Sundry Foods Funding SPV PLC

2023 Final Indicative Series 2 Bond Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Sundry Foods Funding SPV PLC

Up to ₦5.5 Billion Five-Year Fixed Rate Senior Unsecured (Series 2) Bond Due 2028 Under the ₦20 Billion Bond Issuance Programme

Issue Rating:

A-*

Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal in a timely manner.

Outlook: Stable
Issue Date: 6 July 2023
Expiry Date: 30 June 2024

**The rating is indicative and a final rating will be based on receipt of all duly executed contractual agreements. The final rating will be subject to annual monitoring and review.*

Sponsor's Rating: A-
Expiry Date: 30 June 2024

Analysts:

Racheal Animashaun
rachealanimashaun@agusto.com

Isaac Babatunde
isaacbabatunde@agusto.com

Agusto & Co. Limited
UBA House (5th Floor)
57, Marina
Lagos
Nigeria
www.agusto.com

RATING RATIONALE

- Agusto & Co. hereby assigns an indicative **"A-"** rating to Sundry Foods Funding SPV PLC's ("Sundry Foods SPV", "the SPV", or "the Issuer") up to ₦5.5 Billion Five-Year Fixed Rate Senior Unsecured Bond Due 2028 ("Series 2", "the Bond" or "the Issue") under the ₦20 Billion Bond Issuance Programme. The assigned rating mirrors the standalone **"A-"** rating of Sundry Foods Limited ("Sundry Foods", "SFL", "the Company", or "the Sponsor") assigned by Agusto & Co[1], as the Sponsor irrevocably and unconditionally pledges its operating cash flow as the primary source of repaying the Series 2 Bond obligations. The rating is supported by SFL's good profitability upheld by its diverse meal offering and its wide geographical spread with footprints in 16 states in Nigeria. The rating also factors in the Sponsor's good cashflow position based on its cash sales model of operation and its acceptable working capital.

- Sundry Foods Limited is a major player in the Food Service Industry in Nigeria, operating under the brand names – Kilimanjaro, Pizza Jungle, Kiligrill and Nibbles Creamery. The Company was incorporated in 2003 and owns a total of 162 outlets (as at 31 March 2023) consisting of restaurants and bakeries and operates 16 canteens on behalf of its corporate clients.

- The Issuer is a special purpose vehicle incorporated by Sundry Foods Limited on 23 April 2021, with the sole aim of raising debt securities from the Nigerian capital market to support its funding needs.

- In December 2021, Sundry Foods Funding SPV PLC issued a ₦2.5 billion Five-Year 13.5% Fixed Rate Series 1 Bond under its ₦20 Billion Bond Programme. The proceeds from the Series 1 Bond was used by the Issuer to purchase Intercompany Notes from the Sponsor, who in turn utilized the fund to finance the establishment of new restaurants and the repayment of some existing expensive debt. In addition to this, the SPV intends to issue up to ₦5.5 billion Series 2 Bond in 2023, under the existing Bond Programme and for the same purpose.

[1] *Agusto & Co affirmed the **"A-"** rating assigned to Sundry Foods Limited in June 2023 and attached a stable outlook to the Sponsor.*

TRANSACTION PARTIES

Issuer:
Sundry Foods Funding SPV PLC

Sponsor:
Sundry Foods Limited

Lead Issuing House:
CardinalStone Partners

Joint Issuing House:
Stanbic IBTC Capital Limited
FCMB Capital Markets

Bond Trustees:
ARM Trustees Limited
CardinalStone Trustees Limited
United Capital Trustees Limited

Solicitors to the Issue:
Aluko & Oyebode

Solicitor to the Issuer:
Duale, Ovia & Alex-Adedipe

Reporting Accountant:
Ernst & Young

Sponsor's Auditor:
Deloitte & Touche (Chartered Accountants)

Registrars:
Crescent Registrars Limited

Receiving Bank:
Fidelity Bank PLC

KEY TRANSACTION STRUCTURE

Bond Tenor:
5 years with semi-annual coupon payment with bi-annual principal repayment (subject to a twelve-month moratorium on principal)

Bond Status:
The Series 2 Bond constitutes a direct, unsubordinated obligation of the Issuer and shall at all times rank pari passu among themselves and other monetary obligations of the Issuer other than those mandatorily preferred by law and are of general application.

Use of Bond Proceeds:
The net proceeds will be used by the Issuer to purchase the 5-year Fixed Rate Unsecured Notes issued by Sundry Foods Limited, under the terms of the Master Notes Issuance Agreement ("MNIA").

Source of Repayment:
Operating cash flow of Sundry Foods Limited

This Series 2 Bond Rating Report should be read in conjunction with Agusto & Co.'s 2023 Corporate Rating Report of Sundry Foods Limited (the Sponsor)

- The Series 1 & 2 Bonds will have similar features and structures. Like the Series 1 Bond, the Series 2 Bond will attract a fixed coupon rate to be determined through a book-building process, payable semi-annually over the five-year tenor. The Bond principal will be amortised and repaid half-yearly until maturity of the Bond in 2028, commencing after the expiration of a twelve-month moratorium period from the issue date.

