Golden Oil Funding SPV Plc

₦15 Billion Asset Backed Commercial Paper Programme

2023 Structured Finance Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

GOLDEN OIL FUNDING SPV PLC

₦15 BILLION ASSET BACKED COMMERCIAL PAPER ISSUANCE PROGRAMME

Issue Rating

S2sf*

Asset Backed Commercial Papers rated `S2' are judged to offer HIGH safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.

Outlook: Stable
Issue Date: 11 September 2023
Expiry Date: 30 April 2024

The final rating will be subject to annual review on the anniversary of the Issue.

Guarantor's Rating: Bb+
Expiry Date: 30 September 2023

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RATING RATIONALE

- Agusto & Co hereby assigns an **"S2sf"** rating to Golden Oil Funding SPV Plc's ("Golden Oil Funding SPV" or "the Issuer") ₦15 Billion Asset Backed Commercial Paper (ABCP) Issuance Programme to be issued at a discount (zero-coupon) in multiple tranches of up to 270 days ("the CPs" or "the Notes"). The assigned rating reflects the upward notching of the standalone **"Bb+"** rating of Golden Oil Industries Limited ("Golden Oil", "GOIL", "the Promoter" or "the Guarantor") based on the collateral cover from the pledged Underlying Assets (agricultural commodities). Although the pledged agricultural commodities (agro-commodities) are perceived to be liquid and tradable, we recognise the extreme price risk associated with assets of this nature. Also, we consider the lack of historical data on the price behaviour of some of the pledged agro-commodities as a downside risk to the recovery prospect of the ABCP.

- Golden Oil Funding SPV Plc intends to issue up to ₦15 Billion ABCP in various tranches over the three-year programme shelf life commencing from the second quarter of 2023 (Q2'2023). The CPs will be offered at a discount (in the form of zero-coupon Notes) with maturities not exceeding 270 days from the Issue Date. The proceeds of the CPs will be domiciled with the Security Trustee, who will in turn, use the funds to procure commodities worth 120% of the principal amount from the Promoter. The purchased agro-commodities will be stored at accredited warehouses. At maturity, the Promoter will repurchase the stored agro-commodities by transferring the principal amount of the ABCP into the designated Collection Account. Unless a functional and efficient warehouse receipt system (WRS) is put in place, Agusto & Co believes that the current collateral management arrangement, which entails the storage of the pledged agro-commodities in warehouses belonging to the Promoter, increases commingling risk.

- In addition to the pledged agro-commodities backing the ABCP issuances, the Promoter will irrevocably and unconditionally guarantee up to 20% of the outstanding principal amount. Considering that the ABCP will be redeemed primarily from the Promoter's operating cash flows, we expect the same (credit) risk factors that could trigger a default event to equally impair its ability to honour payment obligation under the guarantee. Therefore, we have not considered the partial corporate guarantee as a form of credit

TRANSACTION PARTIES

Issuer:
Golden Oil Funding SPV Plc

Promoter:
Golden Oil Industries Limited

Collateral Manager:
ACE Depository Nigeria Global Limited

Lead Arranger:
FSDH Capital Limited

Joint Arranger:
Coronation Merchant Bank Limited

Solicitor:
ǼLEX Legal Practitioners & Arbitrators

Security Trustee:
Cordros Trustees Limited

Share Trustee:
FBNQuest Trustees Limited

Issuing, Calculating & Paying Agent:
FSDH Merchant Bank Limited

Auditor:
Olumide, Pase & Co.

KEY TRANSACTION STRUCTURE

Notes Tenor:
The CP programme tenor is for 3 years although each CP Tranche will have a maximum tenor of 270 days.

Source of Repayment:
Operating cash flows of the Promoter used to purchase Tank Farm/Warehousing Receipts (and ultimately, the Underlying Assets) from the Security Trustees.

Use of Note Proceeds:
The net proceeds of each Series and Tranche will be applied by the Issuer to purchase assets worth 120% of the principal amount, which will be securitized with Tank Farm/Warehousing Receipts. The Promoter will, in turn, use the net proceeds to meet its working capital requirements.

Credit Enhancements:
Collateral cover from the pledged commodities.

enhancement.

- Despite intensifying raw material and energy cost pressures, the Promoter has continued to maintain healthy earnings growth supported in part by the expansion in its production and distribution capacities. Therefore, we expect the periodic payment from the Promoter as purchase consideration for the underlying assets to be sufficient to meet the ABCP obligations. In the event of a strain on the earnings of the Promoter, we believe that the net realizable amount from the pledged assets under our Worst Case Scenario will be sufficient to meet payment obligation to the ABCP Noteholders. Furthermore, we expect the additional collateral cover by way of margin calls, which are to be made to keep the collateral cover at the pre-agreed 120% threshold, to provide sufficient buffers against extreme price movements that could weaken the recoverability of the pledged assets.

- Based on the above, we attach a **stable** outlook to Golden Oil Funding SPV Plc's ₦15 Billion Asset Backed Commercial Paper Issuance Programme.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges

Strengths

- Pledged underlying asset providing additional credit support for the ABCP Notes
- The Promoter is a niche player in agro-processing with an intergrated oil palm and soya bean processing plants
- The Promoter has an extensive distribution network
- The Promoter has a stable and qualified management team
- The Promoter has diversified income sources and product portfolio
- Strategic investment in backward integration programmes (oil palm plantation)

Weaknesses

- Potential commingling risk of stored agro-commodities
- Lack of external liquidity support
- The Promoter's rising debt levels
- The Promoter's declining profit margin across its product portfolio owing to soaring food and energy prices
- Lack of regulated market with supporting (price) data
- The Promoter's concentrated ownership profile and governance structure that requires strengthening

Opportunities

- Installation of a new oil palm processing plant and potentials for increased revenue and market leadership in the distribution of edible vegetable oils
- Growing local and global demand for processed agro products
- Favourable government policies to support agro-processing and non-oil exports
- Large and growing consumer market in Nigeria
- Large arable land suitable for the cultivation of oil palm and soya bean

