



DataPro



CORPORATE RATING REPORT

HARTLEYS SUPERMARKET AND STORES LIMITED

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September, 2022

HARTLEYS SUPERMARKET AND STORES LIMITED

Long-Term Rating:

BBB⁺

Short Term Rating: A2

Rating Outlook: Stable

Trend: UP

Currency: Naira

Date Issued: 19 Sept., 2022

Valid Till: 18 Sept., 2023

Reference:

Abiodun Adeseyoju, FCA.

Abimbola Adeseyoju

Oladele Adeoye

This report is provided by DataPro subject to the Terms & Condition stipulated in our Terms of Engagement

EXECUTIVE SUMMARY

	2021 ₦'000	2020 ₦'000	2019 ₦'000	2018 ₦'000
Turnover	5,477,172	3,121,485	1,651,148	1,080,561
Pre-tax-Profit	322,971	169,858	-72,391	-51,572
Equity	786,642	287,366	143,462	121,732
Non-Current Assets	629,984	669,639	340,279	175,665
Total Asset	1,864,683	1,393,502	849,863	627,736
Long-term Debt	88,240	95,851	0	20,000

Rating Explanation

The Short-Term Rating of **A2** indicates *Fair Credit Quality* and adequate capacity for timely payment of financial commitments.

The Long-Term Rating of **BBB⁺** indicates *Slight Risk*. It shows Fair Financial Strength, Operating Performance and Business Profile when compared to the standard established by *DataPro*. This Company, in our opinion, has an ability to meet its ongoing obligations, but its financial strength is vulnerable to adverse changes in economic conditions.

RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used were based on industry and market intelligence including public information. The quantitative information was obtained from the Company's Audited and Management Accounts.

The risk factors were assessed using the Company's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of its current healthy profile in the medium to long term period.

Overall, the following were observed:

Strengths:

- Experienced Board and Management Team
- Strong Revenue Growth Profile
- Good Niche Player

Weakness:

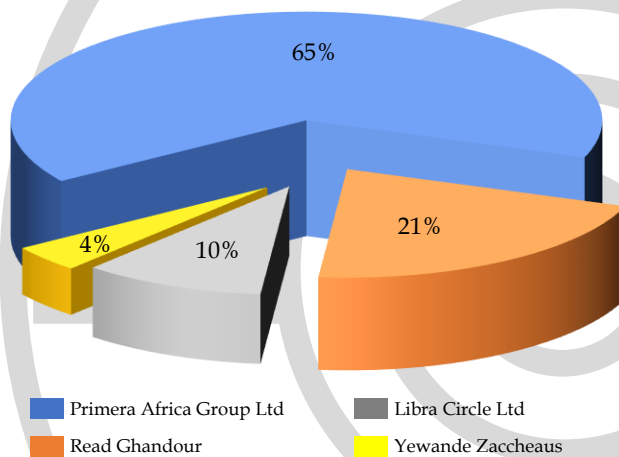
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BACKGROUND

Hartleys Supermarket and Stores Limited ("The Company") was incorporated on the 5th of August 2016. It commenced business on that same date. The Company was previously known as *Winners Shopping Center and Catering Limited* prior to the 4th of October 2018.

The Company is a Retail Supermarket chain for groceries, food and household items. It currently services its customers through its four (4) branches. Two (2) of the branches are located in *Ikoyi* and the rest in *Victoria Island, Lagos*. The Company also intends to open one more before the end of the year 2022. The location of the Company stores in affluent business and residential areas of Lagos State provides it accessibility to a prime market.

ANALYSIS OF SHAREHOLDING STRUCTURE



Source: Hartleys Supermarket

The Company currently operates with 187 employees. These are distributed along its core business departments. The departments are: Warehousing Logistics, Marketing, Customer Relationship, Finance and Account, Human Relations and Admin Office Support.

The Company is majorly owned by *Primera Africa Group Limited*. It owns 65% of the Company's Shares. Other Shareholders include Raed Ghandour, Libra Circle Limited and Yewande Zacchaeus

DIRECTORS' PROFILE

The following served as directors during the year under review; *Yewande Zacchaeus - Chairman; Boye R. Olawoye - Managing Director; Mahmoud H Tabaja; SubuGiwa Amu; Roland Moubarak and Oluseyi Oladapo*

The Directors' profiles are as follows.

