GCR GLOBAL CREDIT RATING CO.
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Eat & Go Finance SPV Plc - N15bn Bond Issuance Programme (N11.5bn Series 1 Bonds)

Nigeria Corporate Bond Analysis – Surveillance Report **December 2020**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Series 1 Senior Unsecured Bonds: N11.5bn	National	BBB$_{(NG)}$	Stable	October 2021

Key Transaction counterparties:

Issuer: Eat & Go Finance SPV Plc
Sponsor/Guarantor/Co-Obligor: Eat N' Go Nigeria Limited
Lead Issuing House: Stanbic IBTC Capital Limited
Joint Issuing House: Chapel Hill Denham Advisory Limited
Trustee: Stanbic IBTC Trustees Limited
Solicitors to the Trustee: Sefton Fross
Solicitor to the Issue: Templars
Key Transaction Documentation: Programme Trust Deed, Deed of Covenant, Shelf Prospectus, Supplemental Trust Deed, Master Intercompany Bonds Purchase Agreement ("MIBPA") and Series 1 Pricing Supplement.
Registrars: Africa Prudential Registrars Plc

Summary of Transaction:

Asset class	Senior unsecured
Programme limit	N15bn
Series 1 Bonds	N11.5bn
Tenor	7 years
Maturity Date	2026
Interest rate	14.25%
Interest basis	Fixed, payable semi-annually in arrears
Principal moratorium	24 months
Principal redemption basis	Series 1 Bonds: Semi-annual on an amortising basis, to commence following the expiration of the moratorium
Negative pledge	Yes

Related methodologies/research:

Global Master Criteria for rating Corporate entities, updated February 2018;
Eat 'N' Go Limited rating reports, 2018-20
Glossary of terms/ratios, February 2018

Rating history:

Initial rating/Last rating (March 2020)
National: BBB$_{(NG)}$
Outlook: Stable

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Transaction summary

The Issuer registered a N15bn Bond Issuance Programme ("the programme" or "BIP") with the Securities and Exchange Commission ("SEC") in December 2019 and subsequently raised N11.5bn in Series 1 Senior Unsecured Fixed Rate Bonds at that date under the BIP from the Nigerian Capital Market at a fixed annual interest rate of 14.25%, payable semi-annually in arrears. The Bonds have a seven-year tenor, with two (2) years moratorium on principal repayment, and legal maturity date of 17 December 2026. Principal repayment is on an amortising basis, payable semi-annually following the expiration of the moratorium. The Bonds constitute direct, unconditional, senior and unsecured obligations of the Issuer.

Global Credit Rating Company Limited ("GCR") has accorded a national scale long-term credit rating of 'BBB$_{(NG)}$' to the Series 1 Bonds and not the entire Programme.

Summary rating rationale

- The 'BBB$_{(NG)}$' public, national scale long term credit rating accorded to the Series 1 Bonds is equalised to the rating of ENG, as the Guarantee offers timely and full coverage of all payments due to the bondholders, under the Bonds.
- Pursuant to the guarantee agreement entered into by ENG, the Issuer and the Trustee (acting on behalf of the bondholders), ENG, in its capacity as Guarantor, irrevocably and unconditionally guarantees the punctual and full payment of all debts and obligations owed by the Issuer under the Programme. According to the Deed of Covenant, ENG undertakes that if the Issuer does not pay any of the obligations, it will immediately perform the payment obligations of the Issuer as if it were the primary obligor. In addition, GCR has received a legal opinion which confirms *inter alia* that ENG's Guarantee is irrevocable, unconditional and enforceable in line with its terms.
- Programme Trust Deed ("PTD") does not offer Bondholders any security over fixed assets but features a negative pledge, a debt service reserve account, and other covenants to protect the interest of Bondholders.
- Eat 'N' Go Limited maintains its a strong position in the Nigerian Quick Service Restaurant sector, underpinned by well-established international brands, major alliances with suppliers, experienced management team as well as strong shareholder and franchisor support. GCR maintains ENG's national scale long term rating of 'BBB$_{(NG)}$' in December 2020.
- The bond documents contain covenants that stipulate a maximum net debt to EBITDA covenant of 4x and net debt to Equity ratio of 4x. These covenants could be tested if the very strong earnings projections do not materialise. This could lead to a downgrade of the Sponsor and the bond ratings if GCR observes that these covenants has been breached.

