



Credit Rating Announcement

GCR upgrades Chrisland Schools Limited's Issuer ratings to A_(NG)/ A1_(NG), on improved liquidity and sustained conservative leverage; Outlook Stable.

Rating Action

Lagos, 31 October 2022 - GCR Ratings ("GCR") has upgraded Chrisland Schools Limited's national scale long-term and short-term Issuer ratings to A_(NG) and A1_(NG) respectively, from A_(NG) and A2_(NG) previously, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Chrisland Schools Limited	Long Term Issuer	National	A _(NG)	Stable
	Short Term Issuer		A1 _(NG)	

Rating Rationale

The ratings upgrade of Nigeria-based Chrisland Schools Limited ("Chrisland" or "the Company") is driven by the strong earnings generation and solid cash flows which have supported modest gearing (despite the spike in debt) and sound liquidity coverage.

Chrisland has developed a strong reputation in the education industry, supported by its long operational track record, steady growth in student count, consistent improvement in service offering and continuous capacity expansion. The Company operates 12 school units in Lagos and Abuja, with about 4,500 students. Its strong brand value is considered critical to earnings generating capacity, albeit the Company remains very small within the context of the highly fragmented and tightly competitive industry space.

Chrisland has demonstrated a healthy 5-year revenue CAGR of c.10%. The Company reported significant revenue growth of 51% in FY21, well ahead of GCR's forecast. This was attributable to a combination of increase in school fees, higher than anticipated student enrolments and increase in income from value-added services. Having reported a solid top line growth of 27% in 1H FY22, GCR anticipates that strong full year performance will be driven by higher fees typically paid by new students onboarded during new academic session commencing September. In line with GCR's projections, the EBITDA margin widened to 33.9% in FY21 (FY20: 30%) and further to 37.4% in 1H FY22 underpinned by higher operating efficiencies. For FY23, revenue growth will be primarily supported by higher income from the new boarding house facilities and given the relatively predictable earnings structure for education service providers, we expect earnings margins to remain robust at the 35%-40% range over the outlook period.

The leverage and capital structure is positive to the ratings, supported by the conservative debt utilisation and robust earnings and cash flows. Despite gross debt climbing from N2.5bn in FY20 to N4.5bn in 1H FY22 (FY21: N4.1bn), to fund the expansion projects, net debt to EBITDA has been maintained at around 1x, underpinned by stronger earnings. In addition, discretionary cash flow ("DCF") coverage of debt has remained sound over the review period, trending at an average of 38% (1H FY22: 36.3%). Given the expected reduction in debt (following scheduled repayments) and solid cash flows, GCR projects net debt to EBITDA to remain low while DCF to debt should trend higher at the 45%-55% range over the rating horizon. Although there is some funding concentration (70%) to a key lender, this is considered against the relatively low quantum of debt and the manageable weighted average maturity of three years.

The moderately strong liquidity coverage is ratings positive, with the sources versus uses coverage estimated at 1.6x over the 18-month period to December 2023. This is predicated on GCR's forecast of robust operating cash flows of about N3.5bn in 2H FY22 and FY23 and the moderate cash holding of N705m at 30 June 2022. A sizable portion (c.N2bn) of the capex commitment has already been spent during 1H FY22, with the boarding house construction almost complete. GCR now considers the expected medium term capex spend to be modest at around N1.7bn, while debt repayments are projected at around N800m over this period.

Outlook Statement

The Stable Outlook reflects GCR's expectation that Chrisland will maintain strong earnings trajectory while containing debt/gearing at comfortable levels over the medium term.

Rating Triggers

A rating upgrade is dependent on Chrisland's ability to geographically diversify school operations, materially increase the number of school units and student population over the medium term. This could translate to stronger cash flows and improvement in liquidity.

Conversely, negative rating action could follow unexpected escalation in debt which significantly places pressure on leverage metrics and weakens liquidity.

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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, August 2022
 GCR Nigeria Corporate Sector Risk Scores, April 2022

Ratings History

Chrisland Schools Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	A-(NG)	Stable	November 2021
Short Term Issuer	Initial	National	A2(NG)		
Long Term Issuer	Last	National	A-(NG)	Rating Watch Negative	April 2022
Short Term Issuer	Last	National	A2(NG)		

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	7.00
Country risk score	3.75
Sector risk score	3.25
Business profile	(0.50)
Competitive position	(0.50)
Management and governance	0.00
Financial profile	1.75
Earnings performance	0.50
Leverage and Capital Structure	0.75
Liquidity	0.50
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Score	8.25

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with because of holding the security or asset. For a company, its exposure may relate to a 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.
Issuer	The party indebted or the person making repayments for its borrowings.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Horizon	The rating outlook period
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

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

The credit rating has been disclosed to Chrisland Schools Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Chrisland Schools Limited participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Chrisland Schools Limited and other reliable third parties to accord the credit ratings included:

- 2021 audited annual financial statement, and prior four years annual financial statements;
- management accounts for the period to 30 June 2022;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;

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