- Name:** Yewande Zacchaeus
Position: Chairman
Years of Experience: 25 years
Education:
 - University of Lagos
 - Cambridge University**Job Experience:**
 - Ecobank Nigeria

2. **Name:** Boye R. Olawoye
Position: Managing Director
Years of Experience: 40 years
Education: •Howard University
Job Experience: •Primera Africa Group
 •Afrinvest West Africa Limited

3. **Name:** Mahmoud H Tabaja
Position: Non-Executive Director
Years of Experience: 40 years
Education: • Federal University of Technology, Owerri
Job Experience: •Goodies Supermarket

4. **Name:** Subu Giwa Amu
Position: Non-Executive Director
Years of Experience: 27 years
Education: • University of Warwick, UK.
Job Experience: •FBN Ghana

5. **Name:** Roland Moubarak
Position: Non-Executive Director
Years of Experience: 20 years
Education: •
Job Experience: •Hartley Supermarket and Stores

6. **Name:** Oluseyi Oladapo
Position: Non-Executive Director
Years of Experience: 20 years
Education: • University of Hull
 • University of Lancaster
Job Experience: •Libra Circle Limited
 •National Bank of Nigeria

RETAIL SECTOR REVIEW

Nigeria is the leading economy in Africa. Its population is in excess of 200 million people. The growth of the Country's Gross Domestic Product (GDP) declined between Q4 2021 and Q1 2022 from 3.98% to 3.11%. However, Trade Sector of the Economy grew in that period by 6.54%. Trade sector contributed 15.66% of the country's GDP in Q1 2022.

The Oil benchmark for the year 2023 budget is \$70 per barrel and 1.69 million barrels per day. This compared well with the current selling price of Oil which is above the benchmark (\$82 as at 19th of September, 2022 according to [businessinsider.com](https://www.businessinsider.com)).

The *Central Bank of Nigeria (CBN)* has maintained its periodic interventions in the Foreign Exchange Market to boost liquidity and enhance access to Foreign Exchange, unbridled demand and ensure stable Exchange Rates. The *CBN* has been managing its Foreign Exchange Reserves tightly because of lower Oil receipts. Currently, the official Exchange Rate to the dollar as at September 19th, 2022 is ₦435 while the exchange rate at the parallel market stood at ₦714.

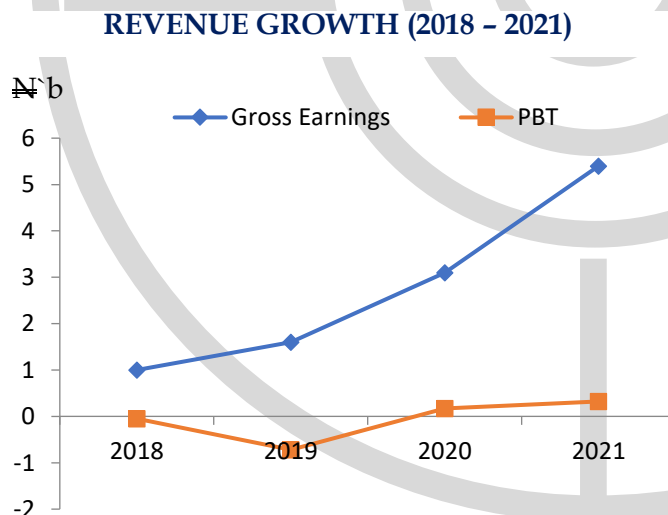
The *CBN* on May 25th, 2022 decided to raise the Monetary Policy for the first time since October 2020 from 11.5% to 13.5%. In a bid to further curtail inflation, the *CBN* increased the MPR to 14% in June. Currently, Inflation Rate as at August 2022 is 20.4%. This is the highest inflation rate in the country since 2005.

Therefore, the consistent rise in inflation continues to erode purchasing power with possible effect on the Retail and Trade Sectors of the Economy.

However, the Company caters largely for the upper end of the Retail segment. This class of customers place premium on quality than price. Therefore, ability to continue to offer the right quality at competitive price will positively impact the Company.

