JULIUS BERGER NIGERIA PLC

2022 Final Corporate Rating Review Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Julius Berger Nigeria Plc

Rating Assigned:

A-

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

Outlook: Positive
Issue Date: 26 July 2022
Expiry Date: 30 June 2023

Previous Rating: A-

Industry: Construction

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RATING RATIONALE

- Agusto & Co. hereby affirms the "**A-**" rating assigned to Julius Berger Nigeria Plc ("Julius Berger", "JBN" or "the Company"). The rating reflects the Company's good and sustainable cash flow upheld by the advance payment nature of the Construction Industry in Nigeria, good profitability metrics and low leverage position. This is in addition to Julius Berger's stable, qualified and experienced management team and the Company's leading position in the Construction industry in Nigeria. The rating is further upheld by JBN's growing contract portfolio size elicited by the increased government infrastructural projects, backed by the liquidity provided by the Presidential Infrastructure Development Fund (PIDF). The rating is however constrained by the Company's continued long-term working capital shortfall, concentrated revenue from public sector clients and high level of trade receivables from government and its agencies. The adverse impact of the frail macroeconomic environment evidenced by the rising inflation, distortions in the foreign exchange market as well as supply chain constraints have also been considered in the rating.
- Julius Berger Nigeria Plc is a leading player in the Construction industry in Nigeria with core competencies and capacity in providing integrated building and construction solutions covering the planning, designing, engineering, construction, operation and maintenance of buildings, infrastructure and industrial projects in Nigeria. The Company enjoys long standing relationships with public and private sector clients in Nigeria due to its effectiveness in executing complex building and infrastructural projects over the past 50 years.
- In the financial year ended 31 December 2021 (FYE 2021), Julius Berger's revenue grew by 35% to ₦317.2 billion from the prior year on account of the increasing number of new contracts awarded as well as projects executed and completed during the period. Consequently, JBN's operating profit margin improved slightly to 6.9% (FYE 2020: 6.5%). The Company's cost of sales to revenue ratio worsened to 82.2% (FYE 2020: 80.6%) on account of the rising input costs. As a result, the earnings before interest, tax, depreciation and amortisation (EBITDA) margin decreased marginally to 7% (FYE 2020: 8%) while the pre-tax and post-tax profit margins remained flat at 3.4% (2020: 3.4%) and

2.3% (2020: 2.4%) respectively. Overall, JBN posted a pre-tax pre-interest return on assets (ROA) and pre-tax returns on equity (ROE) of 3% and 36% (2020: 4%, 35%) respectively, which were in line with our expectations for construction companies in Nigeria. In our opinion, Julius Berger Nigeria Plc's profitability position is good and will be sustained in the near to medium term as it continues to execute projects, particularly key priority infrastructural projects such as the rehabilitation of the Abuja-Kaduna-Zaria-Kano Road, the Second River Niger Bridge, the Lagos- Shagamu Expressway amongst others, from its expanding contract portfolio.

- JBN's operating cash flow (OCF) surged to ₦84.1 billion in FYE 2021 (FYE 2020: ₦5.8 billion), reflecting the significant increase in advances received from clients for new contracts secured during the period as well as the increase in trade payables and other creditors & accruals. The OCF which represented 27% of revenue was more than sufficient to cover interest and dividend payments during the year. Similarly, the Company's cumulative OCF over the past three years (2019 – 2021) was enough to meet cumulative returns to providers of finance, thus reinforcing our opinion on its capacity to meet obligations as and when due. Agusto notes with concern the significant amount of unpaid contract sums, mainly from the public sector, tied up in receivables resulting in the Company's cumulative allowance for doubtful debts of ₦7.5 billion as at FYE 2021 (2020: ₦7.2 billion). This constitutes a drag on the Company's cash generating capacity. We expect Julius Berger's good cash flow to be sustainable in the near term, given the liquidity funding provided by the PIDF, particularly for major Federal Government ongoing infrastructural projects being executed by the Company.

- The Company recorded a short-term working capital surplus of ₦103.6 billion and a long-term financing need (LTFN) of ₦69.3 billion, thus translating to an overall working capital surplus of ₦34.8 billion in the FYE 2021. We note the recurrence of long-term financing need in JBN's funding structure over the past 10 years, mainly due to the growing projects size and rising need for heavy equipment which are long-term and capital intensive in nature. The LTFN is further worsened by the devaluation of the Naira due to the importation of heavy equipment for the Company's operations. In our view, the Company's working capital requires improvement, especially with respect to matching long-term funding requirements.

- As at FYE 2021, JBN's funding mix comprised non-interest-bearing liabilities (88%), interest bearing liabilities (5%) and equity (7%), which depicts a low equity cushion. However, the bulk of the Company's liabilities largely arises from advance payments and deposits from customers for construction contracts, which is the norm in the Industry in Nigeria. In the same period, the Company's interest expense to revenue ratio of 1.4% (2020: 1.6%) was good and below our benchmark of not more than 5%. Similarly, JBN's net debt as a percentage of average total assets of 24% was well in line with our expectation thus underlining the Company's low leverage position.

- Julius Berger commenced its first business case in the agricultural processing sector with the procurement and installation of a cashew processing plant in 2021 in line with its diversification strategy to explore and maximise opportunities in other important sectors of the economy. We expect this initiative to have a positive impact on JBN's profitability in the medium term. In our opinion, Julius Berger's revenue growth will remain positive in the near to medium term, buoyed by the Company's large contract portfolio estimated at ₦980 billion and the rising public and private infrastructural spending in Nigeria, especially the PIDF financed projects. Agusto & Co. also notes the Federal and State governments' continued efforts to plug the existing infrastructural deficit in the country, through increased capital spending on roads, railway networks and other infrastructural projects across the country. We believe Julius Berger Nigeria Plc is well positioned to benefit from these developments, given the Company's good position as a market leader and provider of integrated infrastructural solutions in Nigeria.