N15bn Bond Issuance Programme

In December 2019, Eat & Go Finance SPV Plc registered a N15bn Bond Issuance Programme with the Securities and Exchange Commission subsequent to Eat 'N' Go Limited's board authorisation of the N15bn Programme on 12 March 2019. The Programme allows the Issuer to issue bonds from time to time, in Series with different maturities and risk profiles up to a limit of N15bn, by way of private placement, book building, public offering, or any of the other methods described in the relevant Pricing Supplement. The Issuer will issue the Bonds for the sole purpose of funding the acquisition by the Issuer of the relevant Intercompany Bonds issued by the Sponsor. The Bonds to be issued under the BIP will be constituted by and issued on the terms and conditions of the Programme Trust Deed ("PTD") between the Issuer, the Sponsor and the Bond Trustees and supplemented by the Series' Trust Deeds. As indicated in the Prospectus, the Bonds to be issued under the Programme will be exempted from certain taxes. The Bonds will be issued in Nigerian Naira.

The Programme Trust Deed contains various covenants binding the Issuer to repay the bond, pay interest and also comply with the provisions of the PTD and all applicable laws. Events of default and the various remedies are also stated in the Trust Deed. The Trustee will hold the payment obligations and other covenants of the Issuer in Trust for the benefit of the Bondholders, and perform the duties contained in the Trust Deed.

Series 1 Bonds

In December 2019, an initial N11.5bn was raised in Series 1 Bonds. The Bonds are direct, unconditional, senior and unsecured obligations, ranking *pari passu* with all other senior and unsecured obligations of the Issuer. The Series 1 Bonds have a fixed interest rate of 14.25%. Interest accrues on the Bonds from the issue date and is payable semi-annually in arrears.

Table 1: Basic features	Series 1 Bonds
Amount	N11.5bn
Tenor	7 years
Coupon payment date	17 June and 17 December
Maturity date	2026
Principal moratorium	24 months
Principal redemption basis	Amortising, payable semi-annually

Other salient features of the Bonds are as follows:

- *Taxation*: The Federal Government of Nigeria issued a Tax Waiver on Bonds in March 2010 exempting certain taxes on all categories of bonds (including corporate bonds), up till January 2, 2022. After this date, the Issuer may be required by law to withhold tax on coupon payments to Bondholders.
- The Bonds bear a negative pledge

Guarantee

Pursuant to the guarantee agreement entered into by ENG, the Issuer and the Trustee (acting on behalf of the bondholders), ENG in its capacity as Guarantor, irrevocably and unconditionally guarantees the punctual and full payment of all debts and obligations owed by the Issuer under the Programme. According to the Deed of Covenant, the Sponsor will provide an irrevocable and unconditional guarantee to the Trustee on behalf of the bondholders, in respect of all payment obligations due under the Bonds. Pursuant to the Deed of Covenant, ENG undertakes that if the Issuer does not pay any of the obligations, it will immediately perform the payment obligations of the Issuer as if it were the primary obligor. The Guarantee will be in force until all payment obligations under the Bonds have been fully discharged.

Repayment source

The semi-annual coupon and scheduled principal repayment will be made from ENG's operational cash flows deposited into Debt Service Account ("DSA").

Issuer and Sponsor

Issuer

Eat & Go Finance SPV Plc was incorporated 12 March 2019 as a Special Purpose Vehicle ("SPV"), to provide funding to the Sponsor, through the issuance of Bonds to the public. The Issuer has no business operations, other than borrowing and passing through as well as receiving funds from ENG. Its issued share capital is made up of 20 million ordinary shares of N1 each.

Sponsor profile

Eat N' Go Limited was established in 2011 and fully commenced business in August 2012, operating international food brands franchises; *Domino's Pizza* (now *Domino's*), *Cold Stone Creamery ("CSC")* and *Pinkberry* introduced in 2018. In line with ENG long-term goal to open outlets across the nation, the number of outlets have increased significantly from just two in 2012 to 112 as at August 2020, across seven States and the Federal Capital Territory, Abuja. While over 75% of stores are in Lagos, ENG's diversification to new markets should mitigate the concentration risk and competitive pressures. ENG sells its products through its wholly owned stores. The major products sold include pizzas, chicken, ice cream, yoghurts and drinks. Brands either operate as co-located or stand-alone outlets depending on the location, brand perception and market dynamics of the various products in a particular location. Management expects store count to reach 130 by end-2020, and 266 by 2023, focusing strictly on commercial and densely populated areas with direct access to target market.

GCR maintains ENG's national scale long term and short term ratings of $BBB_{(NG)}$ and $A2_{(NG)}$ respectively in December 2020. For detailed commentary and credit analysis, please refer to GCR's corporate rating report on Eat 'N' Go Limited published in December 2020. The synopsis of ENG's five-year financial performance and the 8-month unaudited results to August 2020 is reflected at the end of this report.