FINANCIAL PERFORMANCE

• EARNINGS PROFILE

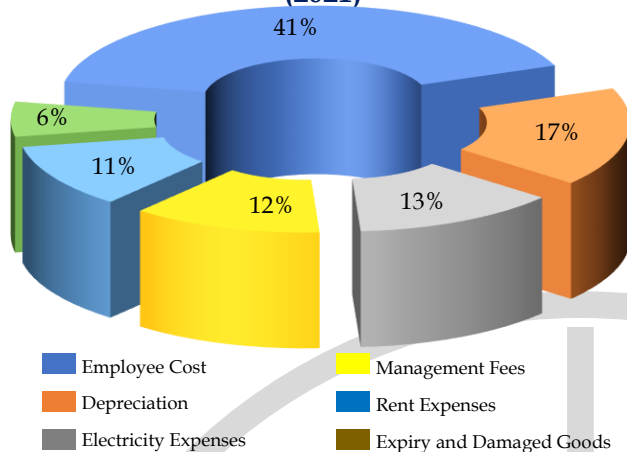


Source: Hartleys Supermarket

The Company has consistently increased its Revenue and Profit Before Tax over a period of four (4) years. The continuous growth has been influenced by consistent expansion of its business. During the year under review, the Company grew its Revenue by 75% from ₦3.1b (Yr. 20) to ₦5.4b (Yr. 21).

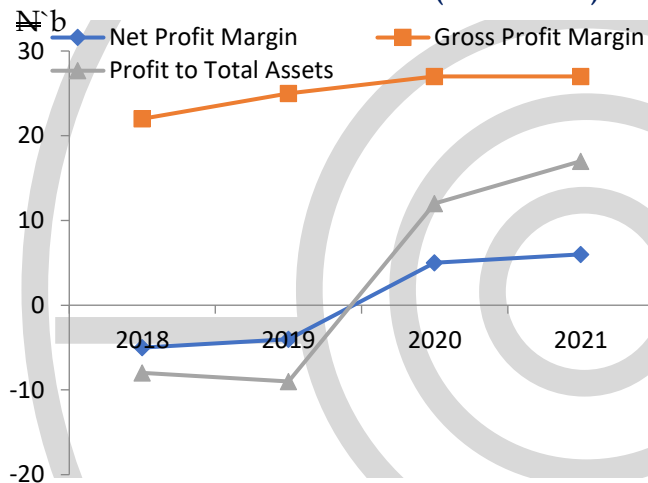
Revenue was generated through the Sales of Goods by the Company. The Company also generated Other Income during the year. However, this declined from ₦60m (Yr. 20) to ₦58.1 (Yr. 21). Other Income comprised of Earnings from suppliers for goods display for them as well as rentals from Sub-leasing of the Company's building.

DISTRIBUTION OF OPERATING EXPENSES (2021)



Source: Hartleys Supermarket

PROFITABILITY INDICES (2018 - 2021)



Source: Hartleys Supermarket

The rise in the Revenue of the Company was followed by a similar growth in Direct Costs. Therefore, Gross Profit Margin remained same at 27% for the years 2021 and 2020.

The Operating Expenses incurred by the Company rose during the year 2021. This was due to growths in majority of its components. Operating Expenses rose from ₦682m (Yr. 20) to ₦1.1b (Yr. 21). The following are the major components of Operating Expenses.

The Company's growth in Revenue enhanced its profit in the year 2021. It grew by 90% from ₦169m (Yr. 20) to ₦322m (Yr. 21). In view of the rise in Pre-Tax Profit, all profitability indices rose during the year under review.

• CAPITALIZATION

The Company's Equity surged by 174% in the year 2021. The growth was driven by increased Profit before Tax which offset accumulated losses in the year 2021. The

BREAKDOWN OF THE TOTAL ASSET 2021

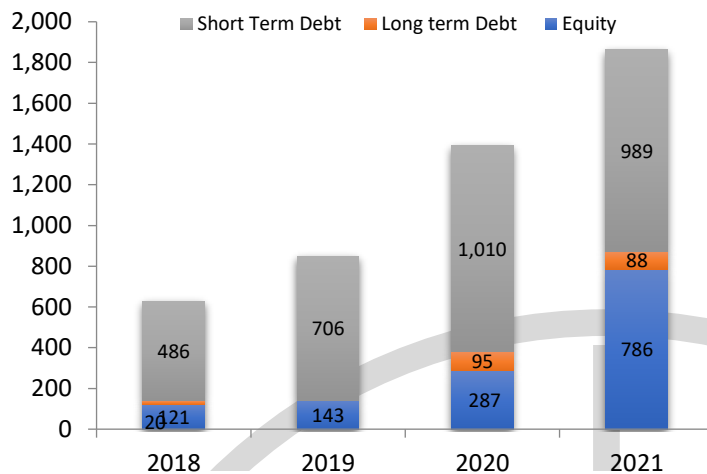
Item	₦'000	%
Current Assets	629,984	34%
Non-Current Assets	1,234,700	66%
Total Assets	1,864,684	100%

Source: Hartleys Supermarket

Company also received Deposits for Shares for its proposed Right Issue. This amounted to ₦270m (Yr. 21). In absolute terms, the Equity of the Company rose from ₦287m (Yr. 20) to ₦786m (Yr. 21).

