SUNDRY FOODS LIMITED

2022 Final Corporate Rating Review Report

Agusto&Co.
Research, Credit Ratings, Credit Risk Management

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Sundry Foods Limited

Rating Assigned:

A-

This refers to a company with good financial condition and strong capacity to repay obligations on a timely basis.

Outlook: Stable
Issue Date: 08 July 2022
Expiry Date: 30 June 2023

Previous Rating: Bbb+

Industry: Food Services Industry

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RATING RATIONALE

- Agusto & Co. upgrades the rating assigned to Sundry Foods Limited ("Sundry Foods", "SFL" or "the Company") to **"A-"**. The rating upgrade reflects the Company's good profitability, moderate leverage, adequate working capital and as well as good and sustainable cash flow position which is supported by the Company's favourable trade terms with its customers and creditors. The rating is further underlined by Sundry Foods' good market position as a leading player in the Quick Service Restaurant (QSR) Industry as well as its stable and experienced management team. These strengths are partially offset by the frail macro-economic environment evidenced by the declining consumer purchasing power, rising inflation and the intense competition in the QSR Industry as well as the Company's corporate governance structure which requires strengthening.

- Sundry Foods Limited is a major player in the Quick Service Restaurant (QSR) Industry in Nigeria which operates under the brand names – Kilimanjaro, Pizza Jungle, Kiligrill and Nibbles Creamery. The Company also operates bakeries and provides catering services to corporate entities and for private events. Since its inception in 2003, Sundry Foods Limited has maintained a steady growth and has over a hundred outlets consisting of restaurants, bakeries, catering in various locations across 14 states in Nigeria.

- Following the hike in production and operating costs in 2021, SFL reviewed its price list upward by at least 20% across its various products. The Company also opened 22 new outlets consisting of 21 QSR stores and a bakery in the same period in line with its expansion strategy. These account for the 85% year-on-year growth in revenue recorded by the Company to close at ₦21 billion in 2021. Consequently, SFL recorded an improved operating profit margin and profit before tax margins to 13.5% and 11.2% respectively (FYE 2020: 9.7%, 7.5%). As at the reporting date, SFL posted a pre-tax pre-interest return on assets (ROA) and pre-tax return on equity (ROE) of 23% and 51% respectively which were in line with our expectations for the QSR industry in Nigeria. Sundry Foods recorded revenue of ₦7.1 billion in the first quarter of 2022 (Q1'2022), which represented a 75% increase from a similar period in the previous year and 25% of the Company's budgeted revenue for the 2022 financial year. This is reflective of the company's continued expansion evidenced by the opening of eight additional outlets as at the end of the first quarter of 2022. Thus, SLF posted an annualized ROA and ROE of 33% and 66% which are good in our opinion.

- In the FYE 2021, the Company's operating cash flow (OCF) surged to ₦4.3 billion (2020: ₦1.1 billion) which was sufficient to cover returns to providers of finance. The Company's cash flow adequacy is largely driven by the "cash and carry" nature of its QSR segment as well as the favourable trade terms with suppliers. As a result, SFL's OCF represented 21% of revenue, which we consider to be good. Similarly, the Company's cumulative OCF over the three years (2019 – 2021) was enough to meet dividends and interest payments. We are therefore of the opinion that the Company's cash flow position is good and sustainable given its business model.

- The Company recorded both short-term and long-term financing surpluses of ₦1.2 billion and ₦935 million respectively as at 31 December 2021. This resulted in an overall working capital surplus of ₦2.1 billion which we consider adequate.

- Sundry Foods Limited's long-term borrowings have increased over the last three years in a bid to finance its aggressive roll-out of new outlets. The Company opened 21 and 22 new outlets in 2020 and 2021 respectively. Consequently, total interest-bearing liabilities (TIBL) rose by 76% to ₦4.9 billion as at the end of FY2021. SFL also recorded an interest expense to sales ratio of 2.8% (FYE 2020: 3.2%) while its net debt to total assets ratio increased to 68% (FYE 2020: 60%) which is relatively high when compared to peer figures (Food Concepts: 34%). Notwithstanding, these ratios were in line with our benchmarks, underlining the Company's moderate leverage position.

- Sundry foods Limited is currently carrying out its five–year expansion plan which entails extending its footprints to other parts of Nigeria, particularly in the Southwest and Northern parts of the country. The growth strategy involves increasing its Kilimanjaro restaurant and pizza jungle store count by fifteen and five stores respectively on an annual basis as well as setting up ten retail outlets for its Kiligrill business. However, Agusto notes with concern the recent acquisition of landed property for some of its new outlets. This could have a detrimental effect on the Company's ability to redistribute its physical footprints where a retail location loses its appeal due to changes in consumer tastes and preferences. The Company is also growing its local sourcing capacity by securing strategic partnerships across its raw materials value chain to streamline its logistic processes and costs. We expect the successful actualization of these initiatives, coupled with Nigeria's large and growing population – 3% per annum, the increasing use of food technology services and the quality and variety of menu offerings to continue to support SFL's revenue growth over the near to medium term.

- Based on the aforementioned, we have attached a **stable** outlook to Sundry Foods Limited's rating.

Figure 1: Strengths, Weakness and Challenges

Strengths

- Good market position
- Sustained revenue growth
- Good cash flow
- Stable & experienced management team
- Diverse product offerings targeting various consumer preferences
- Local sourcing of inputs

Weakness

- Corporate governance structure that requires further strenghtening

Challenges

- Stiff competition in the QSR industry
- Intrusive government regulations
- Frail macroeconomic environment evidenced by dwindling consumer purchasing power and rising inflation.
- Flunctuation in costs of raw materials

PROFILE OF SUNDRY FOODS LIMITED

Background

Sundry Foods Limited ("Sundry Foods", "SFL" or "the Company") is a major player in the Quick Service Restaurants Industry in Nigeria. The Company is primarily engaged in the operation of quick-service restaurants and also provides bakery services as well as catering facilities to individuals and corporate entities. The Company was incorporated as a private limited liability company on 8 December 2003 and commenced operations on 2 October 2004.

