

Geregu Power Plc's Series 1 Senior Unsecured Bonds

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook
N40bn Series 1 Senior Unsecured Bonds	Long Term Issue	National	A _(NG)	Evolving

Rating Rationale

Geregu Power Plc ("Geregu" or "the company") has raised an initial N40bn through the issuance of Series 1 Senior Unsecured Bonds ("Series 1 Bonds") under a N100bn Multi Instrument Issuance Programme, registered with the Securities and Exchange Commission. The Series 1 Bonds constitute senior, direct, irrevocable, and unsubordinated obligations of the Issuer, and rank parri passu without any preference among themselves, and with all unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

The long-term Issue rating of A_(NG) accorded to Geregu Power Plc's N40bn Series 1 Bonds is underpinned by the fact that the Series 1 Bonds are direct, unconditional, senior, unsecured obligations of Geregu Power Plc, and therefore bear the same default risk as the Issuer. As such, the national scale long term Issue rating of the Bonds is equalized with the national scale long term Issuer credit rating of Geregu Power Plc.

In August 2022, GCR accorded a long term national scale of A_(NG) to the Issuer, with an 'Evolving' outlook. The rating reflects its position as a leading Nigerian power generating company underpinned by its relatively high generating capacity which has supported sound earnings trajectory over the cycle. However, the ratings are constrained by the inherent illiquidity in the power value chain, the mono customer base, and the expected pressure on leverage metrics in the near term.

Outlook Statement

The Evolving Outlook reflects the mixed expectation of the outcome of the entire fundraising plan, completion of the planned projects and the turnaround in revenue as expected. Furthermore, if the debt issue is successful but project execution delays longer than anticipated due to exogenous factors, this could exert further pressure on leverage metrics and elevate refinancing risks.

Rating Triggers

Given that the Bonds rating is intrinsically linked to the Sponsor's long-term rating, any change in the rating assigned to the Sponsor will directly affect the Bond rating.

Positive rating action is dependent on a demonstrated ability to diversify the customer base and/or a turnaround of the liquidity condition of the Nigerian power sector. Conversely, a rating downgrade could follow i) aggressive dividend payments amid ongoing expansion which exerts pressure on liquidity; ii) underperformance of earnings, likely due to production loss owing to delays in completing the planned overhauls of both the existing and new plants.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Corporate Entities, January 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, June 2022
GCR Nigeria Corporate Sector Risk Scores, April 2022

Ratings History

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Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
N40bn Series1 Bonds	Initial	National	A _(NG) (IR)*	Stable	January 2021

Rating analysis

N40bn Series 1 Fixed Rate Senior Unsecured Bonds

Geregu Power Plc, the Issuer, is one of the major power generating companies in Nigeria, with strong competitive position underpinned by its total installed capacity of 435MW and 6% contribution to the national grid. The Company plans to further increase its scale through the acquisition of a 435MW power plant while embarking on major overhaul of the existing facility in FY22.

The Issuer registered a N100bn Bond Issuance Programme with the Securities and Exchange Commission and subsequently raised an initial N40bn in Series 1 Senior Unsecured Bonds. The Series 1 Bonds constitute senior, direct, irrevocable, and unsubordinated obligations of Geregu, and rank parri passu without any preference among themselves, and with all unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors right.

Table 1: Basic features	Series 1 Senior Unsecured Bonds
Amount (in Naira)	40,000,000,000
Series	Series 1
Tenors	7 years
Expected Maturity Dates	2029
Interest basis	Payable semi-annually
Principal redemption basis	Principal repayment shall be redeemed on amortisation basis, following the expiration of the Moratorium period until full redemption at maturity date.

Utilisation of proceeds

The net proceeds of the Series 1 Bonds will be utilised for expansion of the current power generation capacity and the strategic acquisition of additional power assets in Nigeria and other African countries.