- Based on Agusto & Co.'s review of the Sponsor's financial forecast, we reckon that the sensitised cumulative potential operating cash flow is sufficient to cover total interest payment (including coupons on both the Series 1 & 2 Bonds) and principal obligations 5.8x and 3.2x respectively, depicting a good capacity to meet the bonds' obligations as and when due.

- We hereby attach a **stable** outlook to Sundry Foods Funding SPV PLC's up to ₦5.5 billion Five-Year Fixed Rate Senior Unsecured (Series 2) Bond, premised on the Sponsor's good and sustainable cash flow. However, should there be any change in the rating of Sundry Foods Limited, our rating and outlook for both the Series 1 & 2 Bonds will be revised accordingly.

Debt Service Payment Account (DSPA):
The Issuer shall establish the Debt Service Payment Account (DSPA) in accordance no later than five Business Days after the Issue Date which shall be in the name and under the exclusive control of the Trustees for the purpose of meeting the Series II Bond obligations.

Debt Service Reserve Account (DSRA):
The Sponsor shall establish and fund the Debt Service Reserve Account quarterly, with an amount sufficient to cover maturing obligations, prior to each payment date.

Figure 1: Strengths, Weakness, Opportunities and Challenges

Strengths

- The creation of a DSRA that will be funded prior to each payment date, with such amount sufficient to cover maturing coupon and principal obligations.
- The Sponsor is a leading player in the domestic Food Service Industry
- The Sponsor's good and sustainable profitability and operating cash flow
- Growing geographical spread of the Sponsor's restaurants

Weakness

- The Sponsor's rising debt profile

Opportunities

- The changing lifestyle for "comfort and quick food" by the Nigerian middle class population
- Growing population

Challenges

- Intense competition in the QSR segment
- Rising input cost with adverse impact on margins, amid inflationary pressures
- Weakening consumer purchasing power
- Dearth of infrastructure which elevates business operating costs
- Insecurity challenges that may hinder expansion in the Northern region of the Country.

PROFILES OF THE ISSUER AND THE SPONSOR

OVERVIEW OF THE ISSUER – SUNDRY FOODS FUNDING SPV PLC

Sundry Foods Funding SPV PLC ("Sundry Foods SPV", "the SPV", or "the Issuer") was incorporated on 23 April 2021 as a special purpose vehicle (SPV) of Sundry Foods Limited ("the Sponsor"). The SPV is a non-operating entity, established solely for the purpose of raising debt finance on behalf of the Sponsor, through the issuance of bonds to qualified institutional investors and high net-worth individuals.

The Issuer has an authorised share capital of ₦2 million, consisting of 2 million ordinary shares at ₦1 each, all of which have been issued and fully paid. The shares of the SPV are held by Sundry Foods Limited (99.99%) and Mr. Ebele Enunwa - the Managing Director of Sundry Foods Limited (0.01%). The SPV has two directors - Messrs. Ebele Enunwa and Nnamdi Opara (an Executive Director in Sundry Foods Limited), with no management staff.

On 15 December 2021, the SPV raised ₦2.5 billion via its Series 1 Bond Issuance (under a ₦20 billion Multi-instrument Bond Issuance Programme). The Series 1 Bond attracted a fixed coupon rate of 13.5% payable semi-annually over its five-year tenor, while the bi-annual principal repayment will commence in June 2023, after the expiration of a twelve-month moratorium. Although the Series 1 Bond is a direct, senior, unsecured and unsubordinated obligation of the Issuer, the Sponsor unconditionally and irrevocably guarantees to repay the coupon and outstanding principal amount, in line with the Master Notes Issuance Agreement. Therefore, the Series 1 Bond obligations are being repaid from the operating cash flow of Sundry Foods Limited.

OVERVIEW OF THE SPONSOR – SUNDRY FOODS LIMITED

Sundry Foods Limited ("Sundry Foods", "SFL", "the Company" or "the Sponsor") is one of the leading players in the Food Service Industry in Nigeria. The Company was incorporated as a limited liability company in December 2003 but commenced operations in October 2004. SFL is primarily engaged in the operation of quick service restaurants (under the brand names – Kilimanjaro Restaurants, Kiligrill, Pizza Jungle and Nibbles Creamery) and bakeries (Nibbles Bakery) as well as the provision of catering and canteen services to individuals and corporate entities. As at 31 March 2023, Sundry Foods' QSR segment comprised 76 Kilimanjaro Restaurants, 42 Pizza Jungle, 38 Kiligrill and 3 Nibbles Creamery outlets across Nigeria. SFL also has three bakeries and manages 16 staff canteens for 10 organisations in Nigeria.