- Based on the aforementioned, we hereby attach a **positive** outlook to Julius Berger Nigeria Plc.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges

Strengths

- A market leader with strong brand name in Nigeria
- Stable, qualified and experienced management team
- Vast experience and long standing client relationships in the local market
- Good profitability
- Good cash flow
- Low leverage
- Strong liquidity backing from the Presidential Infrastructure Development Fund

Weaknesses

- Working capital that requires improvement
- High concentration of public sector related projects in trade receivables

Opportunities

- New contract awards for the construction of critical projects
- Wide infrastructural deficit that needs to be met
- Diversification into agro-processing sector

Challenges

- Cost adversities amid inflationary pressures and foreign exchange illiquidity
- Weak consumer and corporate purchasing power on account of the frail macroecomic environment and the potential reduction in private investments
- Global supply chain challenges
- Construction project slowdowns associated with general elections

PROFILE OF JULIUS BERGER NIGERIA PLC

Background & Overview

Julius Berger Nigeria Plc ('Julius Berger', "JBN" or the 'Company') was incorporated as a private limited liability company in 1970 and became a publicly listed entity on the Nigerian Exchange Ltd (formerly the Nigerian Stock Exchange) in 1991. JBN is a leading construction company in Nigeria engaged in the execution of complex construction works requiring cutting-edge equipment and technological expertise. JBN's operating structure alongside its subsidiaries makes it possible to carry out multifaceted projects and effectively cover all aspects of construction projects, including planning, designing, engineering, construction, operation and maintenance. Julius Berger's operations in Nigeria dates back to 1965, when the Company was awarded its first contract - the construction of Eko Bridge in Lagos State. Since then, the Company has executed a vast array of industrial, mega-infrastructure and construction projects which have contributed to the development of Nigeria's industrial and civil infrastructure. The Company executed some of the most iconic structures across Nigeria.

The Company's core activities are structured along three key segments – civil infrastructure works, building and maintenance services. The civil segment provides professional services in the areas of engineering, construction and maintenance of various infrastructures including road networks, wharfs, turnkey harbors, jetties among others. This segment has also constructed and refurbished airports in line with global aviation regulations and auxiliary buildings for factories, oil and gas installations and power stations. The building segment designs and erects commercial and industrial structures, hotels, hospitals, sports facilities and residential districts while the Services segment provides refurbishments and facility management solutions.

Julius Berger holds an international certification on Quality Management System (ISO 9001:2008) from the International Organization for Standardization (ISO), which shows its ability to meet diverse client demands and adherence to high standards for quality and safety. The Company has three regional hubs in Lagos, Rivers and Abuja while the head office is also located in Abuja. JBN also maintains various project-related offices and site facilities across the country.

Julius Berger Nigeria Plc also holds significant equity interests in seven subsidiaries – Abumet Nigeria Limited (90%), Julius Berger Free Zone Enterprise (100%), Julius Berger International GmbH (100%), Julius Berger Investments (100%), Julius Berger Medical Services (100%), Julius Berger Services Nigeria Limited (100%) and PrimeTech Design and Engineering Nigeria Limited (100%).

Table 1: Julius Berger's Shareholdings in Subsidiaries

Subsidiary	Principal Activities	Incorporation Date	% Holding
Abumet Nigeria Limited	Manufacturer and dealer in aluminum, steel, iron and glass	15 June 1990	90%

Julius Berger Free Zone Enterprise	Provider of civil engineering and building maintenance in free trade zones across Nigeria	24 March 2015	100%
Julius Berger International GmbH	Provider of planning, design, engineering, procurement and logistics services	24 June 2008	100%
Julius Berger Investments Ltd	Investment management company	1 June 2012	100%
Julius Berger Medical Services	Provider of healthcare services to Julius Berger Nigeria Plc and its subsidiaries	22 August 2011	100%
Julius Berger Services Nigeria	A terminal operator and provider of port management and port services such as stevedores, cargo superintendents and warehousing services	30 August 2006	100%
PrimeTech Design & Engineering Nigeria	Provider of engineering, planning, design, development and maintenance services of engineering works	22 August 2011	100%

Source: Julius Berger Nigeria Plc's 2021 Annual Reports & Financial Statements

In line with its diversification agenda towards exploiting opportunities in other sectors of the economy, the Company commenced its first business case in the agricultural processing sector with the procurement and installation of a cashew processing plant in the 2021 financial year. An operations team was also set up for this segment while the Company is strategically developing key relationships with suppliers, farmers and off-takers.

Additional Information

As at 31 December 2021, Julius Berger Nigeria Plc's total assets stood at ₦454.8 billion, while total liabilities and shareholders' funds were ₦424.9 billion and ₦29.9 billion respectively. In the financial year ended 31 December 2021, JBN generated revenue of ₦317.2 billion and recorded a profit after tax of ₦7.3 billion. In the same period, JBN had an average of 12,474 staff in its employment (2020: 11,350 staff).

Table 2: Background Information as at 31 December 2021

Authorised Share Capital:	₦800 million
Paid-up Capital:	₦800 million
Shareholders' Funds:	₦29.9 billion
Registered Office:	10, Shetima A. Munguno Crescent, Utako, Abuja
Principal Business:	Construction
Auditors:	Nexia Agbo Abel & Co.

Source: Julius Berger Nigeria Plc's 2021 Annual Report

FINANCIAL CONDITION

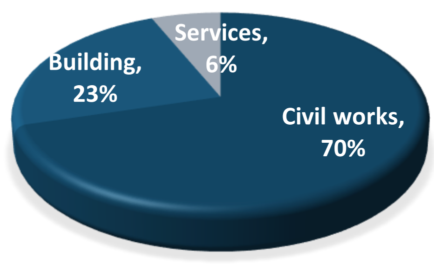
ANALYSTS' COMMENTS

We have analysed the audited financial statements of Julius Berger Nigeria Plc (("Julius Berger", "JBN" or "the Company") for the three years ended 31 December 2021.

PROFITABILITY

Julius Berger Nigeria Plc generates revenue principally from building, engineering and construction of roads and other infrastructures in Nigeria. Julius Berger is in compliance with provisions of the International Financial Reporting Standards (IFRS)[1] The Company recognises revenue with reference to the proportion of work completed at the reporting date, relative to the estimated total amount of the contract[2].

Figure 2: Breakdown of Revenue



In the financial year ended 31 December 2021 (FYE 2021), Julius Berger recorded a revenue of ₦317.2 billion, representing a 35% increase from the prior year largely driven by the growth in contract execution and increased number of completed projects[3] in the period, following the rebound in economic activities which were stalled by the COVID induced lockdowns in 2020. A breakdown by business segments revealed that civil works segment through which the Company provides services to government and private infrastructural projects, remained the largest contributor to revenue at 70%. The building and services segments accounted for 23% and 6% respectively.