Since its inception, Sundry foods has opened over a hundred outlets consisting of restaurants, bakeries and catering outlets spread across 14 states in Nigeria, with a majority of the outlets in Port Harcourt, Lagos and Abuja. However, most of these outlets – especially the restaurant, pizza and bakery segments- are co-located. The Company has regional offices in Lagos and Abuja, while its headquarters is in Port Harcourt. SFL has carved a niche in the South-South region of the country, particularly in Port Harcourt, where its headquarters is located.

Figure 2: Key Company milestones

Year	Milestones
2003	- The Company was incorporated
2004	- SFL commenced trading with a bakery in Port Harcourt
2009	- SFL increased its share capital to 300 million ordinary shares of ₦1.00 each. - The Company opened its 5th store
2012	- The Company created additional 420 million preference shares of ₦1.00 each. - Divestment by UBA Private Equity and investment by Silk Trust Private Equity.
2013	- The Company opened its 15th store
2015	- The Company opened its 20th store
2017	- Awarded the Best Restaurant Brand Leadership 2017 by Africa Business Travel & Hospitality Excellence Award. - Euromonitor International recognized the Company as one of the five largest fast-food restaurant chains in Nigeria
2018	- The Company opened its 50th store
2019	- Opened its bakery outlet in Lagos adding 20,000 loaves per day to its total capacity
2020	- Created an employee share scheme for Port Harcourt Sundry Staff Co-operative Investment and Credit Society Limited.
2021	- The Company issued a ₦2.5 billion bond to finance its expansion initiatives and refinance expensive debts.

Service Portfolio

The Company operates three major service segments from which it generates revenue. These are – the Quick Service Restaurant, Catering and Bakery segments.

- **Quick Service Restaurant (QSR) Segment**- The Company operates quick-service restaurants under the brand names **Kilimanjaro, Pizza Jungle, Kiligrill and Nibbles Creamery**. Through its Kilimanjaro restaurant, SFL offers a variety of local delicacies including vegetable soups, porridge, jollof/fried rice and chicken in addition to pastries (meat pie, doughnut, chicken pie and sausage). Pizza Jungle specializes in medium-sized assorted pizzas, while Kiligrill and Nibbles Creamery offers street food (shawarma, roasted yam and grilled chicken/fish) and ice cream respectively. SFL currently operates 62 Kilimanjaro restaurants, 25 Kiligrills and 32 Pizza Jungle outlets located in different regions of Nigeria. However, SFL's Kiligrill business (which specializes in street food) is largely co-located with the Kilimanjaro restaurants.

- **Catering Segment** – Sundry Foods Limited provides event catering services under the brand name **Sundry Foods Services** to individuals for private events. The Company's clientele also includes corporate organisations – particularly for the operation of staff canteens. SFL currently manages 14 staff canteens for 10 organisations in different states in the country.

- **Bakery Segment** – Sundry Foods offers bakery services under the brand name **Nibbles Bakery,** which provides a range of factory-made bread namely – Nibbles Family Loaf, Suncrust Jumbo and Suncrust Mini loaves. SFL currently operates a bakery each in Lagos, Port Harcourt and Abuja. A proportion of its bread sales is driven through its restaurant business.

Ownership Structure

As at 31 December 2021, Sundry Foods Limited was owned by five organisations, with Potter's Properties Limited holding the largest stake of 30%. Also, the Managing Director (Mr. Ebele Enunwa), through his indirect holdings in Accel Capital Partners, controls 29.3% equity stake in Sundry Foods. The other major shareholders of SFL include Silk Trust Cooperatie U.A and Taste & Flavours limited which have 26.6% and 13% equity stakes respectively while the Port Harcourt Sundry Foods Staff Co-operative Investment and Credit Society Limited holds the remaining 1.1%.

Background Information

Authorised Share Capital:	₦720 million
Paid-up Capital:	₦415.4 million
Shareholders' Fund:	₦4.6 billion
Registered Office:	23 Nzimiro Street, Old GRA, Port Harcourt, Rivers State.
Principal Business:	Quick Service Restaurants
Auditors:	Deloitte & Touche

Source: Sundry Foods' 2021 Audited Financial Statement

As at 31 December 2021, Sundry Foods Limited's total assets stood at approximately ₦12.9 billion while its total liabilities and shareholders' fund were ₦8.3 billion and ₦4.6 billion respectively. The Company generated a turnover of ₦20.9 billion and reported a profit-after-tax of ₦1.6 billion (FYE 2020: ₦522 million) in the financial year ended 2021. In the same period, Sundry Foods had an average staff strength of 2,790 employees.

FINANCIAL CONDITION

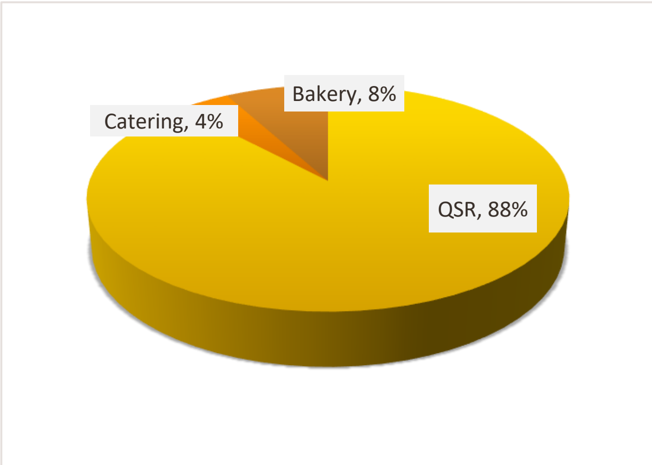
ANALYSTS' COMMENTS

We have analysed the audited financial statements of Sundry Foods Limited ("the Company") for the three years ended 31 December 2021 and also reviewed the 31 March 2022 management accounts.