During the year 2022, the Company established 38 new stores[2], bringing the total number of retail outlets to 154 as at year-end. Furthermore, in the first quarter of 2023, the Sponsor continued its expansion stride with the addition of 8 new stores (which cut across its QSR brands), bringing the total number of its stores as at 31 March 2023 to 162. SFL currently operates in 16 states but majority of its stores are concentrated in Port Harcourt (the headquarters), Lagos and Abuja. However, over the near to medium term, the Sponsor plans to extend its footprint to other parts of Nigeria, particularly in the Southwest and the Northern regions. To achieve this, SFL plans to open fifteen additional Kilimanjaro Restaurants, five Pizza Jungle stores as well as ten new Kiligrill outlets on an annual basis over the next five years. To fund this expansion, the Company plans to raise up to ₦5.5 billion (which will be routed through its SPV) under its Series 2 Bond Issuance in the near term.

Sundry Foods Limited is owned by five organisations, with Potter's Properties Limited as the largest shareholder having a 30% equity stake. The other shareholders include: Accel Capital Partners Limited with

[2] *Consisting of 15 new Kilimanjaro restaurants, 11 kiligrill and Pizza Jungle stores and one staff canteen*

29.2%, Silk Trust Private Equity and Taste & Flavour Ltd with 26.5% and 12.9% shares respectively. The remaining 1.4% stake is held by Port Harcourt Sundry Foods Staff Co-operative Investment and Credit Society Limited.

The Sponsor is governed by a six-member Board of Directors, which consists of two executive directors and four non-executive directors. The Board is led by Mr. Adedotun Sulaiman (MFR) as the Chairman, while Mr. Ebele Enunwa is the Managing Director.

OTHER INFORMATION

As at 31 December 2022, Sundry Foods Limited's total assets stood at ₦17.8 billion while the total shareholders' fund was ₦6 billion (FYE 2021: ₦4.6 billion). In FYE 2022, the Sponsor generated a turnover of approximately ₦32.9 billion and recorded a profit after tax of ₦2 billion. In the same period, SFL had an average of 3,271 persons in its employment (2021: 2,790 persons).

The Company's management account as at 31 March 2023 (Q1'2023) showed a turnover of ₦9.7 billion and a post-tax profit of ₦1.5 billion. Sundry Foods' total assets stood at ₦18.5 billion as at Q1'2023, while its total liabilities and shareholders' funds as at the same date were ₦11 billion and ₦7.5 billion respectively.

Table 1: Background Information as at 31 March 2023

Authorised Share Capital:	₦720 million
Paid-up Capital:	₦720 million
Shareholders' Funds:	₦7.5 billion
Registered Office:	23, Nzimiro Street, Old GRA, Port Harcourt, Rivers State, Nigeria
Principal Business:	Provision of Food Services
Auditors:	Deloitte Nigeria

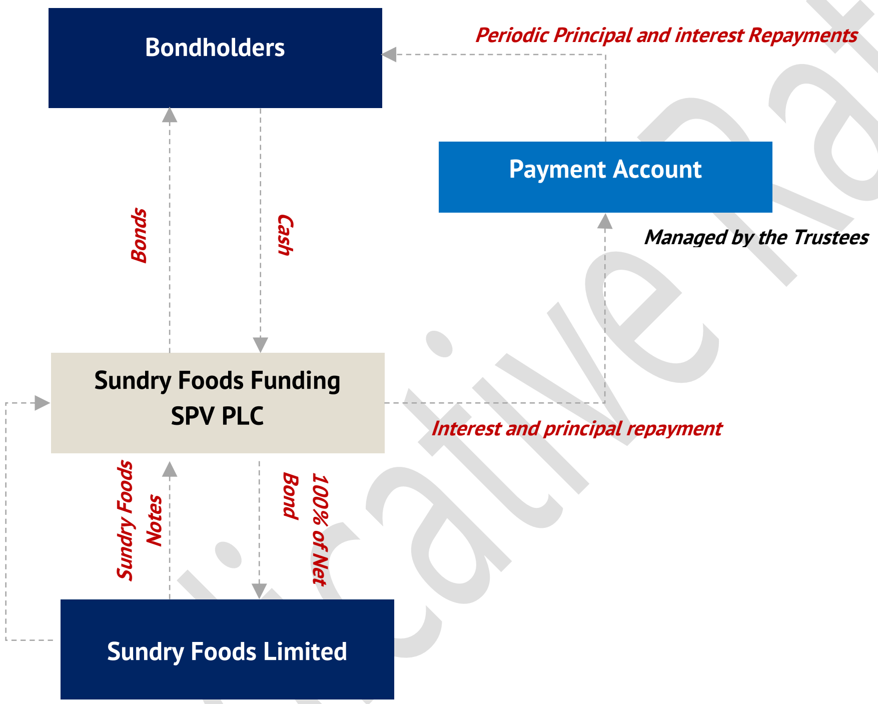
Source: Sundry Foods' Management Account as at 31 March 2023

SERIES 2 BOND TRANSACTION STRUCTURE

OVERVIEW

Sundry Foods Funding SPV PLC intends to raise up to ₦5.5 billion Series 2 Bond under the existing ₦20 billion Bond Issuance Programme. The Bond will attract a fixed coupon rate to be determined through a book-building process which will be payable semi-annually over the five-year tenor. The aggregate principal amount will have a twelve-month moratorium from the issue date and will be amortised half-yearly over the remaining tenor until maturity in 2028. The Series 2 Bond will be issued by way of an offer to qualified institutional investors and high-net-worth individuals, although subject to the approval of the Securities & Exchange Commission, the Bond shall be listed on the FMDQ Securities Exchange Limited.