Total Assets of the Company grew by 33% from ₦1.4b (Yr. 20) to ₦1.8b (Yr. 21). The growth was driven by the increase in Current Assets.

FUNDING PROFILE

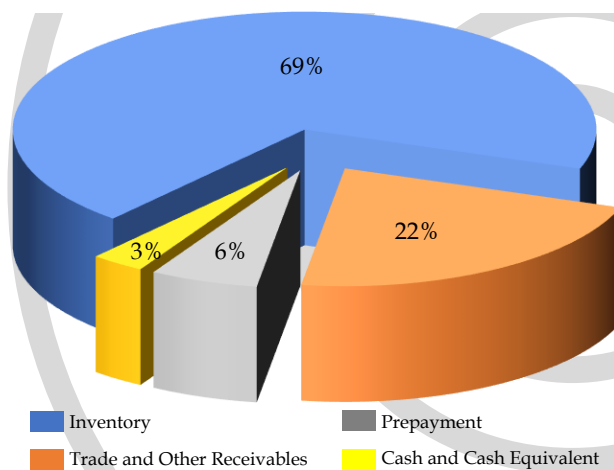


Source: Hartleys Supermarket

The surge in the Company's Equity led to enhancement in funding of operation by Shareholders' Funds. Equity as a proportion of Total Assets improved from 20% (Yr. 20) to 42% (Yr. 21). However, The Company was still largely funded by Trade Payables which accounted for 40% of Total Assets.

ASSET UTILITY

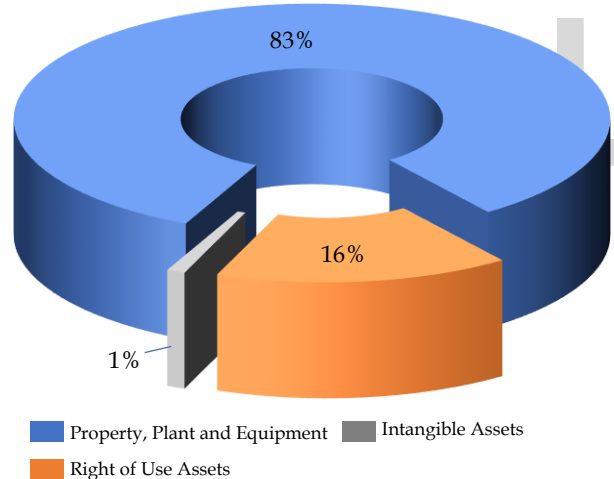
COMPOSITION OF CURRENT ASSETS (2021)



Source: Hartleys Supermarket

The Total Assets comprised of Current Assets and Non-current Assets. Current Assets contributed 69% of the Total Assets. Due to the nature of the Company's business, its Current Assets were mostly made up of Inventory. This class of working capital rose from ₦601m (Yr. 20) to ₦856m (Yr. 21). Trade Receivables also grew from ₦66m (Yr. 20) to ₦266m (Yr. 21) and accounted for 22% of Current Assets.

COMPOSITION OF NON-CURRENT ASSETS



Source: Hartleys Supermarket

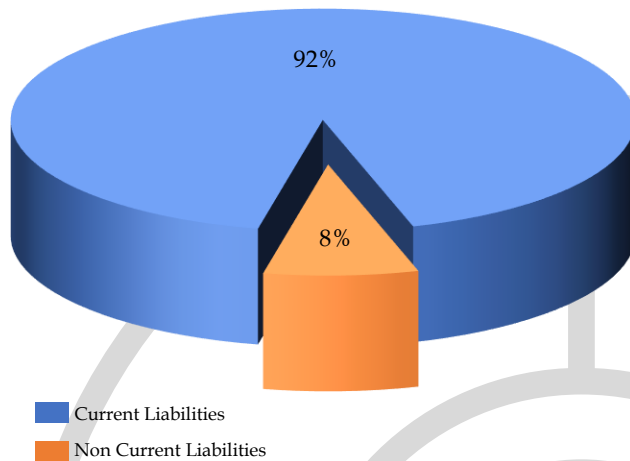
Non-Current Assets declined marginally from ₦669m (Yr. 20) to ₦629m (Yr. 21). This was due to reduction in estimated value of Right of Use and Deferred Tax Assets. However, Property, Plant and Equipment rose from ₦510m (Yr. 20) to ₦522m (Yr. 21). This accounted for 83% of the Company's Non-Current Assets.

