Public credit rating report | Nigerian Non-Bank Financial Institutions | February 2023*

Zedcrest Capital Limited

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Zedcrest Capital Limited	Long Term Issuer	National	BBB-(NG)	Stable
	Short Term Issuer		A3(NG)	--

Strengths

- Strong capitalisation, supported by full earnings retention
- Good market position in the consumer finance and securities dealing segments

Weaknesses

- Relatively high credit losses and strong reliance on market sensitive income
- Limited funding sources due to the non-deposit-taking nature of the subsidiaries

Rating Rationale

The ratings assigned to Zedcrest Capital Limited ("Zedcrest" or "the company") reflect its market position as a financial services provider with a strong consumer finance and securities dealing franchise, sound leverage, and a stable funding profile. The ratings strengths are counterbalanced by the company's high-risk position and its relatively modest contribution to the wider financial services sector.

Zedcrest is a financial services company with three subsidiaries namely – Zedvance Finance Limited ("Zedvance"), Zedcrest Investment Managers Limited ("ZIMVEST"), and Zedcap Partners Limited ("Zedcap"), collectively, ("the group"). The group's securities dealing business is driven by Zedcrest and Zedcap, the brokerage subsidiary. Over the years, earnings accumulation from the securities dealing business provided the impetus for the growth and scale of Zedvance, the consumer finance subsidiary which is now the core operating entity contributing the highest to the group's earnings and asset base. Further augmenting the company's market position are the potential diversification advantages conferred by ZIMVEST, the asset management subsidiary. The earnings profile of the group has shown some volatility due to the strong contribution of market sensitive income to operating revenues, arising from the company's proprietary trading activities. However, net interest income from Zedvance' s high-margin lending business has been somewhat supportive of earnings stability for the group.

On management and governance standards, GCR takes note of the company's concentrated shareholding and owner-led structure, albeit balanced by the presence of an independent Board. Also, there were significant levels of recurring related parties' transactions throughout the review period.

Capital and leverage assessment is a strong ratings factor. This is reflective of Zedcrest's high capitalisation, strong internal capital generation, and earnings retention over the review period. The company's GCR leverage ratio has maintained a positive trajectory, increasing sizably from 48.5% as at December 2018 to 70.5% as at December 2021.

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

We expect the GCR leverage ratio to moderate, with significant downside risks given the sensitivity of earnings to the volatile market conditions, macroeconomic pressures, and Zedcrest's high growth strategy.

Risk is a significant negative ratings factor. The credit risk metrics of the group mirror the inherently higher credit losses and default rates associated with unsecured consumer loans. Hence, through-the-cycle credit losses are above the market, averaging 12.7% through the review period. Similarly, the IFRS stage 3 loans ratio is elevated, registering at 15.2% as of December 2021 (December 2020: 14.9%).

Trading/investment risk is also key for the group, given that Zedcrest actively trades equity and fixed income securities using its capital. Tradeable securities made up 10.5% and 18.5% of the company's total assets as of December 2021 and December 2020 respectively, with the largest asset classes being locally quoted equities and corporate bonds. Adverse deviations of the mark-to-market value of the trading and securities portfolio add to potential earnings and capital volatility, more so considering that the interest rate environment and general market sentiment are expected to remain volatile in the near term.

Funding and liquidity assessment is positive to the ratings. Although the non-depository nature of the company and its subsidiaries limits funding flexibility, the funding base is largely equity-based, which is a highly stable funding source. In the near term, we expect the company to gradually introduce debt on its balance sheet, which will impact our view of funding stability. Notwithstanding, Zedcrest's long-term funding ratio has been maintained at over 100% throughout the review period and the liquidity profile is considered adequate. Given the short-tenored nature of the loan book, liquidity for Zedvance is highly driven by the receipt of loan repayments. Analysis of the receipting schedule shows relatively good collection levels, with an average monthly collection rate of 14.7% from January through September 2022. For the non-lending businesses, the managed funds are tied to liquid investment securities, with GCR liquid assets covering over 100% of the group's managed funds.

Outlook statement

The Stable Outlook reflects GCR's expectation that Zedcrest will continue to implement its product and business line diversification strategy over the next 12-18 months while averting material weakening of its earnings, risk, and leverage position.