Figure 2: Overview of the Transaction Structure



Source: Series 2 Bond Pricing Supplement

The net proceeds of the Series 2 Bond will be used by the SPV to purchase Intercompany Notes to be issued by the Sponsor through a private placement, on terms constituted by the Master Notes Issuance Agreement. Sundry Foods Limited will in turn, utilise the Notes proceeds to repay some existing debt facilities consisting of commercial papers and private bond maturing in 2023, finance its capital expenditure for the set-up of new retail outlets and fund working capital requirements. The Sponsor's planned expansion of its QSR operations would include the addition of 154 new outlets in various locations in Nigeria over the next five years. We expect the successful actualisation of this to help deepen Sundry Foods' market presence and further strengthen its leading position in the Nigerian Food Service Industry. The indicative schedule of the Series 2 Bond utilisation is presented in the table overleaf:

Table 2: Indicative Use of Proceeds of the Series 2 Bond by SFL

Purpose	Amount (₦'billion)	% of Proceeds	Indicative Timeline
Repayment of bridge debt facilities	3.01	55%	Immediate
Capital Expenditure	1.26	23%	Up to 12 months
Working Capital Financing	1.10	20%	Up to 12 months
Offer costs	0.13	2%	Immediate
Total	**5.50**	**100%**	

Source: Pricing Supplement

Series 2 Bond Repayment

The Series 2 Bond coupon will be payable semi-annually in arrears on the scheduled coupon payment date over its five-year tenor until maturity in 2028 (see Table 3). The coupon payment will commence six months after the issue date, while the Bond principal will be amortised bi-annually after the expiration of the twelve-month moratorium period.

The Bond is backed by an unconditional and irrevocable guarantee of the Sponsor, wherein its operating cash flow is pledged as the primary source of repayment to the Bondholders. As part of the security arrangement for the Series 2 Bond, the Sponsor will establish a Debt Service Reserve Account (DSRA), which will be funded quarterly, prior to each payment date with an amount not less than the principal and coupon due on the Bond on the relevant payment date. The Bond Trustees – ARM Trustees Limited, CardinalStone Trustees and United Capital Trustees - will in turn, transfer an amount sufficient to cover the Series 2 Bond obligations (including coupon and principal) from the DSRA, into a Debt Service Payment Account (DSPA) at least five business days before each payment date. Over the life of the Bond, the Trustees will ensure that the funds in the DSPA are sufficient to cover the next service obligations in line with the Series 2 Bond Amortisation Schedule.

The transaction accounts (DSPA and DSRA) for the Series 2 Bond will be established no later than five business days after the issue date, in the name and under the joint control of the Bond Trustees.

Table 3: Estimated Series 2 Repayment Schedule

Period	Months	Estimated Coupon	Principal Repayment	Outstanding Principal Obligation
Bond Issuance	0	-	-	5,500,000
1	1- 6	508,750	-	5,500,000
2	7 - 12	508,750	-	5,500,000
3	13 - 18	508,750	(687,500)	4,812,500
4	19 - 24	445,156	(687,500)	4,125,000
5	25 - 30	381,563	(687,500)	3,437,500
6	31 - 36	317,969	(687,500)	2,750,000
7	37 - 42	254,375	(687,500)	2,062,500
8	43 - 48	190,781	(687,500)	1,375,000
9	49 - 54	127,188	(687,500)	687,500
10	55 - 60	63,594	(687,500)	-

Source: Agusto & Co's estimates
Based on an issue size of up to ₦5.5 billion and an estimated coupon rate of 18.5% for the 5-year Bond

The Series 2 Bond will constitute a direct, unsecured and unsubordinated obligation of the Issuer and shall at all times rank equally and without any preference among themselves. The payment obligations of the Issuer under the Series 2 Bond in respect of the principal and any interests will rank at least equally with all its other senior unsecured obligations (present and future) except for those mandatorily preferred by law and are of general application.

EARLY REDEMPTION

In line with the provisions of the Series 2 Bond Trust Deed, the Issuer has the right to exercise a Call Option to redeem the whole or any part of the Bond at par, subject to giving the Bondholders a minimum of 30 – 60 days' notice of its intention and obtaining necessary approval from relevant regulatory authorities.