Challenges

- Volatility in commodity prices
- Cumbersome export documentation procedures and multiple taxes from various regulatory agencies
- Poor road network and infrastructure resulting in logistics bottlenecks
- Heightened insecurity situation in Nigeria and its negative impact on product distribution

OVERVIEW OF THE AGRICULTURE PROCESSING INDUSTRY IN NIGERIA

Agriculture has long been an important part of Nigeria's economy – not only in terms of food production but also in its economic impact and contribution to the overall workforce. However, the discovery of oil in the 1950s and the subsequent development of the hydrocarbon industry saw agriculture's economic significance wane. Nonetheless, agriculture still accounts for about 30% of the country's Gross Domestic Product (GDP) and remains one of the largest employers. Despite its sizeable footprint, about 90% of agricultural goods are exported raw, meaning that the country misses out on crucial value-added opportunities associated with agro-processing. To address the situation, Nigeria has sought to develop its agro-processing capacity. Our primary focus in this segment is on the processing of two major agro-commodities – palm oil and soya bean.

Once the world's leading producer in the 1960s, Nigeria's neglect of oil palm has pushed the country to the fifth position in the global pecking order behind major producers like Indonesia, Malaysia, Thailand and Colombia. Nigeria imports nearly a quarter of the 2 million metric tonnes (MT) consumed annually, thus making it a net importer of palm oil. Apart from its adoption as cooking oil, palm derivatives such as refined, bleached and deodorized (RBD) palm oil, olein, stearin and palm kernel oil, cake and shell have very widespread industrial uses across the fast-moving consumer goods (FMCG) and livestock feed milling sectors. Palm kernel oils and shells can also be used as biofuels for transportation, power, heating and cooling.

To encourage local production, the Central Bank of Nigeria introduced foreign exchange restrictions on palm oil importation and recently launched a $500 million loan scheme at concessionary interest rates for oil palm producers (smallholder farmers and big plantation holders). Buoyed by the increased funding from government-backed schemes, most privately-owned palm oil processors have embarked on backward integration into oil palm cultivation to ease access to raw materials, whilst investing in modern technology to improve efficiency in palm oil extraction and refining. Although the tightening policy on palm oil exports by Indonesia, the world's highest exporter, presents huge export opportunities, we do not foresee any significant change in the sales channels for most palm oil processors given the widening supply gap and favourable pricing in the domestic market.

Soybean is one of the oilseeds well suited to Nigeria's topography and ecological conditions. The country's Northwest and Central regions are primary areas for soya bean production. However, there is a growing trend by farmers in the south to increase soya bean production levels. Local farmers in Nigeria are increasingly cultivating non-genetically engineered (non-GE) soybean to meet a niche demand in global markets. However, we expect the country's current soya bean production output (estimated at 1.35 million MT per annum) to fall below local demand by at least 10% in 2023, especially as farmers struggle to recover from the devastating flooding across most parts of the country. Thus, raising the prospects of continued imports of soya beans to cushion the domestic supply deficit. Notwithstanding, soya beans and its derivatives (soya bean oil, meal and lecithin) remain the preferred choice for most Nigerian consumers and other industrial users. Therefore, we expect the upward movements in both the demand and prices of soya bean products to be sustained in the near term.

Despite worsening infrastructural deficiencies and the high cost of doing business in Nigeria, we expect the country's large consumer market and the renewed funding support from the government to spur new investments and expansion within the palm oil and soya bean processing sub-segments. Based on the above, we attach a **stable** outlook to the Agro-Processing Industry in Nigeria.

