the 2021 unaudited management accounts.

Figure 4: OPM, ROA & ROE (2019 - 2021m)



² E-PASS is operated by CTTL and revenue is shared as follows: CTTL (72%), FGN (20%), Nigeria Immigration Service (7%) and Ministry of Interior (1%). Under the E-PASS project, an E-PASS sticker is issued to a foreigner who came into the country on a visit visa and decides to stay beyond the 55 days limit. However, the E-PASS has a single-entry provision and stay can only be extended up to one year only.

In the financial year ended 31 December 2020, the Company's finance cost as a percentage of revenue of 20.2% (2019: 17.2%) is high when compared to our benchmark of 5% and this is mainly attributed to the ongoing repayment on the bonds³ in issue as well as the redemption of the Commercial Paper⁴ in the period. Following the redemption of the Commercial Paper, the Company's finance cost to revenue ratio declined to 13% in FYE 2021, which is still higher than our benchmark of 5%. Notwithstanding, CTTL posted a good profit before tax margin of 45% and 51% in FYE 2020 and 2021m respectively.

In FYE 2020, the Company reported pre-tax pre-interest return on assets (ROA) of 32% and return on equity (ROE) of 48%, both above our benchmarks. Also, we note that the three-year (2019 – 2021m) weighted average pre-tax pre-interest ROA and ROE of 33% and 50% respectively are significantly better than our benchmarks and depict a good profitability profile.

In our opinion, Continental Transfert Technique Limited's profitability is good.

CASH FLOW

The Company generates cash (portion due to CTTL weekly) from payments made by expatriates for CERPAC cards or E-PASS forms at a designated bank (and most recently online) before the actual card printing is done at the Nigerian Immigration Service offices. This operating model ensures that CTTL is liquid given that sales collection is distributed weekly by the designated bank based on an existing standing order instruction of the parties (Ministry of Interior and the Company) in line with the approved sharing formula. Premised on this operating model, CTTL channels surplus free cash to related companies (mainly start-ups) involved in unconnected areas such as agriculture, technology, energy and automotive as seed capital and working capital finance. Whilst we recognize the gains of this model in diversifying the Group's interest in other business areas, we note with concern that there are no binding agreements or contracts in place with these related parties. However, CTTL's management expects these companies to repay the obligations in the medium term when they become profitable and stable given that they have common control and ownership vested in the two founding shareholders.

In the financial year ended 31 December 2020, Continental Transfert Technique Limited recorded an operating cash flow (OCF) of ₦10.1 billion (higher than the prior year OCF of ₦6.3 billion) which was sufficient to cover returns to providers of finance comprising interest payment of ₦2.7 billion and dividend payments of ₦4 billion. Augusto & Co. notes that the continuous rise in unpaid amounts due from related parties (which amounted to ₦21.7 billion, representing 78.3% of the Company's total assets as at end of 2020) has continued to subdue CTTL's potential operating cash-generating capacity. Although CTTL's management noted that the amounts due from related parties were obtained for investment in new and existing business ventures by the directors (and that the amount outstanding will be reduced with dividend payments in the future), we consider the high interest-free loans to Directors amounting to ₦7.7 billion in 2020 (FYE 2019: ₦9.1 billion) as a rating concern as there is no defined repayment timeline.

Post FYE 2020, the Company reported an OCF of ₦5.7 billion in the financial year ended 31 December 2021 which was sufficient to cover returns to providers of finance wholly comprising interest payment of ₦2 billion. Over three years (2019 - 2021), CTTL recorded a net cumulative OCF of ₦22.2 billion, which was adequate to cover the cumulative returns to providers of finance of ₦18.8 billion in the same period.

³ In 2018, the Company raised 3 bonds (Discrete, Series 1 and Series 2) totaling ₦18.977 billion which will be repaid in 2023.

⁴ In 2019, CTTL issued ₦2.489 billion Commercial Paper (face value of ₦2.784 billion), which has since been repaid as at end of June 2020.