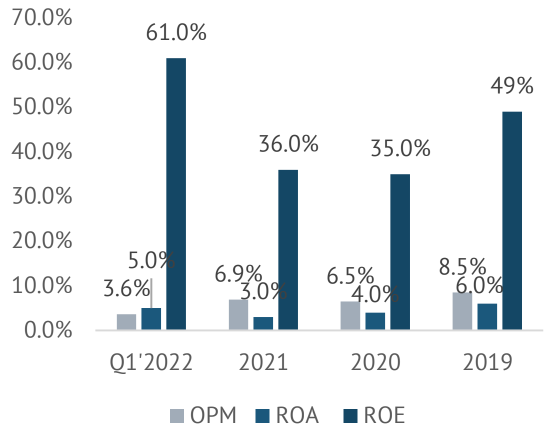
Julius Berger sources the majority of its core inputs (about 86%) locally, while specialized materials and spares are imported thus making the Company's input costs susceptible to exchange rate fluctuations. The Company is also faced with the industry-wide challenge of rising costs of building materials and logistics. This has been aggravated by the Russia- Ukraine war which has caused disruption to global supply networks, leading to uncontrollable delays in the delivery of raw materials, thereby hampering industry operators' abilities to deliver projects on time. Consequently, JBN's cost of sales ratio increased to 82.2% (FYE 2020: 80.6%) which narrowed its gross profit margin to 17.8% in 2021 (2020: 19.4%). Although, we note that the inflationary pressures and persistent Naira devaluation will inevitably result in an escalation of JBN's direct costs, we expect this to be somewhat ameliorated by the price escalation clause in JBN's contract with clients which guarantees

[1] IFRS is a set of accounting reporting guidelines issued by the International Accounting Standards Board (IASB).
[2] Balances of these are carried forward as outstanding contractual obligations
[3] Some of the projects completed in the FY-2021 include the construction of Rumuola flyover (Rivers State), Lagos NPA tower refurbishment, the Abuja Asokoro hospital project, the Bill and Melinda Gates Foundation building, the dualization of Tombia Road (Rivers State) amongst others.

adjustments to the contract amount to account for fluctuations in input costs. However, we also recognise that Company will have to absorb some of the increases in costs, premised on its limited ability to pass on the price differentials for public sector contracts, considering the extra-budgetary approvals and due diligence required to significantly alter contract terms.

However, in 2021, operating expenses as a percentage of revenue ratio improved to 10.8% due to increased scale during the year. JBN posted an operating profit margin of 6.9% in 2021 (2020: 6.5%) which is in line with our benchmark for construction companies in Nigeria. Going forward, we expect JBN's operating profit margins to remain pressured by the rising input costs.

Figure 3: Profitability Indicators (2019 - Q1'2022)



Julius Berger's other income arising from interest on short-term investments and dividends from subsidiaries as well as sundry income and profit from the sale of Property Plant and Equipment (PPE) increased to ₦7.1 billion in FYE 2021 (2020: ₦4.1 billion). However, these were offset by other expenses arising from net foreign exchange losses recognised on FX purchases and foreign currency denominated financial instruments[4] which rose to ₦12.4 billion (2020: ₦8.6 billion). The forex losses witnessed by the Company were as a result of the unfavourable foreign exchange movements, prompted by the devaluations of the Naira[5]. We note that the bulk of other income in the FY-2021 was primarily sundry income from the sale of bitumen, however, this remains an unsustainable income stream for the business.

In the year under review, Julius Berger's earnings before interest, tax, depreciation and amortization margin (EBITDA) moderated to 7% (FYE 2020: 8%) to reflect the impact of the rising direct, operating and other expenses while its pre-tax and post-tax profit margins remained flat at 3.4% and 2.3% respectively (2020: 3.4%; 2.4%). In the same vein, the Company's profitability metrics – pre-tax pre-interest return on assets (ROA) and pre-tax returns on equity (ROE) remained largely stable at 3.3% (FYE 2020: 4.0%) and 36.1% (FYE 2020: 35.5%) but were within our expectations for construction companies.

In the first quarter following the year-end (31 March 2022), JBN recorded a revenue of ₦103 billion representing a 55% growth from the comparable prior period, on account of the Company's expanding contract portfolio. As at 31 March 2022, Julius Berger's total contract portfolio which included ongoing projects as well as newly signed orders from public and private sector clients stood at approximately ₦980 billion, out of which PIDF projects accounts for the largest share at 56%, while public and private projects represent the balance of 40% and 4% respectively. In the same period, JBN's profit before tax grew to ₦10.7 billion compared with ₦8.1 billion reported in the comparable prior period (Q1 2021), while its annualized ROA and ROE stood at 5% and

[4] *Particularly receivables and foreign currency (FCY) borrowings*
[5] *The 2020-year end official exchange rate stood at ₦379.5/USD and worsened to ₦412.99/USD as at 2021-year end*

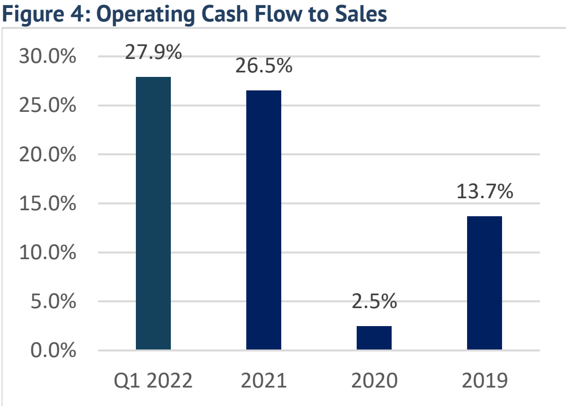
61% respectively, which were better than the 3% and 36% recorded in FYE 2021.

In our opinion, Julius Berger Nigeria Plc's profitability position is good and will be sustained in the near to medium term as it continues to execute and complete the projects from its expanding contract portfolio (valued at ₦980 billion as at Q1, 2022). In addition, we expect that the increased government spending on capital projects ahead of the 2023 general elections will bolster the Company's revenue in the near term.

CASH FLOW

Julius Berger Nigeria Plc generates cash from the provision of professional engineering, building and construction services to both public and private sector clients in Nigeria. Akin to the standard practice in the Construction industry, Julius Berger typically receives advance payments from customers for mobilisation of equipment and materials to project sites. Usually, JBN receives 15% of the contract sum from public sector clients with varying rates for private sector clients, based on the Company's evaluation of their credit quality[6]. JBN also enjoys 30-day payment terms with local suppliers and up to 90 days for major diesel suppliers.

Figure 4: Operating Cash Flow to Sales



In the financial year ended 2021, Julius Berger's average trade receivable days and payable days stood at 179 days and 62 days respectively (2020: 203 and 47 days). The aging analysis of the Company's receivables reveals that 63% is due within a year, 28% is due within (1-3) years and the remaining 9% falls within the (3-6) years. public clients (federal and state governments and other government agencies) accounted for about 61.6% of JBN's receivables, PIDF contracts constituted 29.6% while private clients made up the balance. Agusto & Co. notes with concern the high volume of unsettled contract sums particularly from public sector, tied up in receivables resulting in the Company's cumulative allowance for doubtful debts of ₦7.5 billion as at FYE 2021 (2020: ₦7.2 billion)[7]. This hampers the Company's cash generating capacity.