Payment Account

The transaction incorporates a Payment Account which will be established by the Issuer with the Account Bank, on or before the Issue Date of the Series 1 Bonds, in the name and under the control of the Bond Trustees, on behalf of the Bondholders. The Trustees will keep and maintain the Payment Account for as long as the Series 1 Bonds remain outstanding. The Payment Account is to be fully funded not later than fifteen (15) business days before each payment date such that sufficient funds will be available to the Bond Trustees to settle the bond obligation on due dates. The Trustees will ensure that the funds in the Payment Account are utilized for purposes of effecting payments on the Bonds to Bondholders as and when due.

Covenants and other security features

The Programme Trust Deed ("PTD") contains various covenants binding the Issuer to repay the Bonds, pay interest and also comply with the provisions of the relevant Trust Deeds and all applicable laws. The Trustees will hold the payment obligations and other covenants of the Issuer in Trust for the benefit of the Series 1 Bondholders and will perform the duties contained in the respective Trust Deeds. Key covenants set by the Issuer include the following:

- *Covenant of compliance*: The Issuer undertakes to comply with, perform, and observe all the provisions of the Series 1 Trust Deed. The Conditions will be binding on the Issuer, the Trustees and the Bondholders. The Trustees will hold the benefit of this covenant upon trust for themselves and the Bondholders
- *Negative pledge*: for as long as any of the Series 1 Bonds are outstanding, the Issuer will not secure any other Indebtedness represented by bonds, notes or any other publicly issued debt securities which are, or are capable of being, traded or listed on any stock exchange or over the counter or similar securities market, without securing the Series 1 Bonds equally and rateably with such Indebtedness.

The PTD also contains various representations and warranties from the Issuer to protect the interest of the Bondholders.

Events of default

Per the PTD, these include the following events, *inter alia*: incorporates

- Payment Default: if the Issuer does not pay any amount in respect of the Bonds within fifteen (15) business days of due date;
- Insolvency event in respect of the Issuer;
- Breach of other Obligations: The Issuer does not comply with its other obligations under or in respect of the Bonds, and the non-compliance is not remedied within 15 days after written notice requiring such default to be remedied has been delivered to the Issuer
- Enforcement proceedings against any material assets of the Issuer and such action is not discharged within forty five (45) days;
- Cessation of business;
- Material adverse event;
- Insolvency;
- Obligations unenforceable.

Following the occurrence of an event of default and is continuing, a Bond Acceleration Notice may be given to the Issuer, stating that all amounts due to Bondholders will become immediately payable. The Trustees are authorised to take reasonable steps to effect payment.

Rating considerations for the Series 1 Bond

GCR has considered those factors impacting the general creditworthiness of Gereg Power Plc, in performing its analysis. Being senior unsecured debt, Series 1 Bonds bear the same probability of default as the Issuer and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, the Series 1 Bonds will garner the same national scale long term rating as that accorded to the Issuer. Accordingly, any change in the Issuer rating would impact the Bond rating.

Other key counterparties

Counterparty	Role
United Capital Plc	Lead Issuing House
Comercio Partners Capital Limited	Joint Issuing House
Codros Capital Limited	Joint Issuing House
iWorld Financial Services Limited	Joint Issuing House
Kairos Capital Limited	Joint Issuing House
Renaissance Capital Limited	Joint Issuing House
UCML Capital Markets Limited	Joint Issuing House
Vetiva Capital Management Limited	Joint Issuing House
Vetiva Trustees Limited	Joint Trustees
Libra Law Office	Solicitors to the Issuer

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Glossary

Bond	A long-term debt instrument issued by either a company, institution, or the government to raise funds.
Bondholder	Investor of capital market securities
Borrower	The party indebted or the person making repayments for its borrowings.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Lender	A credit provider that is owed debt obligations by a debtor.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.

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GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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Geregu Power Plc and the Arrangers participated in the rating process via tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Geregu Power Plc and other reliable third parties to accord the credit rating included:

- Executed Shelf Prospectus
- Executed Programme Trust Deed
- Executed Series 1 Pricing Supplements
- Executed Series 1 Trust Deeds.

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