Rating triggers

A positive review of the ratings could arise following sustained improvement in the risk position, such that market-sensitive income reduces significantly to register below 10% of operating revenues on a sustainable basis while recording lower credit losses and non-performing loans from the lending business. We would also expect to see the leverage ratio maintained at the current high levels alongside a significant reduction in related party exposures. A downward review of the assigned ratings could be triggered by a deterioration in earnings with an attendant impact on the leverage position. Secondly, a weakening of asset quality which impacts loan repayments will negatively affect the ratings. Moreover, increases in related party lending, and or evidence of credit quality deterioration of the related party exposures would also trigger a downward review.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Rating Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, December 2022
GCR Financial Institutions Sector Risk Score, October 2022

Ratings History

Zedcrest Capital Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issuer	Initial/Last	National	BBB-(NG)	Stable	November 2022
Short Term issuer			A3(NG)	---	

Analytical Entity: Zedcrest Capital Limited

Zedcrest Capital Limited consolidates three subsidiaries including Zedvance Finance Limited, Zedcrest Investment Managers Limited, and Zedcap Partners Limited as of September 2022. Zedvance provides consumer loans with a finance company license from the Central Bank of Nigeria, ZIMVEST is an asset manager regulated by the Securities and Exchange Commission, and Zedcap offers fixed income trading and brokerage services. Zedcrest, the parent company, provides funding, strategic direction, and shared services to the subsidiaries. We consider Zedcrest an operating holding company, as it conducts principal investments on a stand-alone basis. Given that Zedcrest Capital Limited is the ultimate parent, our assessment of its creditworthiness is based on the financial/business profile of the consolidated group. The company was incorporated as a private limited liability company in March 2013. Adedayo Amzat, the Group MD, had 99.5% equity shareholding as of December 2021.

Operating Environment

The operating environment assessment is anchored by Zedcrest Capital Limited's 100% exposure to Nigeria.

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 across (particularly kidnaping for ransom) across the country.

For full details, please see GCR's Country Risk Score report. The Country Risk Scores are available for download at https://gcrratings.com/risk-scores/

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 capitalised on the 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 non-bank financial institutions sector risk score of 2.5 represents a negative one adjustment from the banking sector risk score, due to the lower level of prudential regulation and oversight.

For full details, please see GCR's Financial Institutions Sector Risk Score report. The Sector Risk Scores are available for download at https://gcrratings.com/risk-scores/

Business Profile

Competitive position

Contribution to the financial services sector is low, but the company has a good market position within its niche segments.

Zedcrest is a financial services company with three subsidiaries namely – Zedvance Finance Limited ("Zedvance"), Zedcrest Investment Managers Limited ("ZIMVEST"), and Zedcap Partners Limited ("Zedcap"), collectively, ('the group"). The group's securities dealing business is driven by Zedcrest and Zedcap, the brokerage subsidiary. Over the years, earnings accumulation from the securities dealing business provided the impetus for the growth and scale of Zedvance, the consumer finance subsidiary which is now the core operating entity contributing the highest to the group's earnings and asset base.

Table 1: Contribution to consolidated group's profit before tax

	2021	2020
Zedvance (%)	11.3	5.0
ZIMVEST (%)	(0.5)	(0.2)
Zedcap (%)	6.8	16.4
Zedcrest (%)	68.3	74.7

Source: Zedcrest's financial results and GCR financial tool.

Further augmenting the company's market position are the potential diversification advantages conferred by ZIMVEST, the asset management subsidiary. The earnings profile of the group has shown some volatility due to the strong contribution of market sensitive income to operating revenues, arising from the company's proprietary trading activities. Market sensitive income to operating revenues registered a four-year average of 34.6%, largely derived from the trading of debt securities. The rising interest rate environment will adversely impact on earnings in the near term, due to negative mark-to-market adjustment on the securities portfolio. However, net interest income from Zedvance's high-margin lending business has been somewhat supportive of earnings stability for the group.

Management and governance

Concentrated ownership structure, with significant related party exposures.

On management and governance standards, GCR takes note of the company's concentrated shareholding and owner-led structure, albeit balanced by the presence of an independent Board. Also, there were significant levels of recurring related parties' transactions throughout the review period. GCR will make negative adjustments if the related party exposures increase or if there is evidence of credit deterioration of the exposures.

Financial Profile

Capital and Leverage

Sound capital and leverage position, providing a buffer to support the relatively high-risk position.

Capital and leverage assessment is a strong ratings factor. This is reflective of Zedcrest's strong capitalisation and internal capital generation, as well as earnings retention over the review period. The company's GCR leverage ratio has maintained a positive trajectory, increasing sizably from 48.5% as at December 2018 to 70.5% as at December 2021. We expect the GCR leverage ratio to moderate, with significant downside risks given the sensitivity of earnings to the volatile market conditions, macroeconomic pressures, and Zedcrest's high growth strategy.