JBN's operating cash flow (OCF) surged to ₦84.1 billion in the FYE 2021 from ₦5.8 billion recorded in the previous year. This was largely attributable to the significant increase in advances received from clients for new contracts secured during the period such as the building of the Department of Petroleum Resources Headquarters, construction of Opebi-Mende Bridge, building of Rivers State Specialized hospital amongst

[6] *Julius Berger typically deals with clients with good credit risk rating from independent rating agencies and those with good credit record with the Company, to mitigate risk exposures.*

[7] *A total of ₦361 million was written off as uncollectible in FYE 2021*

others. In addition, the increase in trade payables and other creditors and accruals further improved the OCF during the period. Consequently, the Company's OCF was sufficient to cover returns to providers of finance of ₦4.8 billion comprising interest (89%) and dividend (11%) payments. In the same vein, Julius Berger's cumulative operating cash flow over the last three years (2019-2021) was adequate to cover the cumulative interest and dividend payments amounting to ₦20.8 billion.

The Company's OCF to sales ratio in FYE 2021 and over the three-year period (2019- 2021) of 27% and 15% respectively were in line with our benchmarks. Similarly, the Company's OCF as a percentage of returns to providers of finance over the three years (2019-2021) of 592% underpins its good cash flow position.

In the three months ended March 2022 (unaudited), JBN's operating cash flow dipped to ₦1.4 due to the significant increase in trade receivables from public and private sector clients as well as the decrease in balances due to related parties. Nonetheless, the operating cash flow to sales amounted to 14% which we consider good.

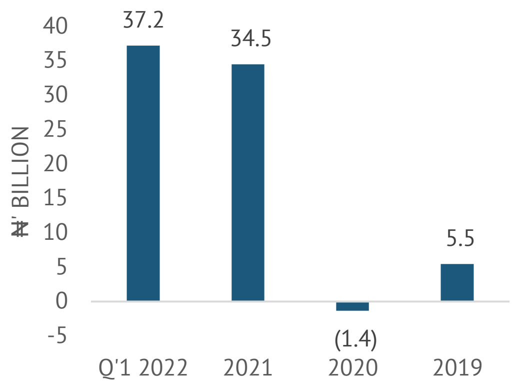
JBN has continued to benefit from the Presidential Infrastructure Development Fund (PIDF) which was established with the aim of accelerating the execution of critical infrastructural projects in Nigeria. With Julius Berger being a major contractor for these infrastructural developments, we expect a sustainable cash flow generation for the Company in the near to medium term.

In our opinion, Julius Berger's overall cash flow position is good and sustainable in the near to medium term, premised on the ongoing key construction projects such as the Abuja-Kaduna-Zaria-Kano Road extension, Second River Niger Bridge as well as Lagos-Shagamu Expressway which are largely financed through the Presidential Infrastructural Development Fund, with minimal payment delays.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2021, Julius Berger Nigeria Plc's working assets stood at ₦296.5 billion which represented a 46% increase from the prior year on account of the growth in trade receivables and other receivables and prepayments. The Company's working assets comprised trade receivables from construction contracts and services[8] (52%), other receivables and prepayments (29%), advance payments and deposits to suppliers (9%), inventory (8%) and amounts due from related parties (2%). Consistent with prior years, trade receivables from the government constituted about

Figure 5: Overall Working Capital Surplus/deficiency

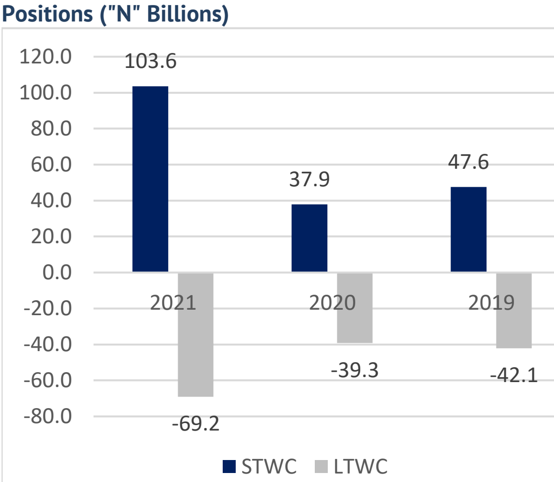


[8] *A breakdown of the receivable balance showed that 61.6% was due from the public sector, 29.6% was related to PIDF projects while the remaining 8.8% was due from private clients as at 31st December, 2021*

47% of total working assets and given the ongoing public infrastructural projects which accounts largely for JBN's contract portfolio, we expect this trend to continue in the near term.

JBN's spontaneous financing increased to ₦400.1 billion as at the FYE 2021 (2020: ₦241.5 billion), primarily due to the rise in advance received for ongoing and new contracts awards. As a result, advance receipts and deposits from customers accounted for a significant portion of JBN's spontaneous financing at 72%. Other components included trade payables (11%), amounts due to related parties (9%) majorly the amounts owed to Julius Berger International GmbH (a subsidiary) for the procurement of foreign materials and others[9] (7%). The Company's spontaneous financing was more than sufficient to cover the working assets, resulting in a short-term financing surplus of ₦103.6 billion.

Figure 6: Short-term and Long-term Working Capital Positions ("N" Billions)



As at 2021 FYE, Julius Berger's long-term assets which largely comprised property, plant and equipment (PPE) and investment in subsidiaries (17%) stood at ₦102.3 billion. As at the same date, JBN's long-term funds of ₦33.2 billion which comprised equity (90%) and long-term borrowings (10%) were insufficient to cover the long-term assets, thus resulting in a long-term financing need (LTFN) of ₦69.3 billion. The short-term financing surplus was however adequate to cover the long-term financing need, thus resulting in an overall working capital surplus of ₦34.8 billion. JBN's unaudited account for the first quarter (Q1) OF 2022 also revealed a long-term financing need of ₦60.2 billion but an overall working capital surplus of ₦37.2 billion.

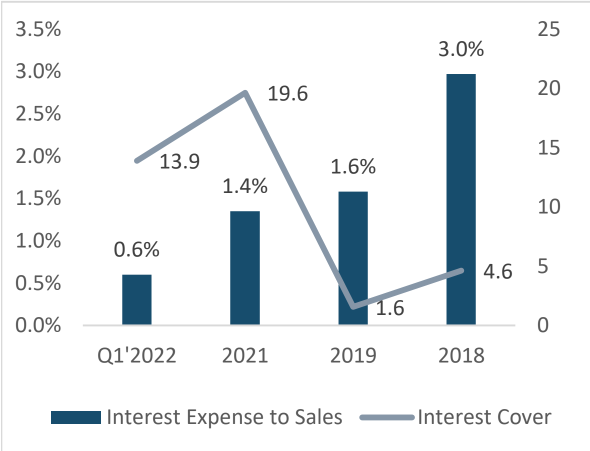
In our opinion, Julius Berger's overall working capital requires improvement, especially with respect to matching long-term funding requirements.

