GCR RATINGS

Public Credit Rating Report | Nigerian Financial Services Companies Analysis | July 2022*

CapitalSage Limited

Rated Entity	Rating class	Rating scale	Rating	Outlook
CapitalSage Limited	Long Term Issuer	National	BBB(NG)	Stable Outlook
	Short Term Issuer	National	A3(NG)	

Strengths

- Low gearing level supported by strong cashflows
- Diversified products and services
- Robust agent network and coverage

Weaknesses

- Modest niche within the broader financial services sector
- Limited track record

Rating Rationale

CapitalSage Limited's ("CapitalSage" or "the Company") ratings reflect its low gearing and moderate earnings position, balanced by modest competitive profile, with a limited track record within the financial services space.

CapitalSage is assessed as a standalone entity, but we note its positioning as part of a wider group which could lead to a group analysis in the near-term, should there be a consolidation of subsidiaries at the group level. CapitalSage became a wholly owned subsidiary of CapitalSage Holding Company Limited ("the group") following its incorporation in the first quarter of 2022. The group has subsidiaries operating across various sectors of the economy, such as healthcare, information technology ("IT"), agriculture, and hospitality. In addition, CapitalSage has a microfinance bank subsidiary, which was acquired in November 2020 to diversify its operations.

CapitalSage's competitive position is considered modest, being a niche player within the larger financial services space. The Company has operated for three years and is licensed by the Central Bank of Nigeria ("CBN") as a provider of payment solution services, general investment services, and agency banking. The Company continued in its expansion drive at FY21, with the introduction of back-end payment solutions, which is expected to diversify income streams and strengthen its competitive profile. Furthermore, CapitalSage has increased its agency network coverage, with number of agents currently estimated at around 50,000 from less than 30,000 in 2020. In terms of transaction volumes, CapitalSage ranks among the leading providers of physical channel payment services, with an estimated 100,000 point of sale ("POS") terminals as at FY21.

Earnings is assessed at the intermediate level. The Company has reported a strong revenue progression over the last three years of its operations, given its ongoing business expansion, particularly within the agent banking business, which

* The last rating announcement was released 30 June 2022. Rating reports are updated at least once a year from the date of the last announcement

resulted in increased transactional income. As such, EBITDA margin remained moderate at 23% in FY21, and is expected to be sustained within similar range going forward.

Cash flow and leverage is positively viewed given the low gearing level. While the Company issued about N3.5bn short term private notes in two tranches during FY21, under its N10bn debt issuance programme, to support business expansion, it demonstrated sound ability to repay its debt with net debt to EBITDA margin closing FY21 at 0.12x. As at end-May 2022, one of the series have been fully repaid, with more private notes (about N2.2bn) issued during the current year. Going forward, with the recent registration of a commercial paper, and continuous expansion drive, we expect to see an increase in the debt profile, which should be adequately covered by operational cash inflows.

Liquidity metric is quite low, with sources of funds lagging its uses over the review period. This is further exacerbated by the capital expenditure undertaken by the Company, including the servers and IT infrastructure being put in place, as well as the proposed head office under construction. However, we note the nature of CapitalSage's business model, which is highly liquid, given that the value of POS terminals held as inventory could easily be sold to the agents upon receipt from the manufacturer. In addition, the demonstrated roll over of its private note issuances, provide some sort of liquidity comfort.

Outlook Statement

The Stable Outlook reflects GCR's expectation that earnings and cash flow will remain strong, supportive of a moderate creditworthiness. We do not envisage a spike in leverage ratios even as the Company grows its debt profile to expand its operations. However, we note that the rising inflationary pressure and foreign currency shortages within the Nigerian operating environment might adversely impact on profitability going forward.