Transaction accounts

The transaction incorporates a Debt Service Account and a Debt Service Reserve Account ("Transaction Accounts") for the Series 1 Bonds. The Transaction

Accounts were opened with the Account Bank on or around the Closing Date of the Bonds, in the name and under the control of the Trustee (in line with the terms of the Series 1 Trust Deed and Programme Trust Deed). The Account Bank is Stanbic IBTC Bank Plc as agreed by the Issuer and the Trustees.

Debt Service Account ("DSA"): The DSA is used to accumulate monies to pay the interest and principal on the Bonds. The Sponsor is required to fund the DSA with one-fifth of the semi-annual coupon/debt service amount, before the fifth day of every month, throughout the tenor of the bonds. Following every coupon payment, the Obligors are to replenish the DSA, such that five business days before each coupon payment date, the funds in the account will not be less than the debt service amount.

Debt Service Reserve Account ("DSRA")
On or about the Issue Date, the Sponsor will deposit, the debt service amount due on the following coupon payment date into the DSRA. If there is a shortfall in the Payment Account, five business days before a coupon payment date, the Trustee may withdraw the shortfall from the DSRA and the Obligors shall replenish the DSRA (upon notification to the Issuer from the Trustee), such that the amount standing to the credit of the DSRA will not be less than the Minimum Reserve Balance i.e. one semi-annual coupon payment.

All funds in the DSRA are to be transferred into the DSA at least five business days before the maturity of the Series 1 Bonds. The Obligors will transfer any outstanding principal amount (as may be applicable) to the DSA five days to the payment date.

Authorised Investments
Moneys in the Transaction Accounts shall be invested in Authorised Investments, as soon as practicable, by the Trustee provided that (i) the maturity date or the date on which such Authorised Investments may be redeemed at the option of the holders thereof shall coincide as nearly as practicable with (but in no event be later than) the date(s) on which funds in the DSRA from which the investments were made will be required for the purposes thereof; and (ii) the Trustee shall select Authorised Investments in accordance with prudent investment standards. The return on any investment made shall be invested by the Bond Trustees so as to form a part of the Transaction Account from which it was invested. Investments shall be made in the Trustee's name.

Priority of Payments
All monies received by the Trustee under Trust Deeds shall be applied by the Trustees in the following order of priority:

- Payment of all reasonable costs, charges, expenses and liabilities incurred and payments incurred by the Trustee in performing its duties under the trust deed, including the Trustee's remuneration.
- *Pari passu* payment of any amount due but unpaid under any Series of the Bonds
- Any surplus will be paid to the Issuer, Sponsor or person(s) entitled to such surplus.

Events of default

Per Condition 13 of the PTD, these include the following events, *inter alia*:

- *Non-Payment*: if the Obligors do not pay any amount payable under the Bonds within ten (10) business days of due date.
- *Breach of covenants:* If the Obligors do not comply with their obligations under the respective covenants.
- *Cross default:* If any financial indebtedness exceeding N1.5bn is not paid by due date or within an applicable grace period.
- Enforcement proceedings against any asset(s) of an Obligor and such action is not discharged within 90 days plus an additional 30-day grace period (if granted by the Trustee);
- *Obligations unenforceable*: If any of the Bonds or Trust Deeds becomes void, voidable or unenforceable
- Insolvency event in respect of an Obligor;
- Cessation of business;
- Material adverse event;
- Breach of other obligations.

Following an event of default, the Trustee may at its discretion and shall upon the request of holders of at least 20% of the outstanding bond principal or by an extraordinary resolution of the bondholders issue a Bond Acceleration Notice[1] to the Issuer, stating that all amounts due to Bondholders will become immediately payable. The Trust Deed authorises the Trustee to take reasonable steps to effect payment, including institution of legal proceedings.

Legal Opinion

GCR received a legal opinion from Templars (solicitor to the Issue) addressing issues surrounding the validity of the Bond Issue, enforceability of transaction documents and ENG's Guarantee in relation to the Series 1 Bonds. GCR understands from the legal opinions, *inter alia*, that:

- The Issuer and Sponsor are duly incorporated and validly exist under Nigeria laws, and possess the legal capacity and corporate power to execute and perform its obligations under the transaction documents.
- The obligations to be assumed by each Obligor in the transaction documents constitute legal, valid, binding and enforceable obligations in Nigeria.
- The Trustee is empowered to maintain and manage the Transaction Accounts in line with Nigerian Law and the trust deeds. Given that the Transaction Accounts are held in trust, the funds therein will not be available for distribution to creditors of the Trustee or the Issuer in the event of insolvency of either party.
- The Trustee is authorised to institute proceedings against the Obligors as deemed appropriate to enforce

[1] If requested by majority of bondholders.

repayment of all outstanding bond obligations as well as the provisions of the PTD.