DETAILS OF INDEBTEDNESS OF THE SPONSOR

As at 19 June 2023, the Sponsor's interest-bearing borrowings stood at approximately ₦6.2 billion, consisting of outstanding obligations on corporate bonds and commercial papers in issue. Going forward, we expect an increase in the Sponsor's overall debt profile upon the completion of the proposed Series 2 Bond issuance. However, given the Company's relatively short break-even period (backed by its acceptable meal offerings), we believe that the additional earnings from the ongoing expansion in retail stores will create a cushioning effect on the expected increase in finance costs and aggregate debt levels.

Table 4: The Sponsor's Debt Profile as at 19 June 2023

Outstanding borrowings	March 2023 (₦'000)
Outstanding Series 1 Bond obligations	2,902,450
Private Bond (CardinalStone)	1,246,773
Commercial Paper (Accel Partners)	419,945
Commercial Paper (Thames Capital Partners)	1,078,904
Commercial Paper (CSAdvance Finance Co)	568,227
Total	**6,216,300**

Source: Sundry Foods' Limited's Management Presentation

LEGAL OPINION

Aluko & Oyebode ("the Firm") provided a legal opinion on the legality and enforceability of the transaction documents relating to Sundry Foods Funding SPV PLC's ₦20 Billion Bond Issuance Programme, as the solicitor to the Programme. The legal opinion covers an examination of the transaction documents including the Shelf Prospectus, Programme Trust Deed, Series 2 Trust Deed, Pricing Supplement, Master Notes Issuance Agreement, Deed of Undertaking, as well as copies of certificates of incorporation and the memoranda and articles of association of the various transaction parties, amongst others.

The Firm affirms that the transaction documents relating to the Bond Issuance Programme will (upon execution), constitute valid, legal, binding and enforceable obligations of the Issuer and the Sponsor in accordance with their respective terms. In addition, the Series 2 Bond when issued, will constitute a valid, legal, binding and enforceable obligation of the Issuer in accordance with the Deed of Undertaking dated 15 December 2021.

In our view, the legal opinion from the Firm represents a satisfactory opinion on the enforceability of Sundry Foods Funding SPV PLC's up to ₦5.5 billion Five-year Fixed Rate Senior Unsecured (Series 2) Bond Due 2028.

FINANCIAL FORECAST & ANALYSIS

The Issuer will on-lend the net proceeds from the Series 2 Bond by purchasing the Intercompany Notes to be issued by the Sponsor. Hence, similar to the Series 1 Bond, obligations arising from the Series 2 Bond will be repaid primarily from the Sponsor's operating cash flow. To this end, Agusto & Co. has reviewed the financial forecast of Sundry Foods Limited, covering revenue, expenditure and statement of cash flow, together with the underlying assumptions over five years (2023 – 2027). Presented below are some of the critical assumptions underlying the projections and our opinion on their reasonableness.

Table 5: Sundry Foods Limited's Assumptions and Basis for Financial Forecast (2023-2027)

Description	Sundry Foods Limited's Assumptions	Agusto & Co's Comments
Revenue Growth (%) and Drivers	SFL projects an average annual revenue growth rate of 30% over the next five years (2023 - 2027). This is on the assumption that the Company will expand its operations with the addition of about 35 outlets[3] year-on-year over this period. By the end of 2027, SFL's total number of stores is projected to reach 332 which will almost double its current position of 162[4] as at 31 March 2023. This is expected to drive increased customer counts and volume sales over the forecast period. Also, the Sponsor expects that higher prices, in addition to its strong brand presence and increasing footprints across Nigeria will support revenue growth over the forecast period.	We note that the projected revenue growth will be primarily driven by SFL's restaurant business which has contributed over 85% to its top line in the past three years. Over the same period, the Sponsor's restaurant counts have grown consistently by an average of 20 stores year-on-year, in line with its ongoing expansion plan. Barring unforeseen circumstances that may impact the rollout of new stores going forward, we expect this trend to be maintained in the near to medium term. Backed by the ongoing expansion initiatives that have resulted in a continuous increase in its retail outlets, SFL's revenue has maintained a 33% compounded annual growth rate (CAGR) over the last five years (2018 – 2022) while recording a 37% year-on-year increase in the first quarter of 2023 (management accounts) to reflect the uptick in prices and increased volume sales from the newly opened stores.
Direct and other operating costs	SFL expects the direct cost (arising mostly from food and other raw material costs) to sales ratio to hover around 58% over the tenor of the Series 2 Bond while the operating expense (OPEX) to revenue ratio is estimated at an average of 25% over the same period. The Sponsor expects that these will be achieved through cost optimisation and improvement in operational processes.	The estimated input cost to revenue ratio of 58% over the forecast period aligns with the Company's historical average of about 55% over the last five years (2018 – 2022). Hence, we have adopted management's assumptions, especially considering the Sponsor's historical trend of passing cost increases to consumers to protect margins.