PROFITABILITY

The continuous rise in the prices of food and other key inputs have negatively impacted the QSR industry in Nigeria. Many players have adjusted their product prices to mitigate the impact of the country's frail and high inflationary environment. According to the National Bureau of Statistics, some selected food prices recorded an increase of 42% in one year[1]. The surge in prices is driven by persisting security challenges in the major food-producing areas and infrastructural problems which have hampered food supply logistics and storage across the country.

Figure 3: Breakdown of Revenue by Business Segment



Nonetheless, Sundry Foods Limited reported positive nominal revenue growth of 85% in FY2021 to close at ₦21 billion due to increased volume sales on account of the expansion of the Company's business with the number of QSR outlets rising to 92 (FYE 2020: 71) and bakeries to 3 (FYE 2020: 2). In addition, the 20% increase in the Company's price list accelerated the growth in the Company's earnings.

A breakdown of SFL's revenue revealed that the QSR segment accounted for 88% whilst the bakery and catering segments accounted for 8% and 4% respectively in FYE 2021. Given the burgeoning middle class, the favourable demography, the increasing use of mobile technology services for ordering food[2], the rising number of QSR stores, the quality and variety of menu options and the convenience of fast food, we believe the Company's revenue will be sustained over the near to medium term. In addition, we expect SFL's planned additions to its store count (by 15 outlets annually) and the Company's ability to largely transfer its cost increases to customers to spur revenue growth over the near to medium term.

SFL's cost of sales constitutes payments made to suppliers for foodstuff, consumables, diesel and gas as well as the associated delivery costs. The prices of raw materials, which are largely sourced locally, have trended

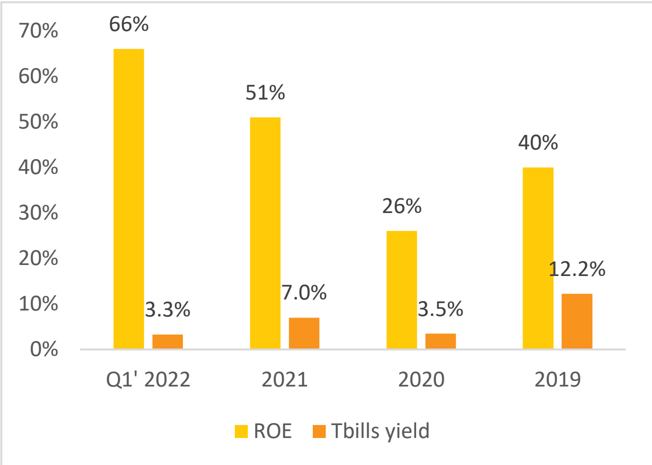
[1] *NBS Selected Food Prices Watch (May 2022)*

[2] *Sundry Foods Limited introduced its Kilimeals mobile application in 2018 to facilitate online ordering and food delivery to customer locations. The value of customer orders made via this application increased from ₦199 million in FY-2020 to ₦307 million in FY-2021*

upwards in recent times to reflect the high rate of inflation in Nigeria driven by rising food and energy prices, hike in electricity tariffs and the depreciation of the Naira. Consequently, the Company's cost of sales to revenue ratio increased marginally to 56.4% in FYE 2021 (2020: 54.2%) which narrowed its gross profit margin to 43.6% in 2021 (FYE 2020: 45.8%). Going forward, we expect that the rising input prices, further exacerbated by the Russia-Ukraine war will continue to pressure the Company's direct costs.

However, in the same period, Sundry Foods' operating expenses to sales ratio improved to 30.2% (FYE 2020: 36.2%) on account of a higher growth rate in revenue, which ameliorated the impact of the marketing expenses associated with the opening of new outlets coupled with the increase in staff salaries in FY2021. As a result, the Company's operating profit margin improved to 13.5% in FYE 2021 from 9.7% in the prior year which is in line with our benchmark for the Quick Service Restaurants Industry. In the same vein, the Company posted a profit before and after tax margins of 11.2% and 7.5% respectively which represent improvements from 7.5% and 4.6% recorded in the previous year.

Figure 4: ROE vs TBILL yield



Sundry Foods posted an improved other income of ₦127.8 million in FYE 2021 (2020: ₦114.6 million) largely from rental income realized from leasing out excess floor space in some of its QSR outlets in Lekki and Onne Rivers State, amongst others as well as from Industrial Training Fund (ITF) reimbursements and insurance claims. In our view, the Company's rental income will continue to remain a sustainable source of additional earnings in the medium to long term.

The Company's pre-interest and tax return on assets (ROA) in FYE2021 and weighted average ROA over three years (2019- 2021) of 22.7% and 20.6% were in line with our expectations. Similarly, the Company's return on equity (ROE) in FYE2021 and weighted average ROE over three years of 51% and 39.2% provide significant premiums above the average yield on 364-day treasury bills within the same period. The Company's EBITDA margin also inched up to 20% from 19% recorded in the previous year.

The unaudited account of Sundry Foods Limited for the three months ended March 2022 (Q1'2022) showed revenue of ₦7.1 billion (Q1'2021: 4.1 billion) as the Company continues to realize high volume sales on account of the opening of the new QSR outlets. The upward review in the price of the Company's products also accounts for the significant turnover growth in Q1'2022. Consequently, SFL's annualized ROA and ROE stood at 33% and 66% respectively, up from 23% and 51% recorded in FYE 2021.