- The ENG Guarantee will at all times remain the unconditional and irrevocable obligation of Sponsor.
- The guarantee obligations will remain in full force and effect as constituted by the Deed of Guarantee.

Please note that the legal opinions contain several qualifications that stipulate, for example, that the enforcement of obligations may not always be possible for a variety of reasons.

Rating Methodology of the Bonds

GCR has considered those factors impacting the general creditworthiness of Eat 'N' Go Limited, in performing its analysis. Being senior unsecured obligations guaranteed by the ENG, the Bonds bear the same probability of default as the Sponsor and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, GCR has accorded a public rating of $BBB_{(NG)}$ to the Series 1 Bonds, in line with the Sponsor's corporate credit rating. Accordingly, any change in the Sponsor's rating would impact the rating of the Bonds.

GCR has reviewed the Trustees report dated 8 December 2020, regarding the Series 1 Bonds performance and noted that the first coupon payment of N837.5m was made on 17 June, 2020.

<u>Meaning of the Rating of the Series 1 Bonds</u>

The rating accorded to the Series 1 Bonds is a *public* national scale rating. National scale credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be accorded to financial commitments issued or guaranteed by the relevant sovereign state. GCR has reviewed the final transaction documentation.

The *public* rating accorded to the Bonds exclude an assessment of the Issuer's ability to pay any (early repayment) penalties.

Should the rating of the Issuer change, the rating of the Series 1 Bonds will also change, but not necessarily in the same quantum.

The suffix code identifies to which country the rating relates; 'NG' means Federal Republic of Nigeria. A Rating outlook indicates the potential direction of a rating over the medium term, typically a one or two year period.

The ratings will be monitored, and thereafter GCR will perform regular surveillance on the transaction. Surveillance reports will be made available to subscribers to GCR's information services.

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Eat 'N' Go Limited

(Naira in millions except as noted)