The ability of the company to effectively utilize Assets to generate revenue grew from 222% (Yr.20) to 293% (Yr.21). Similarly,

the effective utilization of Assets to generate profit grew from 12% (Yr.20) to 17% (Yr.21).

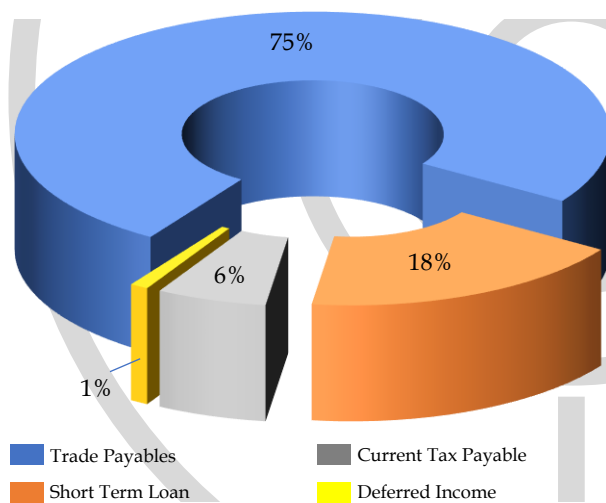
• LIQUIDITY

COMPOSITION OF TOTAL LIABILITIES (2021)



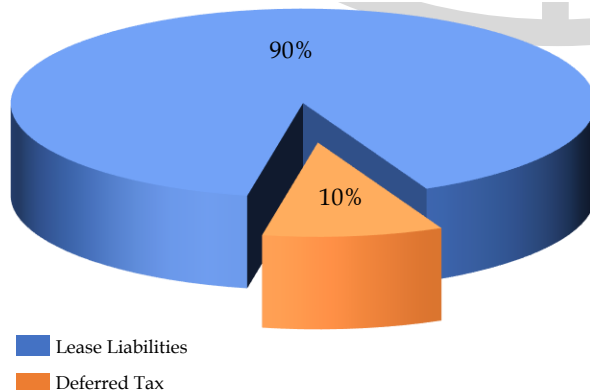
Source: Hartleys Supermarket

COMPOSITION OF CURRENT LIABILITIES



Source: Hartleys Supermarket

COMPOSITION OF NON-CURRENT LIABILITIES



Source: Hartleys Supermarket

Total Liabilities of the Company declined marginally from ₦1.1b (Yr. 20) to ₦1b (Yr. 21). The Company's Liabilities were categorized into Current and Non-Current Liabilities. However, Current Liabilities contributed largely to the total obligations of the Company in the year 2021.

Current Liabilities constituted 92% of Total Liabilities. It comprised of Deferred Income, Current Tax Payable, Trade Payables and Short Term Loans. Trade Payables made up 75% of Current Liabilities.