In FYE 2020, Continental Transfert Technique Limited's operating cash flow as a percentage of sales stood at a high 74% and moderated to 36% as at end of 2021m due to the lower OCF reported in the period.

In our view, CTTL's cash-generating capacity is good but it is negatively impacted by amounts due from related parties with particular reference to the unsecured loans and advances to directors.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2020, Continental Transfert Technique Limited's working assets stood at ₦24.8 billion (2019: ₦25.3 billion) with amounts due from related parties being the key driver accounting for 88%. As at the same date, the Company's spontaneous financing (non-interest-bearing liabilities) of ₦3.5 billion (2019: ₦2.9 billion) mainly consisted of other creditors & accruals (97%). This was inadequate to fund working assets, leaving a short-term working capital need of ₦21.4 billion as at FYE 2020. Over the last five years, the Company has consistently posted short-term working capital needs due to persistent rise in amounts due from related parties (comprising unsecured loans and advances to directors and other intercompany transactions).

As at FYE 2020, CTTL's long-term funds stood at ₦23.9 billion, consisting of equity (54%) and long-term borrowings⁵ (46%). As at the same date, the Company's long-term assets of ₦1.1 billion, which consisted of property, plant and equipment (53%) and right of use assets in line with IFRS 16 (47%), was adequately covered by long term funds resulting in long-term working capital of ₦22.8 billion (2019: ₦23.3 billion). Furthermore, the Company's long-term working capital was just sufficient to cover the short-term working capital need, leading to an overall working capital surplus of ₦1.4 billion.

In the 12 months management accounts for the year ended 31 December 2021, CTTL reported a short-term working capital need of ₦25.8 billion and long-term working capital of ₦27.1 billion, thus leading to an overall working capital surplus of ₦1.3 billion.

In our opinion, the Company's overall working capital structure is satisfactory. However, reduction in interest-free loans to directors, which accounted for 28% and 29% of CTTL's total assets as at FYE 2020 and 2021m respectively, is required to further improve the Company's overall working capital profile.

⁵ In 2018, CTTL sponsored an SPV to raise bonds from the capital market and the proceeds were on-lent to the Company in the form of an intercompany Bond. The Bond was issued in three tranches (Discrete, Series 1 & 2) totaling ₦18.97 billion and the outstanding balance (less reserve account balance) as at end of 2021 was ₦7.1 billion (FYE 2020: ₦10.1 billion).

LEVERAGE

As at 31 December 2020, Continental Transfert Technique Limited's total liabilities stood at ₦14.9 billion, down by 20% from the prior year due to the redemption of the erstwhile ₦2.489 billion commercial paper in June 2020 and repayment of principal and interest due on existing bonds in issue in the period. As at the same date, the Company's total liabilities were split into interest-bearing liabilities (77%) and non-interest-bearing liabilities (23%), with the latter mainly made up of other creditors and accruals. Further analysis revealed that the outstanding balances on the Bonds in issue accounted for the largest portion (96%) of CTTL's interest-bearing liabilities as at FYE 2020, while short term commercial bank loans⁶ and bank overdraft accounted for the balance.

Although CTTL (through the SPV) issued a Series 3 Bond (₦1.25 billion 7-year 14.5% Fixed Rate Bond Due 2028) in December 2021, the Company's total liabilities declined by 34% to ₦7.5 billion as at 31 December 2021 (management accounts) due to the ongoing repayment of existing bonds in issue, full repayment of short-term commercial bank loans as well as a reduction in bank overdrafts in the year. Overall, CTTL's total liabilities remains skewed to interest-bearing liabilities accounting for 63% as at end of 2021m.