Income Statement	31 December	2015	2016	2017	2018	2019	8M FY20^
Turnover		4,673.4	8,069.2	10,722.3	13,201.0	16,934.4	10,702.0
EBITDA		**696.9**	**691.0**	**1,576.2**	**1,261.6**	**2,201.3**	**1,547.0**
Depreciation and amortisation		(303.1)	(427.5)	(631.5)	(985.2)	(1,714.6)	(959.0)
Operating income		**393.8**	**263.5**	**944.8**	**276.5**	**486.6**	**588.0**
Net finance charge		(144.5)	(197.7)	(308.0)	(500.1)	(1,504.1)	(1,284.0)
Capitalised interest		0.0	0.0	0.0	0.0	0.2	0.0
Foreign exchange and fair value movements		0.0	0.0	(9.0)	(50.5)	(48.4)	(619.0)
Other gains/(losses)		167.5	164.4	0.0	676.5	2.0	0.0
NPBT		**416.8**	**230.2**	**627.8**	**402.4**	**(1,063.7)**	**(1,315.0)**
Taxation charge		84.2	123.2	289.6	(302.7)	(92.7)	0.0
NPAT		**501.0**	**353.4**	**917.4**	**99.7**	**(1,156.4)**	**(1,315.0)**
Cash Flow Statement							
Cash generated by operations		**864.4**	**855.4**	**2,044.7**	**1,961.5**	**1,576.6**	**1,547.0**
Utilised to increase working capital		37.6	523.7	266.8	689.5	(64.6)	(1,081.0)
Net interest paid		(144.5)	(197.7)	(317.0)	(394.6)	(741.5)	(1,218.0)
Taxation paid		0.0	(1.3)	0.0	(16.1)	(35.2)	0.0
Operating cash flow		**757.6**	**1,180.2**	**1,994.4**	**2,240.3**	**735.3**	**(752.0)**
Maintenance capex*		(303.1)	(427.5)	(631.5)	(985.2)	(1,714.6)	(525.0)
Discretionary cash flow		**454.4**	**752.7**	**1,362.9**	**1,255.2**	**(979.4)**	**(1,277.0)**
Dividends paid		0.0	0.0	0.0	0.0	0.0	0.0
Retained cash flow		**454.4**	**752.7**	**1,362.9**	**1,255.2**	**(979.4)**	**(1,277.0)**
Net expansionary capex		(736.1)	(918.0)	(1,540.5)	(3,159.5)	(1,988.6)	0.0
Proceeds/(losses) on sale of assets/investments		7.6	10.1	0.0	1.4	20.5	0.0
Retained cash		**(274.1)**	**(155.2)**	**(177.5)**	**(1,902.9)**	**(2,947.5)**	**(1,277.0)**
Shares issued/(repurchased) and other		0.0	0.0	0.0	803.9	120.3	(618.0)
Borrowings: increase/(decrease)		338.4	224.0	249.6	1,098.6	10,682.7	(12.0)
Increase/(decrease) in cash		**64.3**	**68.8**	**72.1**	**(0.4)**	**7,855.4**	**(1,907.0)**
Balance Sheet							
Ordinary shareholders equity		1,452.4	1,804.6	2,639.4	3,811.6	2,715.2	1,889.0
Total shareholders' equity		**1,452.4**	**1,804.6**	**2,639.4**	**3,811.6**	**2,715.2**	**1,889.0**
Short term debt		759.5	866.0	1,180.5	1,696.3	3,077.6	339.0
Long term debt		176.0	294.8	332.8	834.2	12,818.4	12,942.0
Total interest-bearing debt		**935.5**	**1,160.8**	**1,513.3**	**2,530.5**	**15,896.0**	**13,281.0**
Interest-free liabilities		1,123.5	2,234.8	3,001.0	4,235.2	4,259.5	3,720.0
Total liabilities		**3,511.5**	**5,200.3**	**7,153.7**	**10,577.3**	**22,870.8**	**18,890.0**
Fixed assets		2,034.0	2,919.4	4,380.2	7,345.3	8,764.3	8,264.0
Cash and cash equivalent		165.9	234.7	200.0	199.6	8,094.4	5971.0
Other assets		1,311.5	2,046.2	2,573.5	3,032.4	6,012.1	4655.0
Total assets		**3,511.5**	**5,200.3**	**7,153.7**	**10,577.3**	**22,870.8**	**18,890.0**
Ratios							
Cash flow:							
Operating cash flow : total debt (%)		81.0	101.7	131.8	88.5	4.6	neg
Discretionary cash flow : total debt (%)		48.6	64.8	90.1	49.6	neg	neg
Profitability:							
Turnover growth (%)		67.0	72.7	32.9	23.1	28.3	(5.2)
Gross profit : revenues (%)		56.0	54.7	50.1	59.8	58.8	66.2
EBITDA : revenues (%)		14.9	8.6	14.7	9.6	13.0	14.5
Operating profit margin (%)		8.4	3.3	8.8	2.1	2.9	5.5
EBITDA : average total assets (%)		25.5	16.6	26.4	14.6	17.5	15.9
Return on equity (%)		41.2	21.7	41.3	3.1	neg	neg
Coverage:							
EBITDA : gross interest (x)		4.8	3.5	5.1	2.5	1.4	1.2
EBITDA : net interest (x)		4.8	3.5	5.1	2.5	1.5	1.2
Operating income : net interest (x)		2.7	1.3	3.1	0.6	0.3	0.5
Activity and liquidity:							
Trading assets turnover (x)		40.0	neg	neg	neg	neg	29.1
Days receivable outstanding (days)		2.4	1.4	3.1	2.4	2.3	2.3
Current ratio (:1)		0.6	0.5	0.4	0.4	1.5	2.2
Capitalisation:							
Net debt : equity (%)		53.0	51.3	49.8	61.2	287.3	387.0
Total debt : equity (%)		64.4	64.3	57.3	66.4	585.4	703.1
Total debt : EBITDA (%)		134.2	168.0	96.0	200.6	722.1	572.3
Net debt : EBITDA (%)		110.4	134.0	83.3	184.7	354.4	315.0

‡Depreciation used as a proxy for maintenance of capex expenditure.

^8-month unaudited management accounts to August 2020.

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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the Bonds rating expires in October 2021.

Eat & Go Finance SPV Plc and the lead Issuing House participated in the rating process via teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The Bonds rating has been disclosed to Eat & Go Finance SPV Plc.

The information received from the Issuer, the lead Issuing House and other reliable third parties to accord the Bond rating included: Shelf Prospectus, Series 1 Pricing Supplement, Deed of Covenant, Legal Opinion, Programme Trust Deed, Series 1 Trust Deed as well as the Trustees' Report.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the rating.