GCR RATINGS

Credit Rating Announcement

GCR affirms Eat 'N' Go Limited's national scale long-term and short-term Issuer ratings of $BBB_{(NG)}$ / $A3_{(NG)}$; Stable Outlook.

Rating Action

Lagos, 03 November 2021 - GCR Ratings ("GCR") has affirmed the national scale long-term and short-term Issuer ratings of $BBB_{(NG)}$ and $A3_{(NG)}$ respectively accorded to Eat 'N' Go Limited, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Eat 'N' Go Limited	Long Term Issuer	National	$BBB_{(NG)}$	Stable
	Short Term Issuer	National	$A3_{(NG)}$	

Rating Rationale

The ratings of Eat 'N' Go Limited ("ENG" or "the Group") reflects its established position within the highly competitive Nigerian Quick Service Restaurants ("QSR") industry, underpinned by its well-entrenched international brands. Its expanding footprint has aided strong earnings growth and sustainable cash flows, although the ratings are constrained by relatively high gearing and weak credit protection metrics.

The Nigerian QSR sector has been resilient since the outbreak of the COVID-19 crisis, maintaining relatively strong earnings growth, reflective of the convenience and affordability of its products. This distinguishes the sector from the typical hospitality players such as hotels, bars and tourism centres which have seen patronage plunge. Although the sector is highly fragmented with many players, operating within the informal and formal segments, ENG ranks as one of the largest food service companies within the Nigerian QSR industry. Its competitive position is supported by its well-entrenched international brands, with over 150 outlets across Nigeria and plans to increase its store count to 329 over the next five years. ENG recently entered the Kenyan market, which will provide some diversification benefits going forward, albeit the Group still generates most of its revenue in Nigeria.

The earnings profile is considered as a positive rating factor. ENG has reported robust revenue progression, with a 5-year CAGR of 21% underpinned by rapid store expansion and a growing customer base. Revenue has also been enhanced by the Group's implementation of value-added services, adoption of technology and partnership with third party delivery companies to boost sales. Strong revenue growth is expected over the outlook period given the gradual pick up of economic activities (as evidenced by the 1H FY21 results) to be supported by economies of scale from newly built stores. This, combined with improved cost efficiency, saw the EBITDA margin register at 24% in 1H FY21 (FY20: 17.3%). Accordingly, after settling its interest costs, ENG reported a net profit before tax, recovering from the net losses in the prior two years. GCR expects the EBITDA margin to remain between 20%-25% for FY21 and FY22 on the back of higher sales volume and economies of scale.

Constraining the ratings is ENG's weak leverage and capital structure. Gross debt has risen to N17.7bn at FY20, from N2.5bn at FY18, largely utilised to finance expansion. This comprises N11.5bn in Series 1 Bonds raised in 2019 from the Nigerian capital market, and lease liabilities amounting to N4.6bn. Accordingly, credit protection metrics have registered at weak levels, with net debt to EBITDA at 4.5x in FY20 (FY19: 3.5x), operating cash flow coverage of debt at negative position in FY20 (FY19: 4.6%) and net interest coverage at 1.1x in FY20 (FY19: 1.3x) compared to historically strong levels pre-FY19. However, this calculation includes lease liabilities (as per IFRS 16), which are not included in the covenant calculations. Under the covenant calculations net debt to EBITDA was reported at 2.98x, offering comfortable headroom below the covenant level of 4x.

ENG is in the process of raising additional N3.5bn in bond issue from the debt capital market to fund capex and support working capital. While this could see debt rise to N20.5bn by end-FY21 (1H FY21: N17.4bn), the Group's ability to improve earnings should see cash flow and leverage metrics register within moderate level over the medium-term rating horizon.

The Group evidences moderate liquidity coverage with liquidity sources expected to cover uses by 1.24x over the six months period to 31 December 2021 and an intermediate range of 1.25x to 2x over the 18 months to December 2022. This is predicated on anticipated improvement in operating cash flow, combined with robust cash holdings of N3.4bn, which will be utilised to cover debt redemption and ongoing capex spend. Liquidity coverage is augmented by revolving overdraft committed facilities from three Nigerian banks which are available for utilisation. Refinancing risk is minimal as debts are largely long term in nature.

Outlook Statement

The Stable Outlook reflects GCR's opinion that ENG will continue to generate robust earnings and cash flow, which should see credit protection metrics and liquidity profile improve in the coming years.

Rating Triggers

Upward rating movement could be supported by the attainment of robust medium-term earnings targets underpinned by the successful rollout of new stores with proven systems to manage the enlarged business. A sustainable improvement in credit protection metrics will be positively considered.

Downward rating movement could emanate from earnings underperformance, such that ENG continues to report operating losses. A sharp rise in gross debt and corresponding weakening in the debt serviceability would be negatively viewed.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, October 2021
GCR Nigeria Corporate Sector Risk Scores, November 2021

Ratings History

Eat 'N' Go Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB+(NG)	Stable	December 2018
Short Term issuer	Initial	National	A2(NG)		
Long Term issuer	Last	National	BBB(NG)	Stable	December 2020
Short Term issuer	Last	National	A3(NG)		

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**6.25**
Country risk score	3.75
Sector risk score	2.50
Business profile	**0.50**
Competitive position	0.50
Management and governance	0.00
Financial profile	**(0.75)**
Earnings profile	0.50
Leverage and capital structure	(1.00)
Liquidity	(0.25)
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**6.00**

Glossary

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.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
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.
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
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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 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 rating has been disclosed to Eat 'N' Go 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.

Eat 'N' Go 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 Eat 'N' Go Limited and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- Six-month audited financial statement to 30 June 2021;
- Internal and/or external management reports;
- 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;