TRANSACTION STRUCTURE

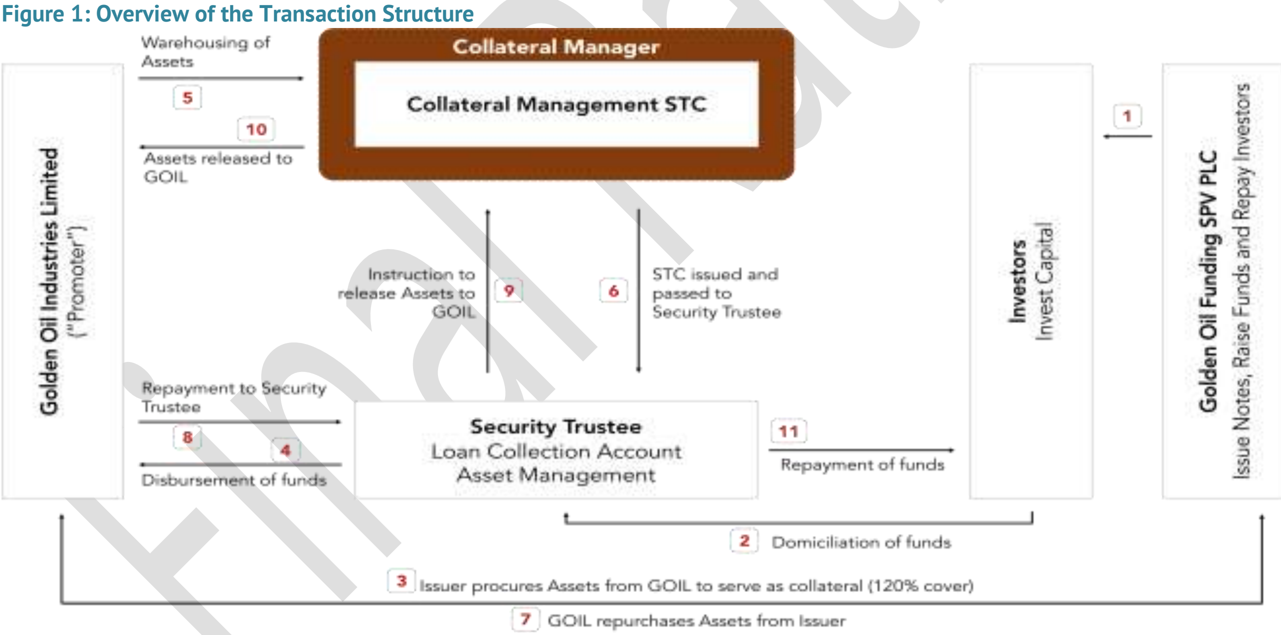
OVERVIEW

Golden Oil Funding SPV Plc ("Golden Oil Funding SPV" or "the Issuer") intends to issue ₦15 billion Asset Backed Commercial Papers (ABCP) through various series over three years. Each series under the ABCP Programme can be issued in a single tranche or multiple tranches subject to a minimum tenor of 15 days and a maximum tenor of 270 days. The first tranche of up to ₦10 billion will be issued in the second quarter of 2023 (Q2'2023). The CPs shall be issued at a discount in the form of zero-coupon[1] Notes and will be redeemed at par upon maturity as stated in the Applicable Pricing Supplement.

The net proceeds from each issue of the Asset-Backed CPs will be applied by the Issuer to purchase from the Promoter, agro-commodities worth 120% of the principal amount of each Series or Tranche, which will be securitised with Tank Farm/Warehousing Receipts and serve as the Underlying Assets[2]. The Promoter will, in turn, use the net proceeds to meet its working capital needs.

The schematic below shows the transaction process flow chart for the Commercial Papers to be issued under the ABCP Programme:

Figure 1: Overview of the Transaction Structure



Source: Golden Oil Funding SPV Plc's ABCP Programme Memorandum

Summary: Transaction Process Flow Chart

1. Golden Oil Funding SPV PLC issues Asset-Backed CP Notes and investors subscribe to the Notes.
2. The Note proceeds are domiciled with the Security Trustee.

[1] *A Note which will be offered and sold at a discount to its face value and will not bear interest, other than in the case of late payment or default.*
[2] *These are agricultural raw materials and/or processed agricultural products backing the ABCP*

3. The SPV will utilise the Note proceeds to procure commodities (underlying assets) from the Promoter. The underlying assets will be worth 120% of the principal amount of the Asset-Backed CP Notes disbursed to GOIL.
4. The Security Trustee will disburse the Note proceeds in its custody to GOIL as payment for the underlying assets.
5. The commodities will be delivered to the Collateral Manager at an accredited warehouse.
6. Upon delivery of the commodities, the Collateral Manager will issue a Tank Farm/Warehousing Receipt to the SPV for the stored commodities, which shall be pledged to the Security Trustee in favour of the Noteholders.
7. At maturity, the Promoter purchases the Tank Farm/Warehousing Receipt, and by extension, the underlying commodities, from the Issuer.
8. GOIL makes payment of the principal amount of the ABCP into the collection account domiciled with the Security Trustee.
9. The Security Trustee will instruct the Collateral Manager to release the quantity of the underlying assets paid for to GOIL.
10. The Collateral Manager releases the underlying assets to GOIL upon receiving instruction from the Security Trustee.
11. The Security Trustee will repay investors the principal amount of the ABCP Notes.

Each Note under the ABCP Programme constitutes a senior secured obligation of the Issuer and shall always rank pari passu among themselves, and with other present and future senior secured obligations of the Issuer outstanding from time to time, save for certain debts mandatorily preferred by law.

PROFILE OF THE ISSUER AND THE PROMOTER/GUARANTOR

OVERVIEW OF THE ISSUER – GOLDEN OIL FUNDING SPV PLC

Golden Oil Funding SPV Plc ("Golden Oil Funding SPV" or "the Issuer") was incorporated on 27 September 2022 as a special purpose vehicle (SPV) with the sole objective of raising debt securities from the investing public to fund capital expenditure as well as meet the working capital needs of the Promoter.

Golden Oil Funding SPV has an authorised share capital of ₦2 million divided into 2 million units of ordinary shares at ₦1 each, which have been issued and fully paid up. The shares are held by FBNQuest Trustees Limited (Share Trustee) and its nominee – Mr. Babajide Fetuga. While the Share Trustee controls 999,999 units of shares in Golden Oil Funding SPV Plc, the remaining unit is held by the nominee. Therefore, neither the Promoter nor anybody associated with it (directly or indirectly) has an equity interest in either the Issuer or the Share Trustee. Golden Oil SPV Funding Plc has three directors namely – Mr. Rotimi Obende, Mr. Omoyosola I. Odunaiya and Mr. Olufemi Okin.

OVERVIEW OF THE PROMOTER/GUARANTOR – GOLDEN OIL INDUSTRIES LIMITED

Golden Oil Industries Limited ("Golden Oil", "GOIL", "the Promoter" or "the Guarantor") is an Agri-food Processor engaged in extracting and refining edible vegetable oils such as palm oil, palm kernel oil, olein, stearin, soya bean oil, soya bean meal, soya lecithin and palm kernel de-oiled cake. The Company's palm and soya bean oil products are healthy cooking oil used as critical raw materials by operators in the fast-moving consumer goods (FMCG) sector, while its soya bean meal and palm kernel de-oiled cake are used in the production of animal feeds.

GOIL was incorporated as a private limited liability company on 8 September 1988 but commenced operations in 1992. The Company's products are sold locally to other food processors and livestock feed millers using its business-to-business (B2B) channels. Due to the growing demand for soya beans in the international market, Golden Oil now exports its soya bean meal to buyers in Europe and other countries on the African continent. Management expects the export proceeds to somewhat minimize its exposure to currency risks. In addition, the Promoter also engages in toll processing of soya beans for other local Agri-Food Processors by leasing a portion of its factory to these third-party processors at a fee.