As at 31 December 2021, CTTL had the following bonds in issue - ₦4.877 billion 7-Year 18.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Discrete Bond), ₦12.5 billion 7-Year 15.25% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 1 Bond), ₦1.6 billion 7-Year 15.5% Future Flow Receivables Backed Securitisation Bond Due 2025 (Series 2 Bond) and ₦1.25 billion 7-year 14.5% Future Flow Receivables Backed Securitisation Bond Due 2028 (Series 3 Bond). Agusto & Co notes that the Bond obligations (coupon and principal) are being repaid semi-annually as and when due in line with the 5-year expected maturity period from the CERPAC Card sales ceded to the SPV under the control and management of the Bond Trustees and a total of ₦16.2 billion has been made to all the bondholders as at FYE 2021.

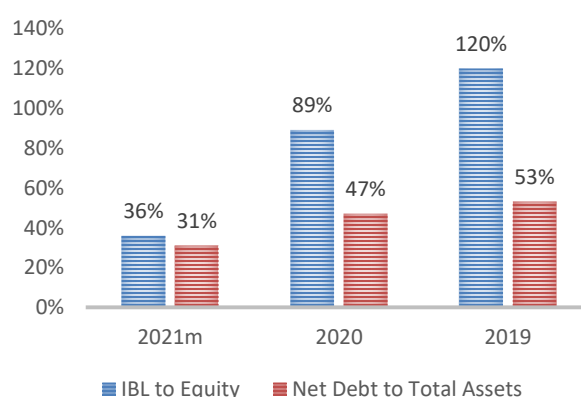
As at 31 December 2020, the Company's total assets of 27.8 billion was funded by equity (46.2%), spontaneous financing (12.6%) and interest-bearing liabilities (41.2%), thus depicting a satisfactory equity cushion⁷.

Based on the ongoing repayment of the bonds in issue, CTTL's interest expenses in absolute terms have continued to decline year on year. However, as a percentage of sales, it remained above our 5% benchmark at a high of 13% in 2021m and a three-year (2019 – 2021m) average of 17%. Nonetheless, the Company recorded an interest coverage ratio of 2.7 times in 2021m and a three-year (2019 – 2021m) average of 2.8 times, just below our benchmark of 3 times, precipitated by the consecutive positive operating cash flows over the last three years.

CTTL's interest-bearing liabilities (IBL) as a percentage of equity of 36% (2020: 89%) and net debt (total debt less cash) as a percentage of average total assets of 31% in 2021m (2020: 47%) were in line with our expectations.

In our opinion, CTTL's leverage level is moderate.

Figure 5: IBL to Equity & Net Debt to Total Assets



⁶ The Company has three short term loans – ₦400 million at 17% from First City Monument Bank, ₦300 million at 19% from First Bank of Nigeria Limited and ₦500 million at 18% from Citi Homes Finance Company Limited. All the short-term loans have been repaid as at end of 2021.

⁷ If we adjust loans to directors from shareholder's funds, CTTL's equity cushion would decline to 18% in FYE 2020 and 35% in 2021m

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2021, the Company had three shareholders - Contec Holdings LLC Qatar (99%), Dr Benoy Berry (0.5%) and Mr Roheen Berry (0.5%), while the Board of Directors had three directors namely Dr Benoy Berry, Mr Roheen Berry and Mr Edu Ayodele Efesoah. Besides from the statutory board of directors meeting, there were no functional board committees in the period under review. In our opinion, CTTL's ownership structure is concentrated and the corporate governance framework is weak.

Dr Benoy Berry is the Chairman of Contec Group as well as Continental Transfert Technique Limited. He is a professional with many years of experience in multinational corporations. After establishing Contec Global in 1984, he has been able to oversee the growth of the Group to become a prominent security technology provider with worldwide operations. In recognition of his contributions to the advancement of secure technologies, he received the Nigeria Association of Science's Outstanding Achievement in Technology Award in 2011, adding to his numerous professional accomplishments.

Mr Roheen Berry is the Managing Director of Contec Global- the parent company of CTTL, a position he has held since 2012. Before his appointment, he worked in different capacities in subsidiaries and the Group as a whole. He joined Contec Global in 2009, following a period of employment at the Wellington Investment Management group. Mr Roheen Berry is an alumnus of the Kennedy School of Government, Harvard University class of 2004.