Rating Triggers

A positive rating may stem from an improvement in liquidity metrics, while maintaining other financial profile at sound levels. Conversely, a negative rating action would be considered following materially adverse regulatory developments within the fintech sector, and a weakening in credit protection metrics due to net debt to EBITDA rising above 2x, and/or continuous weakening of liquidity metrics.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Services Companies, January 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, June 2022
GCR Financial Institutions Sector Risk Scores, June 2022

Ratings History

CapitalSage Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term Issuer Short Term Issuer	Initial/last	National	$BBB_{(NG)}$ $A3_{(NG)}$	Stable	May 2021

Analytical Entity: CapitalSage Limited

CapitalSage Limited (formerly CreditAssist Investment Limited) is an integrated digital financial service group incorporated in July 2018. The Company's product offerings include agency banking, online savings, payment solutions, investments, and fund diversification, which are anchored on three strategic pillars of financial inclusion, entrepreneurship development and wealth creation. Under its agent banking and payment solutions, the Company has service platforms such as CapiFlex, Kolomoni, Sage Cloud and CashMore.

In a bid to diversify its operation, the Company acquired Cintrust Microfinance Bank Limited ("Cintrust MFB") in November 2020, which was previously a member of Odua Cooperative Conglomerate Limited. Cintrust MFB was licenced by the CBN in April 2018 to provide a microfinance banking services within its immediate community in Oyo State, Nigeria.

CapitalSage became a wholly owned subsidiary of CapitalSage Holding Company Limited following the incorporation of the latter in the first quarter of 2022. The group has subsidiaries operating across various sectors of the economy, such as healthcare, information technology, agriculture, and hospitality. While Cintrust MB is a subsidiary of CapitalSage currently, management has indicated the possibility of transferring ownership to the group in the near term.

CapitalSage is assessed as a standalone entity, but we note its positioning as part of a wider group which could lead to a group analysis in the near-term, should there be a consolidation of subsidiaries at the group level.

Operating Environment

The operating environment assessment is anchored by CapitalSage's exposure to the Nigerian market.

Country risk

Nigeria's country risk score of 3.75 reflects its strong economic base, supported by significant natural resources and large population, against low wealth levels, moderately weak institutional scores and currently restrained economic growth. Nigeria is one of Africa's three largest economies, with a population of approximately 190mln people and contributing around 19% of continental GDP. The size of the economy is bolstered by significant natural resources, most pertinently, it is the largest oil exporter on the continent. However, like many of the continental peer group, wealth levels are low. Furthermore, commodity concentrations can cause significant economic, fiscal and currency volatility in Nigeria. This is due to both the government's dependence on oil exports for revenues and the country's high import dependence, both belying a too narrow economic base. In part due to steady economic recovery, and due to higher economic activity, the economy expanded by 3.4% in 2021.

The moderately weak institutional scores are constrained by voice and accountability, rule of law, corruption and control, deterioration in security, and the recent surge in banditry (particularly kidnapping for ransom) across the country.

Sector risk

The Nigerian Financial Institutions Risk Score of 3.5 is supported by strong local currency liquidity within the sector and stability in the funding (which is largely deposit based). Also, the banking sector appears well capitalized on average.

In addition, consideration was given to regulatory compliance, which is considered adequate and in line with the regional average. However, concentration of the loan book by sector (oil and gas) heightens credit risk, though with modest levels of non-performing loans. We note that the Nigerian banking sector is highly fragmented, with the top tier of the sector controlled by a few players and increasing competition amongst players within the sector. The relatively low private sector debt is expected to continually increase going forward given the regulatory backed position of increased lending to the private sector, which would enable diversification. The standard negative one (-1) adjustment for NBFI was applied. However, there could be further negative adjustments up to negative two (-2) for any rated entity in sectors without strong regulatory oversight.

Business Profile

Competitive position

Though competitive position is limited by short track record, the wide agent coverage across the country remains a supportive factor

CapitalSage's competitive position is limited by its short track record, having operated for less than five years. The Company remained one of the leading providers of physical channel payment services by value and volume of transactions, as it continued with its expansion drive inFY21. In this respect, back-end payment solutions were introduced during the year to diversify income streams and strengthen its competitive profile. The Company has nationwide presence through its merchants and agents, with offices across three States (Lagos, Kano, and Ibadan) in Nigeria. CapitalSage has about 50,000 agents on its platform, spread across most states in Nigeria, and an estimated 100,000 POS terminals as at end-FY21. CapitalSage competes with leading players like PayCom (Opay), First Bank of Nigeria (FirstMonie), among others. Aside the agency banking, CapitalSage also provides payment solutions and human resource/payroll tools to small and medium scales businesses.