GOIL's factory is strategically located at Plot 51A Harbour Industrial Estate, Off Atani Road, Pokobros Industrial Avenue, Onitsha, Anambra State, due to the ease of sourcing raw materials in that region. However, the Company is currently constructing a new factory at Sagamu, Ogun State, which should come on stream in the last quarter of 2023 (Q4'2023). The Company's Onitsha factory is equipped with a 900 MT per day soya bean milling and processing plant, two solvent extraction plants with a combined capacity of 300 MT of cake per day as well as three refineries and a fractionation plant. The installed capacities of the refineries and fractionation plant stand at 780 MT and 300 MT per day respectively. In addition, the factory has a 5,000 MT silo for the storage of palm kernel seeds, a 20,000 MT warehouse for soya beans and a 12,000 MT tank farm for special palm oil.

The Promoter sources its key inputs (palm oil and soya bean seeds) from large-scale farmers and aggregators both within Nigeria and the West African sub-region. To improve access to raw materials, GOIL recently commissioned a 10,000 hectares oil palm plantation in Owo Town, located within the southwestern Ondo State.

Golden Oil prioritizes health, safety, quality and environmental protection in line with international best practices. Its factory conforms to the requirements of the Standards Organisation of Nigeria (SON), the National Agency for Food and Drug Administration and Control (NAFDAC) and other regulatory agencies, thus demonstrating its unwavering compliance with food hygiene and health standards.

As at 31 December 2022 (unaudited), Golden Oil Industries Limited had an authorised share capital of ₦200 million, made up of 200 million ordinary shares at ₦1 each, while the issued and fully paid-up share capital as at the same date stood at approximately ₦90.5 million. Pursuant to Section 124 of the Companies and Allied Matters Act 2020 (CAMA 2020), management has disclosed plans to allot the Company's remaining 109.5 million unissued shares to its existing shareholders on a pro-rata basis.

Shiva Properties Holding Limited – a company jointly and equally owned by four members of the Mirchandani family – controls 99% of GOIL's equity, while the remaining 1% equity stake is directly owned by Mr. Suraj Ramesh Mirchandani. Essentially, Golden Oil Industries Limited is owned, managed and controlled by the Mirchandani family, thus depicting a concentrated ownership structure.

Golden Oil Industries Limited has an eight-member Board of Directors ("the Board"), which comprises six non-executive directors and two executive directors. Mr. Ramesh Khemchand Mirchandani leads the Board as the Chairman, while Mr. Rajeev Kumar is the Managing Director. The only notable alteration to the composition of the Board of Golden Oil Industries Limited was the resignation of Mrs. Lauretta O. Eno in May 2022. GOIL had no functional Board Committees in the review period. In our view, the Company's Board requires a greater breadth of experience to strengthen its governance in line with international best practices.

Table 1: Current Directors

Name	Designation
Mr. Ramesh Khemchand Mirchandani	Chairman
Mr. Rajeev Kumar	Managing Director
Mr. Suraj Ramesh Mirchandani	Executive Director
Mr. Udai Narayan Dvibedy	Non-Executive Director
Alhaji Agavi Mohammed Forfor	Non-Executive Director
Mrs. Patricia O. Oseremen	Executive Director
Dr. Akinpelu C. Shogunle	Non-Executive Director
Igwe Iweka Chidubem	Non-Executive Director

Source: Golden Oil Industries Limited's Management Presentation

The Managing Director is supported by an executive director and three other senior management personnel covering operations, finance and sales. The senior management staff members have over two decades of relevant industry experience on average. We consider the management team to be adequately qualified and experienced.

Table 2: Other Members of GOIL's Management Team

Name	Position
Mr. Arup Kumar	Group Financial Controller
Mr. Nitin Agarwal	Chief Financial Officer
Mr. Sanjay Sharma	Oil Technologist
Mr. Ismaila M. Uduans	Chief Accountant

Source: Golden Oil Industries Limited's Management Presentation

CREDIT ENHANCEMENT AND SECURITY STRUCTURE

According to the Programme Trust Deed, the ABCP Notes will be secured by way of overcollaterisation from the pledged Underlying Assets as well as a corporate guarantee provided by the Promoter, covering up to 20% of the principal amount in the event of a default. Considering that the ABCP will be redeemed primarily from the Promoter's operating cash flows, we expect the same credit risk factors that could trigger a default event to equally impair its ability to honour payment obligation under the guarantee. Therefore, we have de-emphasized the partial guarantee provided by Golden Oil Industries Limited given its status as the primary obligor in this transaction.

Similarly, we are unable to accurately ascertain the forced sale value of some of the pledged commodities (in a stress scenario) given the lack of market data as well as price volatility associated with agro-commodities. To protect against potential reduction in the book value of the pledged assets below the 120% threshold, the Security Trustee will make a margin call (where necessary), requiring the Issuer to provide additional assets to shore up the value of the collateral. However, we recognize that the Promoter could have problems meeting a margin call during periods of acute supply shortages. Thus, we have not considered the impact of the margin call in arriving at the collateral coverage ratio for the ABCP Programme.

Agusto & Co has estimated the potential recoverability of the pledged commodities under the ABCP at any point in time using three scenarios (Best, Base and Worst Cases). In line with our Base Case Scenario, we have assumed a 20% haircut. Hence, we expect the commodity collateral coverage ratio (excluding the guarantee cover) to equate to 1.0x, which we consider satisfactory. Whilst the net realizable value of the pledged assets could fall below the outstanding ABCP principal amount in a very extreme agro-commodity price scenario (Worst Case), we expect the corporate guarantee to be called (in full) to augment the shortfalls. Therefore, we believe that the Issuer will be able to meet maturing ABCP obligations in all three cases.