[9] *These include other payables and accruals, deferred taxes, dividend payable, obligations under unfunded pension schemes, and income tax payable*

LEVERAGE

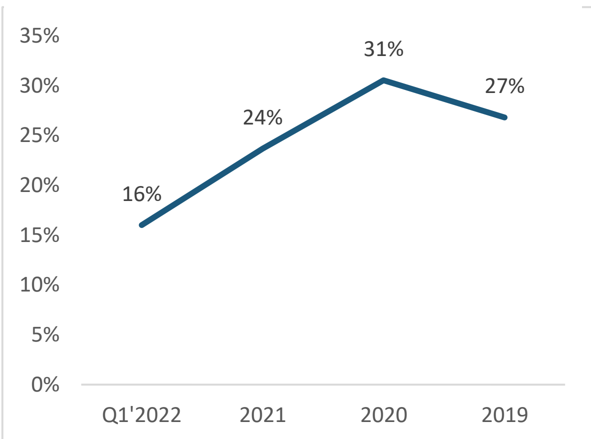
As at 31 December 2021, Julius Berger Nigeria Plc's total liabilities stood at ₦424.9 billion, representing a 58% increase from the prior year to reflect the marked increase in advances received from clients for new and ongoing construction contracts. As at the same date, the Company's non-interest-bearing liabilities accounted for 94% while interest-bearing liabilities made up the remaining 6% of total liabilities. The interest-bearing obligations consisted of various short-term import finance facilities, overdraft facilities and bonds and guarantees obtained from ten commercial banks as well as an outstanding balance of €13 million on the long-term Euro loan facility of €25million obtained in 2019. The loan was obtained to finance the importation of various construction equipment needed to meet the requirements of the expanding contract portfolios. The loan attracts an annual interest rate of 6.2% repayable in half-yearly installments over five years. This credit facility will be repaid using the foreign currency inflows from dollar-denominated contracts. As such, we do not expect a significant foreign exchange risk in this regard.

Figure 7: Interest Expense to Sales and Interest Coverage Ratio



As at the reporting date, Julius Berger's total assets of ₦454.8 billion were funded by spontaneous financing (88%), equity (7%) and interest-bearing liabilities (5%) thus depicting a low equity cushion. Nonetheless, we note positively that the bulk of the Company's liabilities was non-interest-bearing, thus providing ample spontaneous financing for the business. In addition, more than 71% of the Company's non-interest-bearing liabilities consisted of advance payments from clients for new contracts secured during the period.

Figure 8: Net Debt to Average Total Assets



JBN's interest coverage ratio rose to 19.6x in FYE 2021, due to the growth in operating cash flow, thus depicting a strong ability to pay interest on its outstanding debt. In the same vein, the Company's finance costs which comprised interest on bank overdraft, term loans and other facilities improved slightly as a percentage of revenue to 1.4% (FYE 2020: 1.6%). Furthermore, Julius

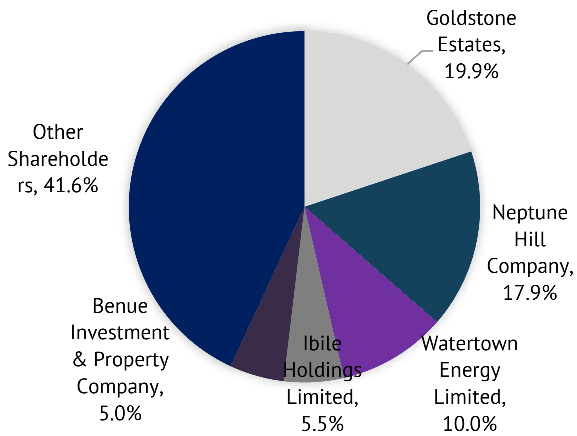
Berger's net debt[10] as a percentage of average total assets of 24% was in line with our benchmark and underlines the Company's low leverage position.

Subsequent to the year-end, Julius Berger's three-month account (unaudited) showed a 4% decrease in total liabilities to ₦409.4 billion with interest-bearing liabilities accounting for only about 1% of the amount as the Company paid down the overdraft facilities obtained from various banks. As at the same date, JBN's interest cover moderated to 13.9x, on account of the decrease in operating cash flow generated for the three-month period. However, the interest expense to sales ratio and net debt to average total assets and improved to 0.6% and 16% respectively.

In our opinion, Julius Berger's leverage position is low.

OWNERSHIP, MANAGEMENT & STAFF

Figure 9: Ownership Structure



As at 31 December 2021, Julius Berger Nigeria Plc had an authorized share capital of ₦800 million, made up of 1.6 billion ordinary shares at 50 kobo each. During the year, the Company issued 8 million ordinary shares through a bonus issue of one new share for every 99 existing ordinary shares at 50 kobo each. Consequently, JBN's issued and fully paid-up share capital matched up with its authorized share capital at ₦800 million (2020: ₦792 million).

The ownership structure of the Company includes a wide range of investors. Gold Stone Estates Limited holds the largest share with 19.9% of total equity stake as at 31 December 2021. Other significant shareholders include Neptune Hill Company Limited which held 17.9%, Watertown Energy Limited (10%), Ibile Holdings Limited (5.5%) and Benue Investment and Property Company 5.0%. The remaining 41.6% is held by other shareholders including private individuals and government institutions. No other shareholder accounted for more than 5% of Julius Berger's shareholding as at FYE 2021.

Board Composition & Structure

JBN has a 12-member Board of Directors ("the Board"), consisting of eight non-executive directors and four executive directors. Mr. Mutiu Sunmonu, CON leads the Board as the Chairman with support from the Vice-

[10] *Total debts less cash and equivalents*

Chairman, Mr. George Marks. During the FYE 2021, the Executive Director in charge of finance (Mr. Martin Brack) and a Non-executive Director (Mr. Karsten Hensel) resigned from the Board. Mr. Martin Brack was replaced by a new Executive Director of Finance (Mr. Christian Hausemann) whose appointment became effective 1 Jan, 2022. The Company's Board has four committees through which it carries out its oversight functions – the Board Audit Committee (comprising three non-executive directors and chaired by Mr. Ernest Chukwudi Ebi), the Remuneration Committee (a four-member Committee consisting of non-executive directors including the Chairman), the Risk and Asset Management Committee (comprising five non-executive directors and the Financial Director) and the Nominations and Governance Committee (a three-man committee chaired by Mrs. Gladys Olubusola Talabi). The Company also has a Statutory Audit Committee which comprised six members appointed by the shareholders at the Annual General Meeting held during the period, with Brig. Gen. Emmanuel Ebije Ikwue, GCON as the Chairman. These committees carry out their various functions as determined by the Board and in line with the Companies and Allied Matters Act (CAMA) and Securities and Exchange Commission (SEC) code of corporate governance for public companies.