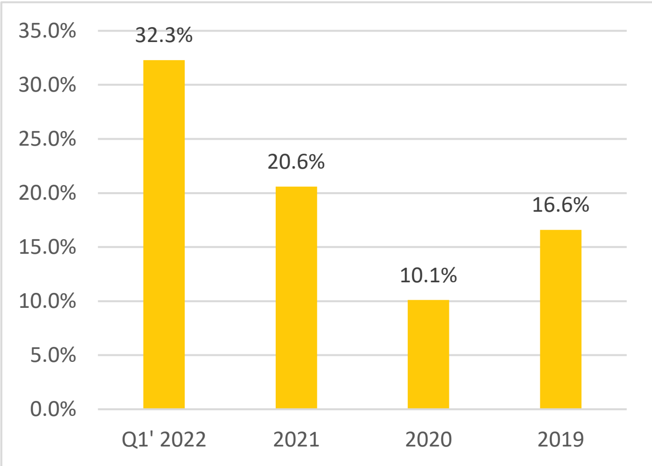
Overall, Sundry Foods Limited's profitability is good. However, sustainability is contingent on the Company's ability to effectively pass on its rising input costs to customers in the face of the attendant high inflationary pressures and intense competition in the QSR industry.

CASH FLOW

Sundry Foods Limited generates cash essentially from the sale of local delicacies, pastries and confectionaries through its retail outlets as well as from catering services. While the Company's products are sold to customers predominantly on a cash-and-carry basis, the catering segment (accounting for only 4% of revenue) sometimes grants credit for a period of 30 to 45 days to select blue-chip companies. SFL enjoys favourable trade terms with its suppliers with a credit period ranging between 30 to 60 days. As at FYE 2021, SFL's average trade receivable days stood at 6 days which is within the approved credit limit, while the average trade payable days was 30 days, which is good in our opinion.

During the financial year ended 31 December 2021, Sundry Foods recorded an operating cash flow (OCF) of ₦4.3 billion, which represents a significant increase from the prior year's ₦1.1 billion. This was largely driven by the growth in the Company's profit on the back of the increase in the number of QSR outlets which augmented sales volume. The OCF was further enhanced by the reduction in other debtors and prepayment balances within the same period. Akin to the trend over the last three years, SFL's OCF in 2021 was sufficient to cover returns to providers of finance of ₦778 million, comprising dividend and interest payments.

Figure 5: Operating Cash Flow to Sales Ratio (2019 -Q1'2022)



SFL's OCF to sales ratios in FYE 2021 and over a three-year (2019 – 2021) period of 21% and 16% respectively, were in line with our benchmarks. These attest to SFL's good cash-generating capacity buoyed by the cash-and-carry nature of the largest segment of the business – QSR. In the same vein, the Company's OCF as a percentage of returns to providers of financing over a three-year (2019 – 2021) period of 358% underpins its good cash flow position. We also note positively SFL's principal payback period of approximately one year, which falls within our benchmark.

Subsequent to the 2021 year-end, (31 March 2022 unaudited account) SFL's OCF rose to ₦4.5 billion following the Company's continued expansion and the opening of 8 additional QSR outlets in Q1'2022. Given Sundry Food's rapid expansion drive to open more outlets in major cities and towns across the country, we expect improvement in its earnings and OCF levels over the short to medium term.

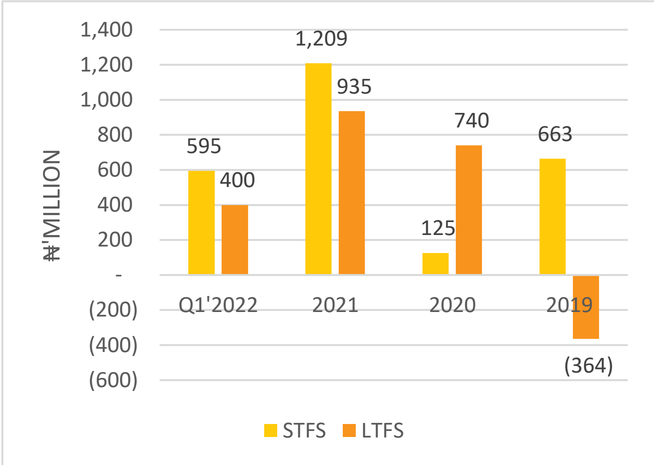
In our opinion, the Company has a good and sustainable cash flow.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2021, Sundry Foods Limited's working assets grew marginally by 6% to ₦2.2 billion. The components of the Company's working assets as at FYE 2021 are inventory of raw materials and consumables (52%), other debtors & prepayments (34%) and trade receivables (14%).

As at FYE 2021, Sundry Foods Limited's spontaneous financing (non-interest-bearing liabilities) increased by 55% year-on-year to ₦3.4 billion (2020: ₦1.81 billion) primarily due to the rise in other creditors and accruals, as well as an increase in deferred tax and tax payable on account of the growth in the taxable profit as at the reporting date. Consistent with the trend over the past three years, the Company's spontaneous financing was adequate to cover working assets, leaving a short-term financing surplus (STFS) of ₦1.2 billion as at FYE 2021. Given SFL's favourable terms of trade with its customers and suppliers, we expect this trend to continue.