Other members of CTTL's Senior Management Team include Mr Srinivasa Reddy, who is the Chief Operating Officer and Mr Sandeep Jayaswal the Chief Financial Officer at Contec Global Group.

OUTLOOK

Continental Transfert Technique Limited is the only company in Nigeria with the exclusive contract to produce the CERPAC cards for and on behalf of the Nigerian Immigration Service. As at 31 December 2021, the Company had cumulatively produced and sold a total of 499,660 cards out of the allocated 900,000 cards based on the Terms of Settlement of Judgment Debt of 2011. Thus, it will take about 7 years for the outstanding 400,340 CERPAC cards to be issued based on the 10-year historical average number of cards sold per annum.

CTTL's financial condition in FYE 2020 and 2021m was characterised by good profitability, satisfactory working capital position and a stable management team. However, the Company's financial performance was constrained by rising amounts due from related parties (especially interest-free loans to directors), high finance cost, concentrated ownership profile and weak corporate governance structure, which we believe requires improvement.

Going forward, the Company remains committed to providing a secured technology hub for visa administration and a database of movement of foreign nationals within and out of the country, through various contracts awarded by the FGN. Also, CTTL intends to fully implement border control management at all points of entry into the country to check the validity of foreigners seeking entry into the country. All of these initiatives would increase compliance and enrollment of foreigners in the CERPAC scheme and lead to an increase in forms sold in the short to medium term. Nonetheless, the Company has put a hold on expansion plans in the short term due to the uncertainties surrounding implementing newly awarded projects due to potential changes in government administration on account of the upcoming electioneering season.

Notwithstanding barring any unforeseen issue, we expect the Federal Government of Nigeria to continue to honour the CERPAC contract due to the strategic nature of the project and as such, we attach a **stable** outlook to the rating assigned to the Company.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	Management 31-Dec-21		31-Dec-20		31-Dec-19	
	N'000		N'000		N'000	
ASSETS						
CASH IN HAND AND BANK	1,726,184	5.2%	1,852,941	6.7%	3,074,645	10.5%
MARKETABLE SECURITIES & TIME DEPOSITS	-		-		-	
CASH & EQUIVALENTS	1,726,184	5.2%	1,852,941	6.7%	3,074,645	10.5%
FX PURCHASED FOR IMPORTS	-		-		-	
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	-		434,946	1.6%	2,709,630	9.2%
STOCKS	-		-		-	
TRADE DEBTORS	-		-		-	
DUE FROM RELATED PARTIES	24,159,516	73.3%	21,791,863	78.3%	20,532,609	69.8%
OTHER DEBTORS & PREPAYMENTS	6,165,205	18.7%	2,637,984	9.5%	2,031,179	6.9%
TOTAL TRADING ASSETS	30,324,721	92.0%	24,864,793	89.3%	25,273,418	85.9%
INVESTMENT PROPERTIES	-		-		-	
OTHER NON-CURRENT INVESTMENTS	-		-		-	
PROPERTY, PLANT & EQUIPMENT	504,840	1.5%	589,861	2.1%	880,850	3.0%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-		-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	413,955	1.3%	523,632	1.9%	181,859	0.6%
TOTAL LONG TERM ASSETS	918,795	2.8%	1,113,493	4.0%	1,062,709	3.6%
TOTAL ASSETS	32,969,700	100.0%	27,831,227	100.0%	29,410,772	100.0%
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	417,876	1.3%	439,274	1.6%	2,143,693	7.3%
CURRENT PORTION OF LONG TERM BORROWINGS	-		-		-	
LONG-TERM BORROWINGS	7,119,248	21.6%	11,024,179	39.6%	13,728,961	46.7%
TOTAL INTEREST BEARING LIABILITIES (TIBL)	7,537,124	22.9%	11,463,453	41.2%	15,872,654	54.0%
TRADE CREDITORS	-		-		-	
DUE TO RELATED PARTIES	-		12,823	0.0%	35,157	0.1%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-		-		-	
OTHER CREDITORS AND ACCRUALS	2,204,343	6.7%	3,408,837	12.2%	2,702,604	9.2%
TAXATION PAYABLE	2,289,664	6.9%	78,521	0.3%	126,423	0.4%
DIVIDEND PAYABLE	-		-		-	
DEFERRED TAXATION	-		-		-	
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	-		-		-	
MINORITY INTEREST	-		-		-	
REDEEMABLE PREFERENCE SHARES	-		-		-	
TOTAL NON-INTEREST BEARING LIABILITIES	4,494,007	13.6%	3,500,181	12.6%	2,864,184	9.7%
TOTAL LIABILITIES	12,031,131	36.5%	14,963,634	53.8%	18,736,838	63.7%
SHARE CAPITAL	250,000	0.8%	250,000	0.9%	250,000	0.9%
SHARE PREMIUM	-		-		-	
IRREDEEMABLE DEBENTURES	-		-		-	
REVALUATION SURPLUS	-		-		-	
OTHER NON-DISTRIBUTABLE RESERVES	-		-		-	
REVENUE RESERVE	20,688,569	62.8%	12,617,593	45.3%	10,423,934	35.4%
SHAREHOLDERS' EQUITY	20,938,569	63.5%	12,867,593	46.2%	10,673,934	36.3%
TOTAL LIABILITIES & EQUITY	32,969,700	100.0%	27,831,227	100.0%	29,410,772	100.0%