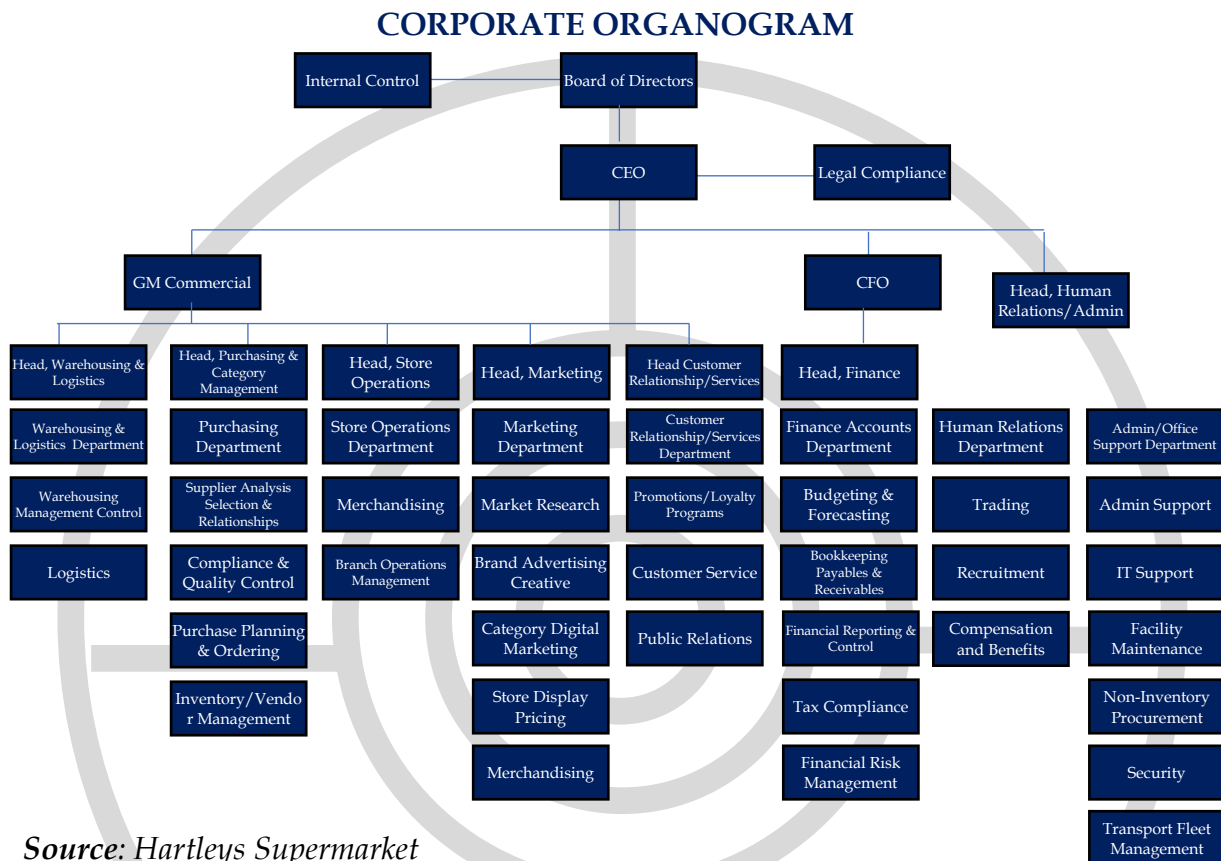
The Non-Current portion of the Company's Liabilities amounted to ₦88m (Yr. 21) as against ₦95m (Yr. 20). The major component of Non-Current Liabilities was Lease obligations. The Company operates from leased premises in Ikoyi. This was for initial period of five (5) years with an option of renewal on expiration.

The Company continued to generate positive cashflow from its operations in the year 2021. Cashflows used in Operating Activities amounted to ₦271m (Yr. 20) and it rose to ₦344m (Yr. 21). Ability to settle short term maturing obligation also improved from 72% (Yr.20) to 125% (Yr.21).

CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the company are directed by its Board of Directors which consists of One (1) Executive and Four (4) Non-Executive Directors.

The Company’s Corporate Organogram is as highlighted.



Source: Hartleys Supermarket

RISK FACTORS

In the course of our review, we observed the following significant risks.

- EXCHANGE RATE RISK**

This is the risk of loss to income as a result of adverse movement in the Exchange Rate.

Based on our review, we observed that the company imports significant amount of inventories. Therefore, adverse movement in exchange rate may impair its profitability.

To minimize this exposure, the Company relies on third party to handle the importation of some parts of its stock-in-trade. It also leverages on its relationship with its financial partners to address its foreign exchange needs.

- **CREDIT RISK**

This is the risk arising from the inability of counterparties to honor their obligations as at when due.

Based on our review, we observed that Net Trade and Other Receivables constituted a proportion of 14% of the Company's total Asset. Therefore, the Company may be affected by the default in payment of its Receivables.

- **LEGAL RISK**

This is the risk that the company will be exposed to legal actions that may lead to paying of significant fees.

Based on our review, the company is not involved in any lawsuit which may affect its business adversely.

REGULATORY ENVIRONMENT

The Company's operations are heavily regulated due to the nature of its business. The major Regulators include: *Standard Organization of Nigeria (SON), National Agency for Food and Drug Administration and Control (NAFDAC), Lagos State Ministry of Health* and the *Lagos State Consumer Protection Agency*. The Company has 13 regulators in total.