Table 3: Adjusted resale value of the pledged commodities

Scenario	Overcollaterisation (Margin Call)	Haircut (%)	Adjusted Resale Value of Pledged Assets	Principal Due (subject to the size of the series/tranche)	Collateral Coverage Ratio (Times)
Worst Case	120%	40%	80%	100%	0.8
Base Case	120%	20%	100%	100%	1.0
Best Case	120%	10%	110%	100%	1.1

Although the underlying assets are perceived to be liquid and tradable, we consider the lack of external liquidity support as a concern given the extreme liquidity requirements of ABCP Programmes. Also, we believe that the current collateral management arrangement, which allows for the pledged assets to be kept in a warehouse belonging to the Promoter, falls short of best practices and increases commingling risk. However, we believe that the establishment of an effective warehouse receipt system (WRS), which keeps track of all deposits and withdrawals, will somewhat mitigate this risk. Furthermore, we believe that the warehouse insurance cover from NEM Insurance, noting the Security Trustee as the first loss payee, provides sufficient protection against damages that may rise from fire or theft.

Legal Opinion

The legal opinion on the proposed Golden Oil Funding SPV Plc's ₦15 billion Asset Backed Commercial Paper Issuance Programme was provided by ǼLEX Legal Practitioners & Arbitrators, Solicitor to the Transaction ("the Solicitor").

The legal opinion covers a review of transaction documents such as the Programme Memorandum, Dealer Agreement, Issuing, Calculating and Paying Agency (ICPA) Agreement, Deed of Covenant, Deed of Guarantee, Field Warehousing and Storage Agreement, Transaction Implementation Agreement, Share Trust Deed and Programme Trust Deed. The Solicitor also reviewed incorporation and other documents relating to the Issuer and the Promoter including copies of their certificates of incorporation, Memorandum and Articles of Association and Board Resolutions.

In our view, the legal opinion from the Solicitor represents a satisfactory opinion on the legality and enforceability of the proposed Golden Oil Funding SPV Plc's ₦15 billion Asset Backed Commercial Paper Issuance Programme.

REVIEW OF THE GUARANTOR'S FINANCIAL CONDITION

ANALYSTS' COMMENTS

We have analysed the audited financial statements of Golden Oil Industries Limited ("Golden Oil", or "GOIL", "the Promoter" or "the Guarantor") for the three years ended 31 March 2022 and the unaudited financial statements for the nine months ended 31 December 2022. The Company's financial year-end epitomizes the harvest seasons for its key agro-commodities (oil palm and soya bean).

PROFITABILITY

Golden Oil Industries Limited is primarily engaged in the refining and distribution of edible vegetable oils and other agro-allied products including RBD palm oil, olein, stearin, palm kernel oil, palm kernel de-oiled cake, soya bean oil, soya lecithin and soya bean meal. GOIL's products are priced in the local currency (Naira) and sold to major food processing companies and industrial feed millers in Nigeria using its business-to-business (B2B) distribution model.

In the financial year ended 31 March 2022 (FYE 2022), Golden Oil Industries Limited's revenue more than doubled to ₦73.2 billion (2021: ₦35.5 billion) on the back of the robust volume growth and the favourable product mix during the period. A breakdown of the Company's revenue showed that palm olein oil and RBD palm oil accounted for 70% and 18% respectively, while the rest are contributions from the other palm oil and soya bean products. In November 2022, GOIL started the export sales of its soya bean meal to further diversify its geographical reach and revenue streams. Based on the ongoing expansion of its local and export sales channels, we expect the Promoter's revenue to maintain an upward trajectory in FYE 2023.

Due to the perennial problem of low crop yield in Nigeria exacerbated by insufficient investment in agriculture and the persistent farmer-herder clashes, most agro-processors have had to contend with the twin challenges of supply constraint and price volatility of major inputs. In the FYE 2022, GOIL's cost of sales to revenue ratio increased to 91.8% (2021: 89.8%) amid soaring food prices. As a result, the Company's gross profit margin moderated by 200 basis points to 8.2% in the review period.

GOIL's operating expenses to revenue improved to 1.7% in FYE 2022 (2021: 2.3%) amid cost advantages from the economies of scale achieved during the period. However, the Promoter still posted a lower operating profit margin of 6.6% in FYE 2022 compared to the 7.8% recorded in the previous year, while its EBITDA margin dipped to 7.6%, below the three-year average of 8.3%. Considering the severe cost pressures caused by rising food and energy prices, which are not fully passed on to customers, we anticipate further moderation in the Company's operating profit and EBITDA margins in FYE 2023. However, management expects the ongoing backward integration into oil palm farming that guarantees the supply of key agro-commodities at relatively cheaper prices to translate to higher operating profit and EBITDA margins in the long term.

Golden Oil Industries Limited's other incomes arising mainly from toll processing amounted to ₦0.4 billion in FYE 2021, which represented 0.5% of revenue. Although the Company's finance cost increased by 113% to ₦1.9 billion in FYE 2022 following the sharp rise in interest-bearing loans, its interest expense to revenue ratio remained flat at 2.5% owing to the much-improved revenue performance during the period. Overall, GOIL recorded a lower pre-tax profit margin of 4.6% in FYE 2022 compared to the prior year's 6.8%.

Golden Oil Industries Limited's return on average assets (ROA) ratio decreased to 13.5% in FYE 2022 (2021: 21.1%) to reflect the upsurge in total assets (particularly inventory) during the year, while its return on equity ratio (ROE) in the same period remained largely unchanged at 31% (2021: 30.7%). The Company's three-year (2020 – 2022) weighted average ROA and ROE ratios of 17.6% and 31.4% respectively, were better than our industry benchmarks for Agri-food Processors.

The Company's unaudited accounts for the nine months ended 31 December 2022 showed revenue of ₦84.8 billion, which represented which represented a 55% annualized growth rate, to reflect sustained volume growth across its product portfolio. However, its pre-tax profit margin fell to 2.1% amid intensifying input cost pressures. Therefore, Golden Oil Industries Limited's annualised ROA and ROE ratios dipped to 12.7% and 17.7% respectively. Whilst we expect the ongoing backward integration strategy to support sales volume and margin growth, we expect any upward movement in the Company's profit margin to remain modest given the rising energy and finance costs.