STATEMENT OF COMPREHENSIVE INCOME	Management		31-Dec-20		31-Dec-19	
	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
TURNOVER	15,830,050	100.0%	13,647,191	100.0%	17,760,932	100.0%
COST OF SALES	(3,695,528)	-23.3%	(2,988,956)	-21.9%	(2,355,522)	-13.3%
GROSS PROFIT	12,134,522	76.7%	10,658,235	78.1%	15,405,410	86.7%
OTHER OPERATING EXPENSES	(2,215,072)	-14.0%	(3,333,376)	-24.4%	(3,280,429)	-18.5%
OPERATING PROFIT	9,919,450	62.7%	7,324,859	53.7%	12,124,981	68.3%
OTHER INCOME/(EXPENSES)	216,874	1.4%	1,584,353	11.6%	415,630	2.3%
PROFIT BEFORE INTEREST & TAXATION	10,136,324	64.0%	8,909,212	65.3%	12,540,611	70.6%
INTEREST EXPENSE	(2,065,349)	-13.0%	(2,763,455)	-20.2%	(3,051,454)	-17.2%
PROFIT BEFORE TAXATION	8,070,975	51.0%	6,145,757	45.0%	9,489,157	53.4%
TAX (EXPENSE) BENEFIT	-	-	47,902	0.4%	(126,423)	-0.7%
PROFIT AFTER TAXATION	8,070,975	51.0%	6,193,659	45.4%	9,362,734	52.7%
NON-RECURRING ITEMS (NET OF TAX)	-	-	-	-	-	-
MINORITY INTERESTS IN GROUP PAT	-	-	-	-	-	-
PROFIT AFTER TAX & MINORITY INTERESTS	8,070,975	51.0%	6,193,659	45.4%	9,362,734	52.7%
DIVIDEND	-	-	(4,000,000)	-29.3%	(7,000,000)	-39.4%
PROFIT RETAINED FOR THE YEAR	8,070,975	51.0%	2,193,659	16.1%	2,362,734	13.3%
SCRIP ISSUES	-	-	-	-	-	-
OTHER APPROPRIATIONS/ ADJUSTMENTS	2	-	-	-	-	-
PROFIT RETAINED B/FWD	12,617,592	-	10,423,933	-	8,061,199	-
PROFIT RETAINED C/FWD	20,688,569	-	12,617,592	-	10,423,933	-
ADDITIONAL INFORMATION	31-Dec-21		31-Dec-20		31-Dec-19	
Staff costs (₦'000)	523,474		523,474		497,265	
Average number of staff	191		191		195	
Staff costs per employee (₦'000)	2,741		2,741		2,550	
Staff costs/Turnover	3.3%		3.8%		2.8%	
Capital expenditure (₦'000)	10,108		15,207		227,675	
Depreciation expense - current year (₦'000)	95,129		117,037		134,064	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	500,000		500,000		500,000	
Auditors	UNAUDITED		DELOITTE & TOUCHE		DELOITTE & TOUCHE	
Opinion			CLEAN		CLEAN	