Table 1: Board of Directors as at 31 December 2021

Name of Director	Nationality	Designation
Mr. Mutiu Sunmonu	Nigerian	Chairman
Mr. George Marks	German	Vice-Chairman
Engr. Jafaru Damulak	Nigerian	Non-Executive Director
Dr. Ernest Nnaemeka Azudialu-Obiejisi	Nigerian	Non-Executive Director
Mrs. Belinda A. Disu	Nigerian	Non-Executive Director
Mrs. Gladys O. Talabi	Nigerian	Non-Executive Director
Engr. Goni Musa Sheikh	Nigerian	Non-Executive Director
Mr. Ernest Chukwudi Ebi	Nigerian	Independent Non-Executive Director
Engr. Dr. Lars Richter	German	Managing Director
Mr. Christian Hausemann	German	Executive Director, Finance
Alhaji Zubairu Ibrahim Bayi	Nigerian	Executive Director, Administration
Mr. Tobias Meletschus	German	Executive Director, Corporate Development

Source: Julius Berger Nigeria Plc's 2021 Annual Report

JBN's senior management team comprises 17 members overseeing the operations and reviewing the performance of the Company's business segments. JBN's management team have extensive knowledge and vast experience in various segments of the Construction industry. Agusto & Co. notes that most of the senior management staff have been with the Company for over 10 years. In our opinion, Julius Berger has a stable, qualified and experienced management team.

As at 31 December 2021, the Company had a staff strength of 12,474 employees (2020: 11,350 employees). The Company's cost per employee rose to ₦5.1 million (2020: ₦4.5 million), while the operating profit per employee (adjusted for staff cost) amounted to ₦6.9 billion. The profit per employee was sufficient to cover the average cost per employee only 1.3 times, which in our view is very low and requires improvement .

Management Team

Engr Dr. Lars Richter is the Managing Director of Julius Berger Nigeria Plc. He has vast experience in the Construction Industry having served in various capacities as Site Manager, Division Manager and Project Manager since joining the Company on 1 June 2002. Dr. Richter holds a Doctorate in Civil Engineering from Technische Universität Darmstadt, Germany. He is also a fellow of the Nigerian Institute of Quantity Surveyors and a member of the Council for the Regulation of Engineering in Nigeria (COREN).

Mr. Christian Hausemann is the Financial Director of Julius Berger Plc. He joined the Company in 1997 and worked across various operational positions before he became the Commercial Manager of the West region in 2009. Prior to his appointment to the Company's Board, Mr. Hausemann was the Chief Finance Officer of Julius Berger International GmbH (Germany), a position he held since 2018. He also sits on the Board of Julius Berger Medical Services Limited as the Chairman and serves as a member of the Board of Julius Berger Free Zone Enterprise. Mr. Hausemann holds a certificate in Industrial Business Management (CCI) from Sebastin-Lucius-Schule Erfurt.

Alhaji Zubairu Ibrahim Bayi is the Executive Director of Administration at Julius Berger Nigeria Plc. He joined Julius Berger Nigeria Plc in 1984 and has served in various positions and units across the Company's operations. Alhaji Bayi holds a Bachelor of Science degree in Building from Ahmadu Bello University, Zaria. He is also a fellow of the Nigerian Institute of Building, the Institute of Management Consultants and a Director at Julius Berger Services Nigeria Limited.

Mr. Tobias Meletschus is the Executive Director of Corporate Development at Julius Berger Nigeria Plc. He joined the Company in 2012 as Head of Business Development and was later appointed a director effective 16 October 2018. Mr. Meletschus is on the Board of Julius Berger Investment Limited and Abumet Nigeria Limited. He holds a Master of Science degree in Commercial Law and an LLB in Business Law.

Table 2: Other members of Julius Berger Nigeria Plc's Management Team

Names	Positions
Alhaji Abdulaziz Isa Kaita	Corporate Coordinator
Mr. Olu Mustapha	Project Coordinator, Niger Delta Nigeria
Engr. (Dr) Ismaila Amodu	Project Coordinator, Federal. Ministry of Transport and Other Engineering Works
Mr. Guido Abel	Regional Commercial Manager
Mr. Oliver Berger	Regional Technical Manager
Mr. Thomas Balzuweit	Regional Technical Manager
Mr. Benjamin Bott	Project Director
Mr. Adamu Usman Ahmed	Head, Internal Audit
Mr. Soeren Klein	Regional Commercial Manager
Mr. Alexander Bauer	Regional Commercial Manager
Mrs. Joy Nsine Isen	Head of Finance
Mr. Juergen Fischer	Regional Technical Manager
Mr. Ralf Brendicke	Commercial Project Manager

Source: Management Presentation

OUTLOOK

The construction industry has been affected by some critical challenges including inflationary pressures, foreign exchange volatilities, and procurement and logistics issues. The disruption of trade routes and resultant delays in the delivery of raw materials occasioned by the Russia-Ukraine war has distorted global supply chains and increased shipping and logistics costs. In addition, the Nigerian economy is currently facing foreign exchange illiquidity. With some construction and building materials being imported, Industry operators are witnessing higher costs of inputs.

Notwithstanding these challenges, the Construction industry remains a positive contributor to economic output in the country. According to the National Bureau of Statistics, the Industry contributed 9.26% to the GDP in 2021 and recorded a 3.1% year-on-year real growth compared with the 7.7% contraction (in real terms) recorded in the 2020. We believe the Industry will continue to maintain its position as a key driver of economic growth premised on the country's huge population, rapid urbanisation in key cities such as Lagos, Abuja, Kano and Port Harcourt, a housing deficit estimated at 22 million units[11], and the country's huge infrastructure gap. The PIDF continues to provide funding support for major infrastructural projects across the Country, hence, guaranteeing a continued stream of revenues for key players in the near to medium term.

During the 2021 financial year, JBN set in motion its first business case in the agricultural processing sector with the establishment of a cashew processing factory. This was in a bid to explore and maximise opportunities in other important sectors of the economy. The Company has also set up an operations team and developed key relationships with suppliers, farmers and off-takers for the business segment. Management expects this strategy to guarantee wider streams of revenue beyond the core construction activities as well as strategically reduce the risk of cyclicality of revenue associated with the Construction Industry and hence, improve overall profitability and cash flow positions.