In our opinion, Golden Oil Industries Limited's overall profitability is satisfactory.

CASH FLOW

Golden Oil Industries Limited generates cash from the production and marketing of processed palm oil and soya bean products to major players in the FMCG and livestock feed milling industries. The bulk of the Company's sales are on a cash or prepayment basis although credit periods of up to 30 days are sometimes granted to corporate clients that meet its internal credit risk criteria. We recognize that Golden Oil has continued to maintain an average trade debtors' day of less than 30 days over the last three years (2020 – 2022), which reinforces its favourable trade terms with customers.

Most local agro-processors (including Golden Oil Industries Limited) tend to buy large quantities of agro-commodities at harvest to hedge against stock out and price increases during the off-season. This explains the prevalence of high inventory holding periods across the industry. In FYE 2022, GOIL's inventory holding period rose sharply to 109 days (2021: 74 days) following the upsurge in the stored-up volumes of palm oil and quantities of soya beans at its warehouse.

As a result of the huge capital tied up in stored up agro-commodities, Golden Oil Industries Limited posted a negative operating cash flow (OCF) of approximately ₦14 billion in FYE 2022 (2021: -₦0.2 billion) to reflect the timing differences associated with its operating cycle, which we consider an industry norm. We recognise that the Promoter's three-year (2020 – 2022) cumulative EBITDA of ₦11.1 billion was more than sufficient to meet interest and principal repayments over the same period. Hence, our view that GOIL's negative OCF in the review periods does not necessarily portend immediate debt distress on the part of the Company.

GOIL's operating cash flow rebounded to ₦6.8 billion in the nine months ended 31 December 2022 (unaudited) amid better working capital management as stored up raw materials were converted to finished goods and sold during the off-season. With consumers' spending on food and other highly essential commodities likely to maintain an upward trajectory in 2023, we anticipate a steady demand for the Company's products, especially as these items are critical inputs in the production of most packaged foods. Also, we foresee a shorter operating cycle and a much-improved OCF as the Company continues to scale up its oil palm and soya bean production and distribution capacities, which should reduce its inventory holding period. Overall, we expect GOIL to be able to generate sufficient earnings to meet maturing obligations (interest and principal).

Although the Promoter's operating cash flow position (based on the peculiarity of its operating cycle) appears acceptable, the need to maintain a healthy profit margin across its product portfolio to ease the adverse impact of working capital challenges on its future cash flows cannot be overemphasized.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 March 2022, Golden Oil Industries Limited's trading assets stood at ₦32.1 billion, which represented a 157% increase from the previous year. The growth reflects an upsurge in inventory levels after the Company stockpiled palm oil and soya bean seeds to be processed and sold during the year. The components of the Company's trading assets as at FYE 2022 were Inventory (63%), advance payments to suppliers (19%), trade receivables (10%) and other debtors & prepayments (8%). Considering the seasonal nature of its core inputs, which has necessitated the holding of large quantities of these agro commodities during harvest seasons, we expect investments in Golden Oil's trading assets to remain elevated.

As at FYE 2022, GOIL's spontaneous financing inched up to ₦2.8 billion (2021: ₦2.3 billion) but was insufficient to fund its trading assets, thus leaving a huge short-term working capital need (STWCN) of ₦29.3 billion as at year-end. Golden Oil Industries Limited has consistently posted a working capital need over the last three years (2020 – 2022) and we expect this trend to continue.

As at 31 March 2022, the Promoter's long-term assets grew by 82% to ₦4.9 billion reflective of the ongoing investments in its new processing plant at Sagamu, while its long-term funds, which were wholly equity, amounted to ₦10.8 billion. As at the same date, the Company's long-term funds were sufficient to cover its long-term assets, leaving available working capital of ₦5.9 billion, which fell short of the WCN. Consequently, Golden Oil recorded an overall working capital deficiency of ₦23.5 billion, which was funded using short-term bank loans and overdraft facilities.

As at 31 December 2022 (unaudited), GOIL's overall working capital deficiency stood at ₦21 billion following sustained investments in trading assets during the period. Golden Oil Industries Limited has successfully registered a ₦15 billion Asset Backed Commercial Paper Programme to support its working capital needs. With the additional short-term funding support (at relatively cheaper interest rates) from the ABCP issuance, coupled with the favourable trade terms with its customers, we foresee a steady improvement in GOIL's short-term funding structure.

In our opinion, Golden Oil Industries Limited's working capital is deficient and requires improvement.

LEVERAGE

As at 31 March 2022, Golden Oil Industries Limited's total assets more than doubled to ₦38.6 billion (2021: ₦15.6 billion) with trading assets (inventory, trade receivables and prepayments) accounting for nearly 83% of this amount. The Promoter's total assets were funded by equity (28%) and total liabilities (72%), thus depicting a low equity cushion. As at the same date, GOIL's total liabilities soared by 261% to ₦27.8 billion comprising interest-bearing liabilities (90%) and non-interest-bearing liabilities (10%). The bulk of the interest-bearing liabilities are outstanding overdraft facilities and other short-term bank loans obtained during the period to support GOIL's working capital needs.

Buoyed by the impressive revenue growth, the Guarantor's interest expense to sales ratio remained unchanged at 2.5% in FYE 2022 despite the incremental borrowings during the period. However, GOIL's interest bearing debt to equity and net debt to total assets ratios rose sharply to 232% and 65% respectively as at FYE 2022 (2021: 69%, 46%) to underscore its high leverage position. Similarly, the Promoter's net debt to EBITDA ratio increased to 4.3x compared to the ratio of 1.5x recorded in the previous year, while its EBITDA to interest coverage ratio reduced slightly to 2.9x (2021: 3.8x).