[3] *Plan is to establish 15 restaurants, 5 Pizza Jungle and 10 Kiligrill stores at various locations in Nigeria on an annual basis*
[4] *This comprises the Sponsor's owned QSR outlets and bakeries*

		We note the improvement in SFL's OPEX to revenue ratio over the past three years from 36.2% in FYE 2020 to 27.5% in 2022. This continued in the first quarter of 2023 as the unaudited account for the period showed further improvement to approximately 25%, reflecting the Company's operational efficiencies and business expansion. We expect this to be sustained as the Sponsor continues to increase its operating scale over the near to medium term. Hence, we have adopted the OPEX to sales ratio of 25% in our analysis.
Interest rate	This is projected at 14% over the tenor of the Series 2 Bond	For our analyses, we have estimated an indicative coupon rate of 18.5% for the Series 2 Bond, as against the projected 14% by management, considering that interest rate has been trending upwards in Nigeria in the first half of 2023. Notwithstanding, we will adjust our estimates to reflect the actual coupon rate upon issuance of the Bond.

The Company estimates a cumulative revenue of ₦392.9 billion over the forecast period, assuming annual revenue growth rates of 32% in 2023 and 2024, 30% in 2025, 29% in 2026 and 28% in 2027. While we believe that Nigeria's growing middle-income population signifies a large market for the Quick Service Restaurant Industry, a higher proportion of these consumers have witnessed a decrease in disposable income over the past three years. This is largely on the back of the continued depreciation of the Naira, the insecurity in key food-producing regions and the adverse impact of climate change on agricultural production and food prices and rising energy costs, which have contributed significantly to the heightened cost of living in the country. Also, we expect that the recent petroleum subsidy removal and the potential foreign exchange (FX) harmonisation will further exacerbate inflation and continue to weigh on consumer disposable income in the near term (although we expect this to taper in the medium term as the new administration embarks on more structural reforms). Notwithstanding, with the lower income levels among consumers, we expect increased price sensitivity in the near term. To this end, we have cautiously adjusted the Sponsor's revenue projections to reflect possible shifts in consumer spending patterns. Based on our analyses, the cumulative revenue over the five-year period is projected at ₦317.8 billion, assuming annual growth rates of 24% in 2023, 25% in 2024, 22% in 2025 and 20% in 2026 and 2027. The sensitised revenue reflects our assessment of the Company's historical performance as well as the inherent operational risks and the frail macroeconomic environment in Nigeria.

Sundry Foods Limited projects a cumulative direct cost of ₦227 billion (representing 58% of revenue) over the next five years. This is almost at par with the Sponsor's five-year (2018 – 2022) average direct cost to sales ratio, although it peaked at 60.9% in 2022. We note however that this increase was a result of management's cautious stance on upward price reviews to consider the effect on customers. Over the years, SFL's strategies of maintaining healthy gross margins have focused on improving access to key raw materials through strategic partnerships with local food suppliers as well as a stepped increase in prices to reflect the rising costs.

Management plans to maintain these trends over the near to medium term, in light of the soaring food prices in Nigeria.

The Sponsor estimates an OPEX of ₦78.6 billion and other income of ₦2.1 billion (mostly arising from rental charges on its leased-out properties) over the next five years, resulting in earnings before interest, taxes, depreciation and amortisation (EBITDA) of ₦88.6 billion (representing 23% of revenue over the forecast period). However, we note that the projected EBITDA margin is above the average of 20% achieved in the last five years (2018 – 2022). The cumulative interest cost on borrowings, including coupons on the Series 1 & 2 Bonds over the next five years, is estimated at approximately ₦11.4 billion representing about 3% of cumulative revenue over the same period. Barring the issuance of additional debt securities, we expect SFL's finance cost to revenue ratio to remain within our benchmark of not more than 5%, since a portion of the proposed Series 2 Bond proceeds will be used to refinance the existing commercial paper and private bond.

The Sponsor forecasts a cumulative pre-tax profit of ₦57.4 billion over the next five years, representing about 15% of the revenue. The projected PBT margin is higher than the 10% achieved in the past five years (2018-2022) and it is premised on the Sponsor's expanding retail outlets and management's cost containment measures. However, we believe that SFL's ability to achieve the projected profit margins would depend on successfully actualising the planned rollout of new stores, whilst maintaining a dynamic menu and selling price, which ensures that cost increases occasioned by the persistent inflationary pressures are passed on to consumers.