Overall, Agusto & Co. expects Julius Berger's profitability to remain good in the near term, buoyed by the Company's good market position and ability to take on large infrastructural projects in Nigeria. Furthermore, with the government's increased incentive to complete road and other infrastructure projects before the 2023 general elections, we believe that the build-up of spending on capital projects will have a positive impact on JBN revenue in FY-2022. However, we recognise that the political climate in Nigeria is characterised by risks and uncertainties particularly during elections, thus leading to a reduction in both public and private expenditure on infrastructural projects in the election year. The decline in spending presents a threat to the Industry as operators will see less project flow, and slower disbursements of cash for contracted projects. Hence, we note that this may have a negative impact on the Company's revenue in FY-2023. Although we reckon that the effect will be short-lived and therefore expect to see a bounce back after the election year.

The Company intends to minimise its exposures to foreign exchange illiquidity by increasing its local material sourcing, by increasing foreign exchange inflows through foreign currency-denominated contracts and by expanding its basic rate list to include non-core items which are also subject to price fluctuations. The basic

[11] *Federal Mortgage Bank of Nigeria*

rate list is a list of select building and construction materials for which any associated rise in their costs during a project can be recovered from the clients. This is done in a bid to preserve the Company's margins.

Although we expect JBN's long-term capital needs to persist in the near term given its rising investment in long-term heavy equipment to meet increasing contract demands, we believe the advance receipts will continue to provide reasonable support to the overall working capital position. In addition, we expect JBN's cash flow position to be bolstered by the anticipated cash receipts from existing and newly signed projects particularly the PIDF and other government-financed infrastructural projects in the long term. Given its low debt profile, we also expect Julius Berger's leverage position to remain within acceptable levels in the near term.

Based on the aforementioned, we attach a **positive** outlook to Julius Berger Nigeria Plc.

FINANCIAL SUMMARY

JULIUS BERGER NIGERIA PLC						
STATEMENT OF FINANCIAL POSITION AS AT 2021	**31-Dec-21**		**31-Dec-20**		**31-Dec-19**	
	₦'000		**₦'000**		**₦'000**	
ASSETS						
IDLE CASH	55,978,451	12.3%	20,253,663	7.0%	13,482,732	4.9%
MARKETABLE SECURITIES & TIME DEPOSITS						
CASH & EQUIVALENTS	**55,978,451**	**12.3%**	**20,253,663**	**7.0%**	**13,482,732**	**4.9%**
FX PURCHASED FOR IMPORTS						
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	26,242,877	5.8%	9,351,402	3.2%	13,196,826	4.8%
STOCKS	22,609,665	5.0%	10,964,639	3.8%	8,397,579	3.1%
TRADE DEBTORS	155,624,110	34.2%	130,867,422	44.9%	122,889,149	45.0%
DUE FROM RELATED PARTIES	6,411,763	1.4%	4,945,593	1.7%	3,669,528	1.3%
OTHER DEBTORS & PREPAYMENTS	85,616,318	18.8%	47,424,666	16.3%	41,452,982	15.2%
TOTAL TRADING ASSETS	**296,504,733**	**65.2%**	**203,553,722**	**69.9%**	**189,606,064**	**69.5%**
INVESTMENT PROPERTIES	2,006,525	0.4%	1,972,907	0.7%	1,792,431	0.7%
OTHER NON-CURRENT INVESTMENTS	16,916,771	3.7%	16,916,771	5.8%	16,916,771	6.2%
PROPERTY, PLANT & EQUIPMENT	69,734,897	15.3%	42,315,804	14.5%	39,700,230	14.5%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	11,382,616	2.5%	4,375,922	1.5%	9,460,425	3.5%
GOODWILL, INTANGIBLES & OTHER L T ASSETS	2,305,788	0.5%	1,957,975	0.7%	1,918,354	0.7%
TOTAL LONG TERM ASSETS	**102,346,597**	**22.5%**	**67,539,379**	**23.2%**	**69,788,211**	**25.6%**
TOTAL ASSETS	**454,829,781**	**100.0%**	**291,346,764**	**100.0%**	**272,877,007**	**100.0%**
Growth	56.1%		6.8%		1.8%	56.1%
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	19,179,892	4.2%	19,301,811	6.6%	6,211,311	2.3%
CURRENT PORTION OF LONG TERM BORROWINGS	2,310,386	0.5%	2,310,386	0.8%	1,818,494	0.7%
LONG-TERM BORROWINGS	3,279,636	0.7%	5,503,437	1.9%	7,273,975	2.7%
TOTAL INTEREST BEARING LIABILITIES (TIBL)	**24,769,914**	**5.4%**	**27,115,634**	**9.3%**	**15,303,780**	**5.6%**
TRADE CREDITORS	44,395,230	9.8%	24,413,434	8.4%	20,487,494	7.5%
DUE TO RELATED PARTIES	37,028,496	8.1%	27,084,481	9.3%	17,281,665	6.3%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	289,640,487	63.7%	167,360,747	57.4%	169,930,198	62.3%
OTHER CREDITORS AND ACCRUALS	12,260,118	2.7%	8,019,572	2.8%	15,175,762	5.6%
TAXATION PAYABLE	3,234,315	0.7%	2,338,538	0.8%	3,730,078	1.4%
DIVIDEND PAYABLE	1,114,090	0.2%	1,004,889	0.3%	867,041	0.3%
DEFERRED TAXATION	9,412,896	2.1%	7,694,250	2.6%	7,508,543	2.8%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	3,061,397	0.7%	3,550,851	1.2%	2,198,276	0.8%
TOTAL NON-INTEREST BEARING LIABILITIES	**400,147,029**	**88.0%**	**241,466,762**	**82.9%**	**237,179,057**	**86.9%**
TOTAL LIABILITIES	**424,916,943**	**93.4%**	**268,582,396**	**92.2%**	**252,482,837**	**92.5%**
SHARE CAPITAL	800,000	0.2%	792,000	0.3%	660,000	0.2%
SHARE PREMIUM	425,440	0.1%	425,440	0.1%	425,440	0.2%
REVENUE RESERVE	28,687,398	6.3%	21,546,928	7.4%	19,308,730	7.1%
SHAREHOLDERS' EQUITY	**29,912,838**	**6.6%**	**22,764,368**	**7.8%**	**20,394,170**	**7.5%**
TOTAL LIABILITIES & EQUITY	**454,829,781**	**100.0%**	**291,346,764**	**100.0%**	**272,877,007**	**100.0%**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 2021	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
TURNOVER	317,210,503	100.0%	235,206,675	100.0%	243,488,979	100.0%
COST OF SALES	(260,839,755)	-82.2%	(189,667,229)	-80.6%	(197,868,072)	-81.3%
GROSS PROFIT	56,370,748	17.8%	45,539,446	19.4%	45,620,907	18.7%
OTHER OPERATING EXPENSES	(34,355,596)	-10.8%	(30,150,820)	-12.8%	(24,940,307)	-10.2%
OPERATING PROFIT	22,015,152	6.9%	15,388,626	6.5%	20,680,600	8.5%
OTHER INCOME/(EXPENSES)	(6,934,787)	-2.2%	(3,596,542)	-1.5%	(3,373,329)	-1.4%
PROFIT BEFORE INTEREST & TAXATION	15,080,365	4.8%	11,792,084	5.0%	17,307,271	7.1%
INTEREST EXPENSE	(4,285,619)	-1.4%	(3,717,075)	-1.6%	(7,227,547)	-3.0%
PROFIT BEFORE TAXATION	10,794,746	3.4%	8,075,009	3.4%	10,079,724	4.1%
TAX (EXPENSE) BENEFIT	(3,510,979)	-1.1%	(2,429,799)	-1.0%	(3,512,918)	-1.4%
PROFIT AFTER TAXATION	7,283,767	2.3%	5,645,210	2.4%	6,566,806	2.7%
NON-RECURRING ITEMS (NET OF TAX)	498,303	0.2%	(635,012)	-0.3%	(243,558)	-0.1%
MINORITY INTERESTS IN GROUP PAT	-		-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	7,782,070	2.5%	5,010,198	2.1%	6,323,248	2.6%
DIVIDEND	(633,600)	-0.2%	(2,640,000)	-1.1%	(2,640,000)	-1.1%
PROFIT RETAINED FOR THE YEAR	7,148,470	2.3%	2,370,198	1.0%	3,683,248	1.5%
SCRIP ISSUES	(8,000)		(132,000)			
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		-	
PROFIT RETAINED B/FWD	21,546,928		19,308,730		15,625,482	
PROFIT RETAINED C/FWD	28,687,398		21,546,928		19,308,730	
ADDITIONAL INFORMATION	**31-Dec-20**		**31-Dec-19**		**31-Dec-18**	
Staff costs (₦'000)	64,039,520		50,351,796		46,278,411	
Average number of staff	12,474		11,350		10,249	
Staff costs per employee (₦'000)	5,134		4,436		4,515	
Staff costs/Turnover	20%		21%		19%	
Capital expenditure (₦'000)	34,576,863		9,500,453		7,369,391	
Depreciation expense - current year (₦'000)	7,501,631		6,265,650		6,918,697	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year-end ('000)	1,600,000		1,584,000		1,320,000	
Auditors	**NEXIA**		**NEXIA**		**NEXIA**	
Opinion	**CLEAN**		**CLEAN**		**CLEAN**	