As at 31 December 2022 (unaudited), GOIL's total liabilities moderated to ₦21.9 billion after it redeemed some of the short-term bank loans. Although the Guarantor's interest-bearing debts to equity and net debt to total assets ratios improved to 158% and 46% respectively as at Q3'2022, its net debt to EBITDA ratio rose to 5.3x above our threshold of 5x. Based on the planned CP issuance and the country's high interest rate environment, we foresee an uptick in GOIL's leverage indicators. Whilst management expects the improvement in earnings to be derived from the debt-induced expansion to have some cushioning effect on the possible increase in finance costs and aggregate debt levels, the Promoter's ability to use debt effectively, amid shrinking profit margins, needs to be demonstrated.

In our view, Golden Oil Industries Limited's overall leverage position is high.

OUTLOOK

The global food shortages triggered by the outbreak of the coronavirus (COVID-19) pandemic and the ongoing Russia-Ukraine war have created enormous opportunities for agricultural exports. The Federal Government (through the Central Bank of Nigeria) has launched numerous agriculture support schemes to boost local food production and export of agro-commodities as a way of diversifying its income stream away from crude oil. Despite recent investments, the nation's agricultural sector remains largely underdeveloped. This is evidenced by a prevalence of small farm holdings, as well as the use of rudimentary agricultural tools and storage methods. Also, the protracted and cumbersome export documentation procedures, port congestion and multiple taxes from export regulatory agencies have continued to adversely affect the competitiveness of locally processed agro products.

Golden Oil Industries Limited's revenue has maintained an upward trajectory despite the challenging operating environment. In the nine months ended 31 December 2022 (unaudited), the Company posted revenue of ₦84.8 billion, which represented a 55% annualized growth rate to reflect sustained volume growth and price increases during the period. However, the Company's operating profit margin remains vulnerable to rising food and energy prices. With the expected rise in its finance cost in tandem with its growing debt profile, we do not envisage any significant improvement in the Promoter's pre-tax profit margin in the near to medium term, unless it adopts a full cost-recovery pricing strategy.

To further expand its geographical spread and revenue streams, GOIL plans to grow its export sales as it hopes to take advantage of the increasing global demand for its soya bean meal. In addition, the Promoter has embarked on a backward integration drive into oil palm cultivation in Nigeria, which should guarantee the supply of raw materials at relatively cheaper prices. Also, GOIL intends to set up a new palm oil processing plant to meet growing local demand. When fully actualized, we expect these expansions to sustain top line growth as well as have some cushioning effect on the Company's declining operating profit margin.

GOIL has enlisted Golden Oil Funding SPV Plc as a link between it and the investing public. The SPV intends to issue up to ₦15 billion Asset Backed Commercial Papers to support the Promoter's working capital requirements. The CPs will be issued at a discount (zero-coupon) with tenors of between 15 days and 270 days. The Notes will be redeemed at par at maturity. Although the planned CPs (when issued) will increase the Promoter's debt profile, we expect it to continue to generate sufficient earnings to meet repayment obligation to the ABCP Noteholders given the growing demand for its products and its expanding capacities. However, in the event of a strain on the earnings of GOIL, we consider the net realisable value from the sale of pledged assets, which represents a collateral coverage ratio of 1.0x, as adequate to still meet the ABCP obligations without recourse to the partial corporate guarantee provided by the Promoter.

Based on the above, we attach a **stable** outlook to Golden Oil Funding SPV Plc's ₦15 billion Asset Backed Commercial Paper Issuance Programme.

GUARANTOR'S FINANCIAL SUMMARY

STATEMENT OF COMPREHENSIVE INCOME	31-MAR-20		31-MAR-21		31-MAR-22		31-DEC-22 UNAUDITED	
	₦'MILLION		₦'MILLION		₦'MILLION		₦'MILLION	
TURNOVER	27,986.6	100.0%	35,462.0	100.0%	73,182.0	100.0%	84,845.0	100.0%
GROSS PROFIT	2,928.8	10.5%	3,600.7	10.2%	6,020.6	8.2%	5,268.0	6.2%
OPERATING PROFIT	1,890.4	6.8%	2,769.9	7.8%	4,798.9	6.6%	3,511.0	4.1%
PROFIT BEFORE INTEREST & TAXATION	2,241.6	8.0%	3,295.2	9.3%	5,200.5	7.1%	3,683.0	4.3%
INTEREST EXPENSE	(343.2)	-1.2%	(869.0)	-2.5%	(1,850.7)	-2.5%	(1,914.0)	-2.3%
PROFIT BEFORE TAXATION	1,898.4	6.8%	2,426.2	6.8%	3,349.7	4.6%	1,769.0	2.1%
TAX (EXPENSE) BENEFIT	(108.8)	-0.4%	(137.8)	-0.4%	(439.4)	-0.6%	-	
PROFIT AFTER TAXATION	1,789.6	6.4%	2,288.5	6.5%	2,910.3	4.0%	1,769.0	2.1%
DIVIDEND	-		-		-		-	
PROFIT RETAINED FOR THE YEAR	**1,789.6**	**6.4%**	**2,288.5**	**6.5%**	**2,910.3**	**4.0%**	**1,769.0**	**2.1%**
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		24.0		-		774.0	
PROFIT RETAINED B/FWD	3,710.9		5,500.5		7,812.9		10,723.2	
PROFIT RETAINED C/FWD	**5,500.5**		**7,812.9**		**10,723.2**		**13,266.2**	