Table 6: Adjusted Potential Cash Flow Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	₦'mns	**₦'mns**	**₦'mns**	**₦'mns**	**₦'mns**	**₦'mns**
Adjusted EBITDA	7,208.5	9,001.3	10,972.1	13,154.1	15,821.0	56,157.0
Coupon on Series 1 Bond	(322.0)	(251.0)	(170.0)	(77.0)	-	(820.0)
Indicative Coupon on the Series 2 Bond	(1,017.5)	(953.9)	(699.5)	(445.2)	(190.8)	(3,306.9)
Other interest payments	-	(323.0)	(994.5)	(1,714.7)	(2,493.4)	(5,525.5)
Total interest payments	**(1,339.5)**	**(1,527.9)**	**(1,864.0)**	**(2,236.8)**	**(2,684.2)**	**(9,652.4)**
Series 1 Bond principal obligation	(625.0)	(625.0)	(625.0)	(625.0)	-	(2,500.0)
Series 2 Bond principal obligation	-	(1,375.0)	(1,375.0)	(1,375.0)	(1,375.0)	(5,500.0)
Total principal repayments	**(625.0)**	**(2,000.0)**	**(2,000.0)**	**(2,000.0)**	**(1,375.0)**	**(8,000.0)**
Net cash flow after coupon and principal payments	5,244.0	5,473.4	7,108.1	8,917.3	11,761.8	38,504.6
Total interest coverage	**5.4**	**5.9**	**5.9**	**5.9**	**5.9**	**5.8**
Total debt coverage						**3.2**

Source: Sundry Foods Limited & Agusto & Co.'s Estimates

Based on our analyses, the Sponsor's adjusted EBITDA for the five-year forecast period stood at ₦56.1 billion and will be sufficient to cover outstanding payment obligations as well as the Series 2 Bond obligations (comprising coupon – at 18.5% and principal) of ₦17.6 billion, leaving a residual available balance of approximately ₦38.5 billion. This is indicative of interest coverage and total debt coverage ratios of 5.8x and 3.2x respectively, which is satisfactory in our view.

OUTLOOK

As part of measures to maintain its strong market leadership in the Nigerian Food Service Industry, Sundry Foods Limited has intensified its retail outlet expansion drive across the country. The Sponsor's financial condition in the year ended 31 December 2022 and the unaudited account as at 31 March 2023 revealed good earnings and cash flow positions in tandem with the ongoing expansion. SFL plans to expand its operations from the South-South and South-West to the Northern regions (with a focus on Kano, Kaduna, Plateau, Benue and Nasarawa States in the near to medium term). While we expect this to increase the Company's footprints in the country and bring more customers to its revenue bracket, we view that the insecurity threats in the Northern states could potentially hinder the operations and growth of its QSR outlets in the affected regions.

Since the Series 2 Bond will be primarily repaid from Sundry Foods Limited's operating cash flow, Agusto & Co. forecasts that the Sponsor's adjusted cumulative EBITDA will be sufficient to meet interest payment (including indicative coupon of 18.5% on the Series 2 Bond) and total Bond obligations 5.8x and 3.2x respectively over the tenor of the Series 2 Bond. While the Bond will increase the Sponsor's overall leverage position, we believe that the additional revenue and operating cash flow derivable from the debt-induced expansion will have positive cushioning effects on both finance costs and aggregate debt levels. Overall, we believe that the Issuer has a satisfactory capacity to meet payment obligations on the Series 2 Bond as and when due. Therefore, we attach a **stable** outlook to Sundry Foods Funding SPV PLC's up to ₦5.5 billion Seven-Year Fixed Rate Senior Unsecured Bond Due 2028.

This Series 2 Bond Rating Report should be read in conjunction with Agusto & Co.'s 2023 Corporate Rating Report of Sundry Foods Limited (the Sponsor)

SPONSOR'S FINANCIAL SUMMARY

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-20		31-Dec-21		31-Dec-22		31-Mar-23	
	₦'million		₦'million		₦'million		₦'million	
TURNOVER	**11,320**	**100.0%**	**20,975**	**100.0%**	**32,858**	**100.0%**	**9,738**	**100.0%**
OPERATING PROFIT	1,096	9.7%	2,822	13.5%	3,825	11.6%	1,693	17.4%
INTEREST EXPENSE	(364)	-3.2%	(591)	-2.8%	(898)	-2.7%	(247)	-2.5%
PROFIT BEFORE TAXATION	**846**	**7.5%**	**2,359**	**11.2%**	**3,158**	**9.6%**	**1,493**	**15.3%**
TAX (EXPENSE) BENEFIT	(324)	-2.9%	(783)	-3.7%	(1,157)	-3.5%		0.0%
PROFIT AFTER TAXATION	522	4.6%	1,575	7.5%	2,001	6.1%	1,493	15.3%
DIVIDEND	(249)	-2.2%	(187)	-0.9%	(623)	-1.9%		0.0%
PROFIT RETAINED FOR THE YEAR	**273**	**2.4%**	**1,388**	**6.6%**	**1,378**	**4.2%**	**1,493**	**15.3%**
OTHER APPROPRIATIONS/ ADJUSTMENTS								
PROFIT RETAINED B/FWD	2,226		2,499		3,887		5,265	
PROFIT RETAINED C/FWD	**2,499**		**3,887**		**5,265**		**6,758**	