Figure 6: STFS vs LTFS (2019 – Q1'2022)



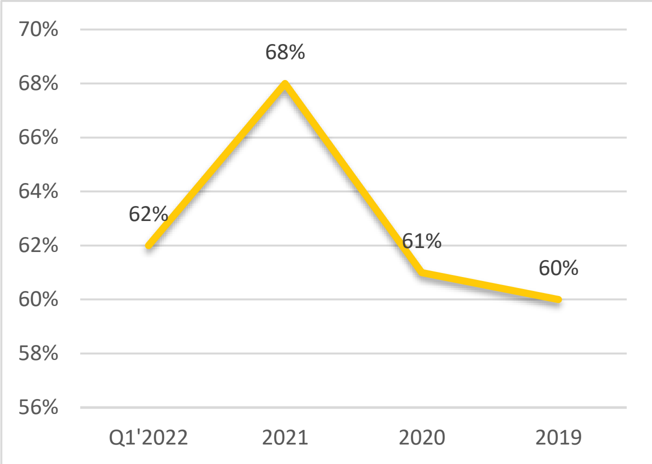
As at 31 December 2021, SFL's long-term assets grew by 63% to ₦8.6 billion following the opening of 21 new QSR outlets and the procurement of equipment for these new outlets within the financial year in accordance with the Company's expansion strategy. Consequently, property, plant & equipment (PPE) accounted for the largest portion of total long-term assets at 90%, majorly comprising land, buildings and bakery/kitchen equipment. The other component of long-term assets as at FYE2021 was right-of-use assets (10%) majorly kitchen equipment and vehicles under a finance lease. As at FYE 2021, the Company's long-term funds of ₦9.5 billion which comprised equity (49%) and long-term borrowings (51%), were sufficient to cover the long-term assets, thus resulting in working capital of ₦935 million. The LTFS and available working capital culminated in an overall working capital surplus of ₦2.1 billion. SFL's unaudited account for the first quarter (Q1) of 2022 also revealed an overall working capital surplus of ₦995 million.

In our view, the Company's working capital is adequate for the current business operations.

LEVERAGE

The Company's total liabilities, which stood at ₦8.3 billion as at 31 December 2021, comprised interest-bearing liabilities (59%) and non-interest-bearing liabilities (41%). The main components of the non-interest-bearing liabilities (NIBL) were other creditors & accruals (38%), trade creditors (28%), deferred tax (19%) and taxation payable (15%).

Figure 7: Net debt to total assets



As at the end of FY2021, SFL's interest-bearing liabilities (IBL) which were wholly made up of long-term borrowings almost doubled to ₦4.1 billion (2020: ₦2.1billion) on account of the maiden ₦2.5 billion Series 1 Five-Year 13.5% Fixed Rate Bond issued by the Company through a wholly-owned SPV (Sundry Foods SPV Plc) in December 2021 to finance the Company's expansion initiatives and repay existing short-term expensive obligations. The fixed-rate coupon is payable semi-annually while the principal is to be repaid half-yearly following the expiration of a 12-month moratorium. The other interest-bearing liabilities in SFL's books as at FYE 2021 consisted of a vehicle finance lease[3] and a term loan with two commercial banks in Nigeria to fund the acquisition of equipment and the purchase of landed property required for the roll-out of new Kilimanjaro restaurants. We note that Sundry Foods Limited has persistently increased its long-term debt over the last three years in a bid to finance its rapid roll-out of new outlets.

As at 31 December, 2021, the Company's total assets of ₦13.8 billion were funded by total liabilities (64%) and shareholders' funds (36%) depicting a low equity cushion. In the same period, Sundry Foods' interest expense to revenue ratio improved to 2.8% (FYE 2020: 3.2%) as the increase in finance costs was masked by the high volume of sales achieved during the period.

Following the increase in operating cash flow, SFL's interest coverage ratio (operating cash flow to interest cost) rose to 7.3x in FYE2021 and remained above our benchmark of 3 times. In the same vein, SFL's interest-bearing liabilities to equity ratio of 60% and net debt as a percentage of total assets of 68% as at 31 December 2021 were in line with our benchmarks and underline the Company's moderate leverage position.

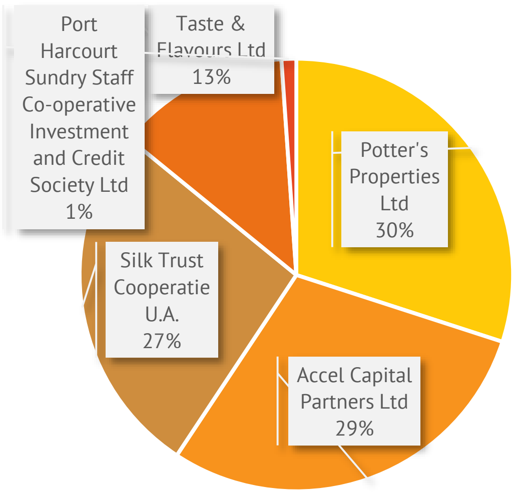
Overall, we believe that Sundry Foods Limited's leverage position is moderate. However, we expect to see the full impact of the new bond issuance on the leverage metrics in the FYE2022 as the bond was issued towards the end of the year under review (December 2021).

[3] *The lease term is 48 months while the interest charged is at a rate of 22%.*

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2021, Sundry Foods Limited had an authorized share capital of ₦720 million made up of 720 million ordinary shares at ₦1 each, while the issued and fully paid-up share capital was ₦415.4 million. As at the same date, Sundry Foods Limited was owned by five organisations, with Potter's Properties Limited holding the largest stake of 30%. The ultimate beneficiary of Potter's Properties is Prince Uche Secondus (A Nigerian politician and businessman) who was a non-participatory member of SFL's board before his resignation in June 2021. The Company is also principally owned by the Managing Director (Mr. Ebele Enunwa) through his indirect holdings in Accel Capital Partners - an entity with 29.3% controlling interest in Sundry Foods. The other major shareholders of SFL include Silk Trust Cooperatie U.A and Taste & Flavours limited which have 26.6% and 13% equity stakes respectively while the Port Harcourt Sundry Foods Staff Co-operative Investment and Credit Society Limited holds the remaining 1.1%.

Figure 8: Ownership structure



Board Composition and Structure

Sundry Foods Limited is governed by a 6-member Board of Directors comprising two Executive Directors and four Non-Executive Directors. The Board is led by the Chairman, Mr. Adedotun Sulaiman (MFR) - a renowned Nigerian management and strategy consultant who also chairs the board of some other companies including Parthian Partners Limited and Descasio Limited. The Board holds its meetings quarterly to deliberate on issues relating to the strategic direction of the Company. In the FYE 2021, two new board Committees, the Audit and Risk Committee and the General-Purpose Committee were formed. Prior to this time, the Board did not have separate and functional committees providing specific oversight responsibilities. While we expect to see the resultant effects of the newly formed committee, we believe that Sundry Foods' corporate governance structure requires improvement.