Julius Berger Nigeria Plc.

CASH FLOW STATEMENT FOR YEAR ENDED	31-Dec-21	31-Dec-20	31-Dec-19
	=N='000	=N='000	=N='000
OPERATING ACTIVITIES			
Profit after tax	7,283,767	5,645,210	6,566,806
ADJUSTMENTS			
Interest expense	4,285,619	3,717,075	7,227,547
Depreciation	7,501,631	6,265,650	6,918,697
(Profit)/Loss on sale of assets	-	-	-
Other non-cash items	-556,052		(356,970)
Potential operating cash flow	18,514,965	15,627,935	20,713,050
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	19,981,796	3,925,940	1,266,782
Due to related parties	9,944,015	9,802,816	(4,185,830)
Advance payments and deposits from customers	122,279,740	(2,569,451)	9,320,398
Other creditors & accruals	4,240,546	(7,156,190)	1,519,208
Taxation payable	895,777	(1,391,540)	1,965,159
Deferred taxation	1,718,646	185,707	851,105
Obligations under unfunded pension schemes	(489,454)	1,352,575	488,458
Cash from (used by) spontaneous financing	158,571,066	4,149,857	11,225,280
(INCREASE)/DECREASE IN WORKING ASSETS:			
Advance payments and deposits to suppliers	(16,891,475)	3,845,424	211,534
Stocks	(11,645,026)	(2,567,060)	(4,388,101)
Trade debtors	(24,756,688)	(7,978,273)	12,513,104
Due from related parties	(1,466,170)	(1,276,065)	2,313,360
Other debtors & prepayments	(38,191,652)	(5,971,684)	(9,267,537)
Cash from (used by) working assets	(92,951,011)	(13,947,658)	1,382,360
CASH FROM (USED IN) OPERATING ACTIVITIES	84,135,020	5,830,134	33,320,690
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	(4,285,619)	(3,717,075)	(7,227,547)
Dividend paid	(524,399)	(2,502,152)	(2,573,844)
CASH USED IN PROVIDING RETURNS ON FINANCING	(4,810,018)	(6,219,227)	(9,801,391)
OPERATING CASH FLOW AFTER PAYMENTS TO			
PROVIDERS OF FINANCING	79,325,002	(389,093)	23,519,299
NON-RECURRING ACTIVITIES			
Non-recurring items (net of tax)	498,303	(635,012)	(243,558)
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	498,303	(635,012)	(243,558)
INVESTING ACTIVITIES			
Capital expenditure	(34,576,863)	(9,500,453)	(7,369,391)
Sale of assets	212,191	619,229	(613,100)
Purchase of other long-term assets (net)	(7,388,125)	-	(3,616,380)
Sale of other long-term assets (net)	-	4,864,406	-
CASH FROM (USED IN) INVESTING ACTIVITIES	(41,752,797)	(4,016,818)	(11,598,871)
FINANCING ACTIVITIES			
Increase/(Decrease) in short term borrowings	(121,919)	13,090,500	(19,250,533)
Increase/(Decrease) in long term borrowings	(2,223,801)	(1,278,646)	9,092,469
Proceeds of shares issued	-	-	-
CASH FROM (USED IN) FINANCING ACTIVITIES	(2,345,720)	11,811,854	(10,158,064)
CHANGE IN CASH INC/(DEC)	35,724,788	6,770,931	1,518,806
OPENING CASH & MARKETABLE SECURITIES	20,253,663	13,482,732	11,963,926

CLOSING CASH & MARKETABLE SECURITIES	55,978,451	20,253,663	13,482,732

SUMMARY OF KEY RATIOS	31-Dec-21	31-Dec-20	31-Dec-19
PROFITABILITY			
PBT as % of turnover	3%	3%	4%
Return on equity	36%	35%	49%
Sales growth	34.9%	-3.4%	43%
ROA (pre-tax)	3%	4%	6%
CASH FLOW			
Interest cover (times)	19.6	1.6	4.6
Principal payback (years)	0.4	-	1.4
WORKING CAPITAL			
Working capital need (days)	-	-	-
Working capital deficiency (days)	-	2	-
LEVERAGE			
Interest-bearing debt to Equity	0%	30%	9%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	24%	31%	27%

RATING DEFINITIONS

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

Rating Category Modifiers

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

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