FUTURE OUTLOOK

The Company plans to add another branch to its network before the end of 2022. By opening new stores in strategic commercial locations across Lagos, it will be able to take advantage of economies of scale in negotiating better deals with local and foreign suppliers. This in turn is projected to enable the Company deliver more value to customers and ultimately to the shareholders.

Specifically, the mid-term growth plan is to expand top line sales at a compounded annual growth rate of 40.5% from ₦7.89bn in 2022 to ₦43.13bn by 2026.

CONCLUSION


The Rating of the Company is supported by its Experienced Board and Management team, its status as one of the leading retail stores within its immediate environment as well as its niche in catering for the upper segment of the retail market.

Consequently, we assigned a Rating of **"BBB+"**

FINANCES

Financial Position as at

	Dec., 2021		Dec., 2020		Dec., 2019	
	₦'000	Δ%	₦'000	Δ%	₦'000	
Current assets						
Inventories	856,766	42.34	601,930	53.51	392,107	
Trade and other receivables	254,632	283.10	66,467	(39.87)	110,535	
Prepayment	43,388	287	50,989	887.78	5,162	
Cash and cash equivalents	68,278	571	16,448	(25.09)	21,956	
	1,223,064	1,163	735,834	38.90	529,760	
	1,876,602	2,344	1,405,473	61.54	870,039	
Equity and Liabilities						
Equity						
Share capital	29,022	-	29,022	-	29,022	
Share premium	552,092	0.00	552,085		523,836	
Retain Income	17,593	(105.99)	(293,744)	(28.25)	(409,396)	
Accumulated loss	-		-		-	
	598,707	(106)	287,363	100.31	143,462	
Deposit for shares	270,322	(212)				
	869,029		287,363	100.31	143,462	
Liabilities						
Non-current liabilities						
Lease liabilities	79,346	(17.22)	95,851			
Deposit for shares						
	79,346	(17.22)	95,851			
Current liabilities						
Trade and other payables	740,852	7.22	690,978	42.94	483,403	
Short term loan	176,784	(38.54)	287,627	57.50	182,617	
Bank overdraft	-		21,340	(64.76)	60,557	
Deferred income	10,591	22.07	8,676		-	
Current tax payable	-		13,638		-	
	928,227	(9.20)	1,022,259	40.70	726,577	
Total liabilities	1,007,573	(9.89)	1,118,110	53.89	726,577	
Total Equity and Liabilities	1,876,602	33.52	1,405,473	61.54	870,039	
Revenue	5,477,172	75.47	3,121,485	89.05	1,651,148	
Cost of sales	(4,022,021)	76.07	(2,284,395)	84.26	(1,239,759)	
Gross Profit	1,455,151	73.83	837,090	103.48	411,389	
Other operating income	58,100	(4.78)	61,016	25.44	48,642	
Other operating losses	(4,014)	#####	(27)	(95.72)	(631)	
Other operating expenses	(1,134,423)	65.26	(686,444)	38.88	(494,287)	
Operating profit	374,814	77.10	211,635	(706.63)	(34,887)	
Finances costs	(63,480)	51.95	(41,777)	11.39	(37,504)	
Profit(loss) before taxation	311,344	83.30	169,858	(334.64)	(72,391)	
Taxation		#REF!	(54,205)	(184.54)	64,121	
		#DIV/0!				
Profit(loss) for the year	311,344	169.21	115,653	(1,498.46)	(8,270)	
Other Comprehensive income	-		-	#VALUE!	-	
Total Comprehensive income for the year	311,344	169.21	115,653	(1,498.46)	(8,270)	

Signed: 
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 19th September, 2022

For and on behalf of:
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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA through DD. Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long-term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk.	<i>(Superior)</i> Assigned to companies which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	<i>(Excellent)</i> Assigned to companies which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	<i>(Very Good)</i> Assigned to companies which have very good financial strength, operating performance And profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	<i>(Fair)</i> Assigned to companies which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have an ability to meet their current obligations, but their financial strength is

vulnerable to adverse changes in economic conditions.

Non-Investment Grade

Indicator Meaning Explanation

BB	Moderate Risk	<i>(Marginal)</i> Assigned to companies which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	<i>(Weak)</i> Assigned to companies which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	<i>(Poor)</i> Assigned to companies, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	<i>(Very Poor)</i> Assigned to companies, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added “+” to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non-investment grade.
B	Speculative	Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. Indicates an entity that has defaulted on all its financial obligations.