Table 2: Members of the Board as at 31 December 2021

S/n	Name	Position	Shareholder Interest Represented
1	Mr. Adedotun Sulaiman (MFR)	Chairman	-
2	Mr. Ebele Enunwa	Managing Director	Accel Capital Partners
3	Mr. Nnamdi Opara	Executive Director	-
4	Mrs. Blessing Odita	Non-executive Director	-
5	Mr. Nnaemeka Obiakor	Non-executive Director	-
6	Mr. Nigel Bannerman	Non-executive Director	Silk Trust Private Equity

SFL's management team comprises the Managing Director, Executive Director and nine senior management personnel covering various segments of the business. The members of the senior management team of Sundry Foods Limited have local and international experience in the Food Services Industry and the majority of them have been in the Company for more than 10 years. Consequently, we believe Sundry Foods has a qualified and stable management team.

During the 2021 financial year, the Company had an average staff strength of 2,790 as against 2,075 employees in 2020 due to an increase in outlets during the year. In the same period, SFL's cost per employee rose to ₦0.94 million which represented a 38% increase from the prior year while the operating profit per staff increased to ₦1.9 million (2020: ₦1.2 million) to reflect the higher scale of operations achieved during the year. The profit per employee was sufficient to cover the average cost per employee 2.1 times, which signifies satisfactory staff productivity in our opinion when we consider the QSR industry.

Management Team

Mr. Ebele Enunwa is the founder and Managing Director/Chief Executive Officer of Sundry Foods Limited. He has a Bachelor of Science (B.Sc.) degree in Accounting from the University of Ilorin, Nigeria and a Master of Management in Hospitality (MMH) Degree from Cornell University, New York. Throughout his career, he has acquired valuable expertise in property selection, design and development, investment and finance, restaurant management as well as food retail management. He previously had a brief stint at Akintola Williams Deloitte and worked with Stanbic IBTC Bank - heading the bank's regional office in Port Harcourt where he acquired diverse experience in Business Assurance, Business and Financial Advisory, Funds Management as well as Investment Banking areas of the Financial Services Industry. Ebele is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and a member of the Institute of Directors, Nigeria (IoD).

Mr. Nnamdi Opara is the Executive Director of Sundry Foods Limited. He joined Sundry Foods Limited in 2004 as a pioneer accounts staff in the bakery department. He rose to become the Treasury Manager before his deployment to head the marketing and catering business segments. In 2014, he became the Chief Operations Officer (COO) of the catering business and subsequently the COO in charge of the QSR segment in 2015. Having developed and operated the company's catering and QSR divisions for some years, he was appointed Executive Director in 2017.

Mr. Opara holds a Higher National Diploma (HND) in Accounting from Federal Polytechnic, Nekede and a Master of Business Administration (MBA) from Rivers State University of Science and Technology. He also attended the Advanced Management Program (AMP) at the Wharton Business School.

Table 3: Members of Sundry Foods Limited's management team

Name	Position
Mr. Ebele Enunwa	Managing Director
Mr. Nnamdi Opara	Executive Director
Mr. Adewale Osobukola	Chief Financial Officer
Mr. Perry Anakhu	General Manager – Bakery Operations
Mr. Michael Ugoh	General Manager – Catering Operations
Mr. Jude Ogbonna	General Manager – QSR
Mr. Jubril Shoaga	General Manager – Lagos Region
Mr. Nduka Mokwunye	Head – Marketing
Mrs. Marian Ayah	Head – Supply Chain Management
Mrs. Mmeme Best-Agbi	Head – Human Resources
Mr. Christian Ejekam	Head – Internal Audit

OUTLOOK

Food inflation is one of the most critical challenges faced by the QSR industry in recent times. The continuous rise in the prices of foodstuff and other key inputs as well as the weakening domestic currency and frail macroeconomic environment have negatively impacted the QSR industry by raising production costs. However, to mitigate these, players have reviewed their product prices upwards, thereby transferring costs to the consumers. Many large-scale QSR operators have also adopted expansion strategies as a tactic to improve economies of scale and in turn profit margins.

Despite the challenges faced, the Industry's outlook remains stable on the back of Nigeria's burgeoning middle class and its unique palates as well as its propensity to eating out. This is further upheld by the statistic that Nigerians spend about a fifth of their income on food consumed outside the home[4]. With an estimated market size of ₦289 billion[5], the QSR industry is expected to continue growing in proportion to the expanding population size.

The advent of the coronavirus pandemic spurred the increased adoption and acceptance of technology and the use of Food app services for fast food purchase and the use of dispatch riders to deliver these foods within minutes of an order. This digital innovation in addition to the favourable demography is expected to drive sustainability and growth in the Country's QSR Industry. Sundry Foods is not left out in the food technology and home delivery services sphere as it owns a mobile ordering application called Kilimeals which facilitates online ordering and food delivery to customer locations. This is expected to positively impact the demand and topline performance of the Company.

Sundry Foods Limited's three-year (2019 to 2021) revenue growth averaged 42%, which is good in our view. The Company has a deliberate strategy to continue its expansion drive with a five-year plan to establish a presence in major cities and towns, particularly in the South West and Northern regions of the Country. The plan involves increasing its Kilimanjaro restaurant and pizza jungle store count by fifteen and five stores respectively on an annual basis as well as setting up ten retail outlets for its Kiligrill business, with five standalone kiosks and the other five embedded in select Kilimanjaro restaurants. In line with this expansion drive, Sundry foods opened 22 new outlets in 2021. As at the end of the first quarter of 2022, the Company opened 16 additional outlets, bringing the total store count to 108 as at end of March 2022.