GCR's forecast factors in the following over the next 12-18 months:

- Loan book growth of 15% for FY22 and FY23
- Core earnings to adjusted assets is expected to moderate to c.9% by FY23
- We expect full earnings retention in line with historic trend
- Reserve coverage is expected to remain at over 100%

Table 2: Capitalisation

	2023(f)	2022(e)	2021	2020	2019
GCR leverage ratio (%)	51.1	53.3	70.5	59.8	55.7
Core Earnings to adjusted assets (%)	8.5	13.6	14.8	32.3	27.6
Loan loss reserves/gross non-performing assets (%)	>100	>100	>100	>100	>100

e: GCR estimates; f: GCR forecasts
Source: Zedcrest's financial results and GCR financial tool.

Risk

Strong exposure to market (trading) risk as well as elevated levels of credit losses and non-performing loans.

Risk is a significant negative ratings factor. The credit risk metrics of the group mirror the inherently higher credit losses and default rates associated with unsecured consumer loans. Hence, through-the-cycle credit losses are above the market, averaging 12.7% through the review period (FY18-FY21). Similarly, the IFRS stage 3 loans ratio is elevated, registering at 15.2% of gross loans as of December 2021 (December 2020: 14.9%). However, underwriting standards for the lending business are considered sufficient for its license category as a finance company. Zedvance partners with public and private sector organisations after conducting due diligence to ascertain financial viability. The consumer loan products are then accessible to staff of the partner companies, with repayment deductions made at source for the public sector loans and direct debit mandates for the private sector loans. This helps mitigate credit delinquencies.

Trading/investment risk is also key for the group, given that Zedcrest actively trades equity and fixed income securities using its capital. Tradeable securities made up 10.5% and 18.5% of the company's total assets as of December 2021 and December 2020 respectively, with the largest asset classes being locally quoted equities and corporate bonds. Adverse deviations of the mark-to-market value of the trading and securities portfolio add to potential earnings and capital volatility, more so considering that the interest rate environment and general market sentiments are expected to remain volatile in the near term.

GCR considers operational risks to be well contained, with no material setbacks identified during our review. The operational and business continuity risks posed by the COVID-19 pandemic have been well managed to date.

Table 3: Risk					
	2023(f)	2022(e)	2021	2020	2019
New loan loss provisions to average customer loans (%)	13.2	10.8	9.8	18.6	9.6
Gross non-performing loans to average customer loans (%)	9.3	11.3	15.2	14.9	6.9

e: GCR estimates; f: GCR forecasts
Source: Zedcrest's financial statements and GCR financial tool

Funding and Liquidity

Funding is largely equity-based with good levels of liquidity.

Funding and liquidity assessment is positive to the ratings. Although the non-depository nature of the company and its subsidiaries limits funding sources the funding base is largely equity-based, which is a highly stable funding source. In the near term, we expect the company to gradually introduce debt on its balance sheet, which will impact our view of funding stability. Notwithstanding, Zedcrest's long-term funding ratio was maintained at over 100% throughout the review period and the liquidity profile is considered adequate. Given the short-tenored nature of the loan book, liquidity for Zedvance is highly driven by the receipt of loan repayments. Analysis of the receipting schedule shows relatively good collection levels, with an average monthly collection rate of 14.7% from January through September 2022. For the non-lending businesses, the managed funds are tied to liquid investment securities, with GCR liquid assets covering over 100% of the group's managed funds.

Table 4: Funding and Liquidity					
	2023(f)	2022(e)	2021	2020	2019
Long term funding ratio (%)	50.2	72.3	>100	>100	>100
GCR Stable funds ratio (%)	86.2	>100	80.9	103.1	103.4

e: GCR estimates; f: GCR forecasts
Source: Zedcrest's financial results and GCR financial tool

Comparative Profile

The comparative profile is a neutral component for the ratings.

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 the Anchor Credit Evaluator in arriving at the final ratings.

Instrument ratings

No instrument rating adjustments.

Risk Score Summary

Rating Components & Factors	Risk Scores
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	**2.00**
Capital and Leverage	3.00
Risk	(1.50)
Funding and Liquidity	0.50
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	**5.75**

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
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.
Credit	A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
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.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Income	Money received, especially on a regular basis, for work or through investments.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Repayment	Payment made to honour obligations in regard to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Risk	The chance of future uncertainty (i.e., deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.

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.

SALIENT POINTS OF ACCORDED RATING

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 ratings have been disclosed to Zedcrest Capital Limited. *The ratings above were solicited by, or on behalf of, Zedcrest Capital Limited, and therefore, GCR has been compensated for the provision of the ratings.*

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

- The audited financial results as at 31 December 2021
- Management accounts as at September 2022
- Four years of comparative audited numbers
- Other related documents