CASH FLOW STATEMENT FOR Y/E	31-Dec-21	31-Dec-20	31-Dec-19
	=N='000	=N='000	=N='000
OPERATING ACTIVITIES			
Profit after tax	8,070,975	6,193,659	9,362,734
ADJUSTMENTS			
Interest expense	2,065,349	2,763,455	3,051,454
Minority interests in Group PAT	-	-	-
Depreciation	95,129	117,037	134,064
(Profit)/Loss on sale of assets	-	-	-
Other non-cash items	2	-	-
Potential operating cash flow	10,231,455	9,074,151	12,548,252
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	-	-	-
Due to related parties	(12,823)	(22,334)	(39,510)
Advance payments and deposits from customers	-	-	-
Other creditors & accruals	(1,204,494)	706,233	1,405,676
Taxation payable	2,211,143	(47,902)	1,376
Deferred taxation	-	-	-
Obligations under unfunded pension schemes	-	-	-
Minority interest	-	-	-
Cash from (used by) spontaneous financing	993,826	635,997	1,367,542
(INCREASE)/DECREASE IN WORKING ASSETS:			
FX purchased for imports	-	-	-
Advance payments and deposits to suppliers	434,946	2,274,684	(607,711)
Stocks	-	-	-
Trade debtors	-	-	-
Due from related parties	(2,367,653)	(1,259,254)	(7,063,977)
Other debtors & prepayments	(3,527,221)	(606,805)	48,884
Cash from (used by) working assets	(5,459,928)	408,625	(7,622,804)
CASH FROM (USED IN) OPERATING ACTIVITIES	5,765,353	10,118,773	6,292,990
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	(2,065,349)	(2,763,455)	(3,051,454)
Dividend paid	-	-4,000,000	-7,000,000
CASH USED IN PROVIDING RETURNS ON FINANCING	(2,065,349)	(6,763,455)	(10,051,454)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	3,700,004	3,355,318	(3,758,464)
NON-RECURRING ACTIVITIES			
Non-recurring items (net of tax)	-	-	-
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	-	-	-
INVESTING ACTIVITIES			
Capital expenditure	(10,108)	(15,207)	(227,675)
Sale of assets	-	189,159	1,115
Purchase of other long term assets (net)	-	-341,773	-
Sale of other long term assets (net)	109,677	-	5,554,728
CASH FROM (USED IN) INVESTING ACTIVITIES	99,569	(167,821)	5,328,168
FINANCING ACTIVITIES			
Increase/(Decrease) in short term borrowings	(21,398)	(1,704,419)	(1,067,546)
Increase/(Decrease) in long term borrowings	(3,904,931)	(2,704,782)	(1)
Proceeds of shares issued	-	-	-
CASH FROM (USED IN) FINANCING ACTIVITIES	(3,926,329)	(4,409,201)	(1,067,547)
CHANGE IN CASH INC/(DEC)	(126,756)	(1,221,704)	502,157
OPENING CASH & MARKETABLE SECURITIES	1,852,941	3,074,645	2,572,488
CLOSING CASH & MARKETABLE SECURITIES	1,726,185	1,852,941	3,074,645

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.

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