In the near to medium term, Agusto & Co expects turnover growth to remain within the double-digit territory on the back of the further opening of retail outlets. We also anticipate stable profitability in the short to medium term in line with the historical performance, given the Company's unique selling proposition which includes tasty meals, product variety and attractive ambiance of SFL's outlets.

In our view, SFL's working capital and cash flow will remain good, hinged on the favourable terms of trade enjoyed by the Company from both suppliers and customers. On the back of the ₦2.5 billion Series 1 Five-Year 13.5% Fixed Rate Bond raised under a ₦20 billion bond issuance programme in FY- 2021 to finance route-to-

[4] *Stears Business*

[5] *Agusto & Co estimates*

market expansion and refinance existing expensive commercial debt, we expect a consequent rise in interest expense in 2022.

Sundry Foods Limited intends to improve its local sourcing capacity by securing strategic partnerships across its raw materials value chain to streamline costs amid rising prices of inputs such as diesel, gas and food. On account of these initiatives and planned investments, Agusto & Co. expects SFL’s financial performance to be sustained over the short to medium term.

Therefore, we have attached a **stable** outlook to Sundry Foods Limited.

Financial Summary

STATEMENT OF FINANCIAL POSITION	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
ASSETS						
IDLE CASH	2,144,491	16.5%	864,931	10.5%	299,845	4.7%
MARKETABLE SECURITIES & TIME DEPOSITS	-		-		-	
CASH & EQUIVALENTS	2,144,491	16.5%	864,931	10.5%	299,845	4.7%
FX PURCHASED FOR IMPORTS	-		-			-
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS						
STOCKS	1,150,738	8.9%	695,516	8.4%	487,977	7.6%
TRADE DEBTORS	316,824	2.4%	237,346	2.9%	245,006	3.8%
DUE FROM RELATED PARTIES						
OTHER DEBTORS & PREPAYMENTS	763,349	5.9%	1,168,373	14.2%	410,792	6.4%
TOTAL TRADING ASSETS	**2,230,911**	**17.2%**	**2,101,235**	**25.5%**	**1,143,775**	**17.8%**
INVESTMENT PROPERTIES	-		-		7,754	0.1%
OTHER NON-CURRENT INVESTMENTS	-		-		-	
PROPERTY, PLANT & EQUIPMENT	7,727,508	59.6%	4,609,503	55.9%	4,385,402	68.4%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-		-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	870,375	6.7%	670,645	8.1%	573,234	8.9%
TOTAL LONG-TERM ASSETS	8,597,883	66.3%	5,280,148	64.0%	4,966,390	77.5%
TOTAL ASSETS	12,973,285	100.0%	8,246,314	100.0%	6,410,010	100.0%
Growth	*57.3%*		*28.6%*		*34.0%*	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	-		-		-	
CURRENT PORTION OF LONG-TERM BORROWINGS	805,826	6.2%	718,489	8.7%	812,813	12.7%
LONG-TERM BORROWINGS	4,100,737	31.6%	2,063,356	25.0%	839,821	13.1%
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	**4,906,563**	**37.8%**	**2,781,845**	**33.7%**	**1,652,634**	**25.8%**
TRADE CREDITORS	957,303	7.4%	696,381	8.4%	589,270	9.2%
DUE TO RELATED PARTIES	-		-		15,998	0.2%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-		-		-	
OTHER CREDITORS AND ACCRUALS	1,303,213	10.0%	919,202	11.1%	544,960	8.5%
TAXATION PAYABLE	509,084	3.9%	214,281	2.6%	371,438	5.8%
DIVIDEND PAYABLE						
DEFERRED TAXATION	670,423	5.2%	396,191	4.8%	286,008	4.5%
MINORITY INTEREST	-		-		-	
REDEEMABLE PREFERENCE SHARES	-		-		-	
TOTAL NON-INTEREST BEARING LIABILITIES	3,440,023	26.5%	2,226,055	27.0%	1,807,674	28.2%
TOTAL LIABILITIES	8,346,586	64.3%	5,007,900	60.7%	3,460,308	54.0%
SHARE CAPITAL	415,397	3.2%	415,397	5.0%	410,397	6.4%
SHARE PREMIUM	323,935	2.5%	323,935	3.9%	312,936	4.9%
IRREDEEMABLE DEBENTURES	-		-		-	
REVALUATION SURPLUS	-		-		-	
OTHER NON-DISTRIBUTABLE RESERVES	-		-		-	
REVENUE RESERVE	3,887,367	30.0%	2,499,082	30.3%	2,226,369	34.7%
SHAREHOLDERS' EQUITY	4,626,699	35.7%	3,238,414	39.3%	2,949,702	46.0%
TOTAL LIABILITIES & EQUITY	12,973,285	100.0%	8,246,314	100.0%	6,410,010	100.0%