STATEMENT OF FINANCIAL POSITION	31-Dec-20		31-Dec-21		31-Dec-22		31-Mar-23	
	₦'million		₦'million		₦'million		₦'million	
ASSETS								
CASH & EQUIVALENTS	865	10.5%	2,144	16.5%	1,869	10.5%	1,821	9.8%
TOTAL TRADING ASSETS	2,101	25.5%	2,231	17.2%	3,345	18.8%	5,248	28.4%
TOTAL LONG-TERM ASSETS	5,280	64.0%	8,598	66.3%	12,595	70.7%	11,442	61.8%
TOTAL ASSETS	**8,246**	**100.0%**	**12,973**	**100.0%**	**17,809**	**100.0%**	**18,512**	**100.0%**
Growth	29%		57%		37%		4%	
LIABILITIES & EQUITY								
TOTAL INTEREST-BEARING LIABILITIES	2,782	33.7%	4,907	37.8%	7,028	39.5%	6,536	35.3%
TOTAL NON-INTEREST-BEARING LIABILITIES	2,226	27.0%	3,440	26.5%	4,776	26.8%	4,473	24.2%
TOTAL LIABILITIES	5,008	60.7%	8,347	64.3%	11,804	66.3%	11,010	59.5%
SHAREHOLDERS' EQUITY	3,238	39.3%	4,627	35.7%	6,005	33.7%	7,502	40.5%
TOTAL LIABILITIES & EQUITY	**8,246**	**100.0%**	**12,973**	**100.0%**	**17,809**	**100.0%**	**18,512**	**100.0%**

CASH FLOW STATEMENT	31-Dec-20	31-Dec-21	31-Dec-22	31-Mar-23
	₦'million	₦'million	₦'million	₦'million
OPERATING ACTIVITIES				
Potential operating cash flow	1,685	3,234	4,571	2,276
WORKING CAPITAL CHANGES:				
Cash from (used by) spontaneous financing	418	1,214	1,336	(1,459)
Cash from (used by) working assets	(957)	(130)	(1,114)	(1,903)
CASH FROM (USED IN) OPERATING ACTIVITIES	**1,146**	**4,318**	**4,793**	**(1,086)**
RETURNS TO PROVIDERS OF FINANCING				
Interest paid	(364)	(591)	(898)	(247)
Dividend paid	(249)	(187)	(623)	1,156
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	**533**	**3,541**	**3,272**	**(177)**
CASH FROM (USED IN) INVESTING ACTIVITIES	**(1,113)**	**(4,386)**	**(5,670)**	**1,799**
CASH FROM (USED IN) FINANCING ACTIVITIES	**1,145**	**2,125**	**2,122**	**(492)**
CHANGE IN CASH INC/(DEC)	565	1,280	(276)	1,130
OPENING CASH & MARKETABLE SECURITIES	300	865	2,144	1,869
CLOSING CASH & MARKETABLE SECURITIES	**865**	**2,144**	**1,872**	**3,002**

KEY RATIOS	31-Dec-20	31-Dec-21	31-Dec-22	31-Mar-23
PROFITABILITY				
Sales growth	8.4%	85.3%	56.6%	18.5%
Operating profit margin	9.7%	13.5%	11.6%	17.4%
Return on assets (pre-interest pre-tax)	14.7%	22.7%	22.8%	37.6%
Return on equity (pre-tax)	26.1%	51.0%	52.6%	79.6%
CASH FLOW				
OCF as % of returns to providers of financing	187.0%	555.2%	315.2%	-
OCF as % of sales	10.1%	20.6%	14.6%	-
WORKING CAPITAL				
Working capital need (days)	0	0	0	29
Overall working capital deficiency (days)	0	0	12	41
LEVERAGE				
Net debt as % of average total assets (excluding. cash & revaluation surplus)	61.42%	68.12%	74.23%	56.32%
Interest cover (times)	3	7	5	-
OTHER ADDITIONAL INFORMATION				
Staff costs (₦' million)	1,408	2,614	3,528	3,528
Average number of staff ('000)	2	3	3	3
Staff costs per employee (₦' million)	678	937	1,079	1,079
Capital expenditure (₦' million)	1,026	4,195	4,734	-
Depreciation and amortisation (₦' million)	801	1,074	1,669	532
EBITDA (₦' million)	2,110	4,153	5,894	2,272
Auditors	Deloitte	Deloitte	Deloitte	Unaudited
Opinion	Clean	Clean	Clean	N/A

RATING DEFINITIONS

Aaa	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal in a timely manner.
Aa	High quality debt issue with very low credit risk; very strong capacity to pay returns and principal in a timely manner.
A	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal in a timely manner.
Bbb	Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal in a timely manner.
Bb	Below average quality with moderate to high credit risk; speculative capacity to pay returns and principal in a timely manner.
B	Weak quality with high credit risk; speculative capacity to pay returns and principal in a timely manner.
C	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

www.agusto.com

UBA House (5th Floor)
57 Marina Lagos
Nigeria.
P.O Box 56136 Ikoyi
+234 (1) 2707222-4
+234 (1) 2713808
Fax: 234 (1) 2643576
Email: info@agusto.com