The Company has a strong relationship with both local and international POS terminal suppliers and receives technical support from the Nigerian InterBank Settlement System.

Management and governance

Management and governance factors are deemed neutral to the ratings.

CapitalSage complies with the relevant requirements of the Companies and Allied Matter Act 2004 regarding the number of directors and financial reporting.

Financial Profile

Earnings

Strong earnings and margins, underpinned by wider coverage and enlarged customer base

CapitalSage has reported a strong revenue progression over the last three years of its operations, with earnings primarily generated from commissions through agent transactions. Growth has been supported by the knock-on effect of the COVID-19 pandemic, which has encouraged online transactions. During this period, the Company expanded and upgraded its digital infrastructure and services, which enables CapitalSage to have a wider coverage and agent network, and adjustment in charges to customers. In a bid to support earnings amidst the increasing market dynamics, CapitalSage plans to expand coverage to the 36 states of the country, focusing on product innovation, as well as development of new and competitive payment platforms to capture higher market share. Additional strategy is to leverage its microfinance subsidiary, focusing on the micro, small and medium scale businesses to enable a much wider coverage and stronger customer base. However, future targets may be constrained by the heightened competition within the fintech space.

The Company's EBITDA margin is considered moderate, on the back of higher scale. Barring any regulatory control on pricing or charges, the margin is expected to remain competitive at around 23% in the coming years.

Cashflow and Leverage

Low gearing level supported by strong cashflows

Cash flow and leverage is positively viewed given the low gearing level. CapitalSage has reported strong cash flows over the review period on the back of good earnings. While the cash flows have largely been sufficient to cover operations in the past, the business growth in FY21, and the Company's expansion strategy necessitated the issuance of N3.5bn short term private notes, issued in two tranches, under its N10bn debt issuance programme. CapitalSage has demonstrated sound ability to repay its debt with net debt to EBITDA margin closing FY21 at 0.12x. Furthermore, as at end-May 2022, one of the series have been fully repaid, with more private notes (about N2.2bn) issued during the current year. Going forward, with the recent registration of a commercial paperand ongoing expansion drive, GCR expect to see an increase in the debt profile, which should be adequately covered by operational cash inflows.

Liquidity

Liquidity metric is weak, however our assessment is supported by the highly liquid business model

Liquidity metric is quite low, with sources of funds lagging its uses over the review period. This is further exacerbated by the capital expenditure undertaken by the Company, including the servers and IT infrastructure being put in place, as well as the proposed head office under construction. However, we note the nature of CapitalSage's business model, which is highly liquid, given that the value of POS terminals held as inventory could easily be sold to the agents upon receipt from the manufacturer. In addition, the demonstrated roll over of its private note issuances, provide some sort of liquidity comfort.

Comparative Profile

Peer analysis
The peer analysis is neutral to the ratings.

Group support
Group support is not applicable to the ratings.

Rating Adjustment Factors

Structural adjustments
No structural adjustments have been made to GCR's Anchor Credit Evaluator in arriving at the final ratings.

Instrument ratings
No adjustments for instrument ratings are applicable.

Risk Score Summary

Rating components & factors	Risk sores
Operating environment	**6.25**
Country risk score	3.75
Sector risk score	2.50
Business profile	**(2.50)**
Competitive position	(2.50)
Management and governance	0.00
Financial profile	**3.00**
Leverage and Cash flows	2.00
Earnings v Risks	0.25
Liquidity	0.75
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	**6.75**

Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
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.
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 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
Income	Money received, especially on a regular basis, for work or through investments.
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.
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.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
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.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings 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 ratings have been disclosed to CapitalSage Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

CapitalSage Limited 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 CapitalSage Limited and other reliable third parties to accord the credit ratings included:

- 2021 audited annual financial statements
- Three years of comparative audited numbers
- Management account as at 31 May 2022
- Other related documents