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
TURNOVER	20,975,489	100.0%	11,320,262	100.0%	10,446,426	100.0%
COST OF SALES	(11,819,868)	-56.4%	(6,131,077)	-54.2%	(5,412,215)	-51.8%
GROSS PROFIT	9,155,621	43.6%	5,189,185	45.8%	5,034,211	48.2%
OTHER OPERATING EXPENSES	(6,334,013)	-30.2%	(4,093,536)	-36.2%	(3,551,926)	-34.0%
OPERATING PROFIT	2,821,608	13.5%	1,095,649	9.7%	1,482,285	14.2%
OTHER INCOME/(EXPENSES)	127,754	0.6%	114,565	1.0%	89,714	0.9%
PROFIT BEFORE INTEREST & TAXATION	2,949,362	14.1%	1,210,214	10.7%	1,571,999	15.0%
INTEREST EXPENSE	(590,832)	-2.8%	(363,798)	-3.2%	(378,178)	-3.6%
PROFIT BEFORE TAXATION	**2,358,530**	**11.2%**	**846,416**	**7.5%**	**1,193,821**	**11.4%**
TAX (EXPENSE) BENEFIT	(783,316)	-3.7%	(324,464)	-2.9%	(408,191)	-3.9%
PROFIT AFTER TAXATION	**1,575,214**	**7.5%**	**521,952**	**4.6%**	**785,630**	**7.5%**
NON-RECURRING ITEMS (NET OF TAX)	-		-		-	
MINORITY INTERESTS IN GROUP PAT	-		-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	1,575,214	7.5%	521,952	4.6%	785,630	7.5%
DIVIDEND	(186,928)	-0.9%	(249,239)	-2.2%	(249,238)	-2.4%
PROFIT RETAINED FOR THE YEAR	1,388,286	6.6%	272,713	2.4%	536,392	5.1%
SCRIP ISSUES	-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS					-	
PROFIT RETAINED B/FWD	**2,499,082**	**-**	**2,226,369**	**-**	**1,689,977**	**-**
PROFIT RETAINED C/FWD	**3,887,368**		**2,499,082**		**2,226,369**	
ADDITIONAL INFORMATION	**31-Dec-21**		**31-Dec-20**		**31-Dec-19**	
Staff costs (₦'000)	2,614,282		1,407,826		1,240,106	
Average number of staff	2,790		2,075		1,706	
Staff costs per employee (₦'000)	937		678		727	
Staff costs/Turnover	12.5%		12.4%		11.9%	
Capital expenditure (₦'000)	4,194,563		1,026,282		2,067,354	
Depreciation expense - current year (₦'000)	1,073,777		801,054		611,881	
(Profit)/Loss on sale of assets (₦'000)	(5,777)		(1,628)		(3,876)	
Average age of depreciable assets (years)	4		4		4	
Auditors	**Deloitte**		**Deloitte**		**Deloitte**	
Opinion	**CLEAN**		**CLEAN**		**CLEAN**	

CASH FLOW STATEMENT FOR THE YEAR ENDED 2021			
	31-Dec-21	**31-Dec-20**	**31-Dec-19**
	₦'000	₦'000	₦'000
OPERATING ACTIVITIES			
Profit after tax	1,575,214	521,952	785,630
ADJUSTMENTS			
Interest expense	590,832	363,798	378,178
Minority interests in Group PAT	-	-	-
Depreciation	1,073,777	801,054	611,881
(Profit)/Loss on sale of assets	(5,777)	(1,628)	(3,876)
Other non-cash items	-	-	-
Potential operating cash flow	**3,234,046**	**1,685,176**	**1,771,813**
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	260,922	107,111	294,473
Due to related parties	-	(15,998)	(538,766)
Advance payments and deposits from customers	-	-	-
Other creditors & accruals	384,011	374,242	208,177
Taxation payable	294,803	(157,157)	145,406
Deferred taxation	274,232	110,183	36,753
Obligations under unfunded pension schemes			
Minority interest			
Cash from (used by) spontaneous financing	**1,213,968**	**418,381**	**146,043**
(INCREASE)/DECREASE IN WORKING ASSETS:			
FX purchased for imports	-	-	-
Advance payments and deposits to suppliers	-	-	-
Stocks	(455,222)	(207,539)	(50,697)
Trade debtors	(79,478)	7,660	(53,553)
Due from related parties	-	-	-
Other debtors & prepayments	405,024	(757,581)	(79,260)
Cash from (used by) working assets	**(129,676)**	**(957,460)**	**(183,510)**
CASH FROM (USED IN) OPERATING ACTIVITIES	**4,318,338**	**1,146,097**	**1,734,346**
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	(590,832)	(363,798)	(378,178)
Dividend paid	(186,928)	(249,239)	(249,238)
CASH USED IN PROVIDING RETURNS ON FINANCING	(777,760)	(613,037)	(627,416)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	3,540,578	533,060	1,106,930
INVESTING ACTIVITIES			
Capital expenditure	(4,194,563)	(1,026,282)	(2,067,354)
Sale of assets	8,558	2,755	3,876
Purchase of other long-term assets (net)	(199,730)	(89,657)	-
Sale of other long-term assets (net)	-	-	18,851
CASH FROM (USED IN) INVESTING ACTIVITIES	**(4,385,735)**	**(1,113,184)**	**(2,044,627)**
FINANCING ACTIVITIES			
Increase/(Decrease) in short term borrowings	-	-	-
Increase/(Decrease) in long term borrowings	2,124,718	1,129,211	944,839
Proceeds of shares issued	-	15,999	-
CASH FROM (USED IN) FINANCING ACTIVITIES			
CHANGE IN CASH INC/(DEC)	1,279,561	565,086	7,142
OPENING CASH & MARKETABLE SECURITIES	864,931	299,845	292,703
CLOSING CASH & MARKETABLE SECURITIES	**2,144,492**	**864,931**	**299,845**

SUMMARY OF KEY RATIOS	31-Dec-21	31-Dec-20	31-Dec-19
SUMMARY OF KEY RATIOS			
PROFITABILITY			
PBT as % of Turnover	11%	7%	11%
Return on equity	60%	27%	45%
Real Sales growth	60.3%	-6.4%	18.7%
Sales growth	85.3%	8.4%	32.9%
CASH FLOW			
Interest cover (times)	7.3	3.2	4.6
Principal payback (years)	1.4	5.2	1.5
WORKING CAPITAL			
Working capital need (days)	-	-	-
Working capital deficiency (days)	-	-	-
LEVERAGE			
Interest bearing debt to Equity	106%	86%	56%
Total debt to Equity	180%	155%	117%
IBD net of cash and Equiv. as a % of Equity without rev.	60%	59%	46%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	68%	61%	60%

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 a company with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to a company with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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