STATEMENT OF FINANCIAL POSITION	31-MAR-20		31-MAR-21		31-MAR-22		31-DEC-22 UNAUDITED	
	₦'MILLION		₦'MILLION		₦'MILLION		₦'MILLION	
ASSETS								
CASH & EQUIVALENTS	225.5	2.3%	404.1	2.6%	1,616.9	4.2%	800.0	1.5%
TOTAL TRADING ASSETS	7,575.5	77.9%	12,507.6	80.1%	32,095.5	83.1%	30,656	79.6%
TOTAL LONG-TERM ASSETS	1,925.2	19.8%	2,710.4	17.3%	4,932.4	12.8%	7,079.0	18.4%
TOTAL ASSETS	**9,726.2**	**100.0%**	**15,622.1**	**100.0%**	**38,644.8**	**100.0%**	**38,535.0**	**100.0%**
GROWTH	*50.1%*		*60.6%*		*147.4%*		*-0.3%*	
LIABILITIES & EQUITY								
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	3,360.7	34.6%	5,423.0	34.7%	25,079.5	64.9%	21,862.0	56.7%
TOTAL NON-INTEREST BEARING LIABILITIES	774.6	8.0%	2,295.8	14.7%	2,751.6	7.1%	3,317.0	8.6%
TOTAL LIABILITIES	4,135.2	42.5%	7,718.7	49.4%	27,831.1	72.0%	25,179.0	65.3%
SHAREHOLDERS' EQUITY	5,590.9	57.5%	7,903.4	50.6%	10,813.7	28.0%	13,356.0	34.7%
TOTAL LIABILITIES & EQUITY	**9,726.2**	**100.0%**	**15,622.1**	**100.0%**	**38,644.8**	**100.0%**	**38,535.0**	**100.0%**

CASH FLOW STATEMENT FOR Y/E	30-MAR-20	31-MAR-21	31-MAR-22	31-DEC-22 UNAUDITED
	₦'MILLION	₦'MILLION	₦'MILLION	₦'MILLION
OPERATING ACTIVITIES				
POTENTIAL OPERATING CASH FLOW	2,157	3,211	5,086	4,857
CASH FROM (USED BY) SPONTANEOUS FINANCING	367	1,521	456	565
CASH FROM (USED BY) TRADING ASSETS	(2,622)	(4,932)	(19,588)	1,439
CASH FROM (USED IN) OPERATING ACTIVITIES	**(98)**	**(200)**	**(14,046)**	**6,862**
RETURNS TO PROVIDERS OF FINANCING				
INTEREST PAID	(343)	(869)	(1,851)	(1,914)
CASH USED IN PROVIDING RETURNS ON FINANCING	(343)	(869)	(1,851)	(1,914)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	**(441)**	**(1,069)**	**(15,897)**	**4,948**
CASH FROM (USED IN) INVESTING ACTIVITIES	**(602)**	**(815)**	**(2,547)**	**(2,547)**
CASH FROM (USED IN) FINANCING ACTIVITIES	**1,089**	**2,062**	**19,656**	**(3,217)**
CHANGE IN CASH INC/(DEC)	46	179	1,213	(816)
OPENING CASH & MARKETABLE SECURITIES	180	226	404	1,617
CLOSING CASH & MARKETABLE SECURITIES	**226**	**404**	**1,617**	**801**

KEY RATIOS	31-MAR-20	31-MAR-21	31-MAR-22	31-DEC-22 UNAUDITED
PROFITABILITY				
SALES GROWTH	66%	27%	106%	55%*
OPERATING PROFIT MARGIN	7%	8%	7%	4%
RETURN ON ASSETS (PRE-INTEREST PRE-TAX)	23%	21%	14%	13%*
RETURN ON EQUITY (PRE-TAX)	34%	31%	31%	18%*
CASH FLOW				
EBITDA AS % OF RETURNS TO PROVIDERS OF FINANCING	660%	383%	299%	213%
EBITDA MARGIN	8%	9%	8%	5%
WORKING CAPITAL				
WORKING CAPITAL NEED (DAYS)	95	114	159	123
OVERALL WORKING CAPITAL DEFICIENCY (DAYS)	41	52	117	90
LEVERAGE				
NET INTEREST BEARING DEBT AS % OF AVERAGE TOTAL ASSETS (EXCLUDING CASH & REVALUATION SURPLUS)	120%	117%	142%	123%
EBITDA COVERAGE RATIO (TIMES)	7	4	3	2
NET ASSETS/(LIABILITIES) IN FCY				
NET EXPOSURE TO CURRENCY RISK ($'000)	-	-	-	5,438
NET EXPOSURE TO CURRENCY RISK (€'000)	-	-	-	3,580
OTHER ADDITIONAL INFORMATION				
STAFF COSTS (₦'MILLION)	304	306	438	548
AVERAGE NUMBER OF STAFF	200	220	275	310
STAFF COST PER EMPLOYEE (₦'MILLION)	1.5	1.4		1.8
CAPITAL EXPENDITURE (₦'MILLION)	602	815	1.6	2,148
DEPRECIATION AND AMORTISATION (₦'MILLION)	24	30		400
EBITDA (₦'MILLION)	2,266	3,325	5,525	4,083
AUDITORS	OLUMIDE, PASE & CO.	OLUMIDE, PASE & CO.	OLUMIDE, PASE & CO.	N/A
OPINION	CLEAN	CLEAN	CLEAN	N/A

**Annualised Growth Rate*

RATING DEFINITIONS

S1+^{sf}	Asset Backed Commercial Papers rated `S1+' are judged to offer the HIGHEST safety of timely payment of interest and principal.
S1^{sf}	Asset Backed Commercial Papers rated 'S1' are judged to offer VERY HIGH safety of timely payment of interest and principal.
S2^{sf}	Asset Backed Commercial Papers rated `S2' are judged to offer HIGH safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
S3^{sf}	Asset Backed Commercial Papers rated `S3' are judged to offer ADEQUATE safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for instruments in higher rated categories.
B^{sf}	Asset Backed Commercial Papers rated `B' are judged to carry INADEQUATE safety of timely payment of interest and principal; while they are less susceptible to default than other speculative-grade instruments in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
C^{sf}	Asset Backed Commercial Papers rated `C' are judged to be SUSCEPTIBLE to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
D^{sf}	Asset Backed Commercial Papers rated `D' are in PAYMENT DEFAULT and arrears of interest or principal payments or are expected to default on maturity. Such instruments are extremely speculative and returns from these ABCPs may be realized only on reorganisation or liquidation.

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