

Mixta Real Estate Plc

Nigeria Corporate Analysis

November 2020

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long term	National	BB ⁺ _(NG)	Stable	July 2021
Short term	National	B _(NG)		

Financial data:

(USD'm Comparative)*

	31/12/18	31/12/19
N/USD (avg.)	305.6	306.4
N/USD (close)	306.5	306.5
Total assets	469.3	511.9
Total debt	140.4	181.4
Total capital	218.3	213.2
Cash & equiv.	9.1	10.4
Turnover	22.9	20.4
EBITDA	(3.2)	6.3
NPAT	4.4	(1.8)
Op. cash flow	(9.1)	(56.9)

*Based on Central Bank of Nigeria exchange rates.

Market cap n.a

Rating history:

Initial rating (June 2016)

Long term: BBB_(NG)Short term: A3_(NG)

Rating outlook: Stable

Last rating (August 2019)

Long term: BBB_(NG)Short term: A3_(NG)

Rating outlook: Stable

Related methodologies/research:

Global Master Criteria for Rating Corporate Entities, updated February 2018

Glossary of Terms/Ratio, February 2018

Mixta Real Estate Plc Issuer rating reports (2016-19)

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Summary rating rationale

- The issuer ratings accorded to Mixta Real Estate Plc ("Mixta Nigeria" or the "Group") are underpinned by a large land bank (worth N64.9bn at 1H FY20), shareholder support and technical alliances with major industry players.
- Despite these competitive advantages, Mixta Nigeria's credit risk profile is constrained by limited financial flexibility and erratic project delivery. As such, while strong double-digit revenue growth has been achieved in some years, operations are yet to achieve critical mass. This continues to translate to a volatile earnings trajectory, with the Group either registering operating losses or failing to generate enough cash to meet funding costs.
- The Group is projecting revenue of N22.5bn in FY20 (1H FY20: N5bn), due to planned completion of large projects worth N56.5bn. In view of severe liquidity constraints resulting from years of negative operating cash flows (FY19: N17.4bn; 1H FY20: N5.1bn), GCR considers the FY20 projection to be unattainable in the next 12-18 months, as Mixta Nigeria has no ostensible sources of capital to finance this rollout.
- Compounding the Group's earnings and liquidity pressure is the domestic real estate sector's vulnerability to significant cash flow volatility, due to low per capita income levels, imported cost inflation, the high cost of funding, and limited funding support from the financial sector. The adverse effect of the COVID-19 crisis, especially expected shocks to the Federal Government's fiscal position and the large informal economy, are expected to constrain demand for housing significantly over the rating horizon.
- Barring the 10%-20% deposit of a housing unit paid upfront, Mixta Nigeria can only collect the balance of about 10% (excluding instalment payment and upfront deposit) when it hands over completed projects. As such, it needs at least five years to release cash from its working capital cycle and is increasingly reliant on debt to fund operations. In this regard, external debt had risen to N63.6bn at 1H FY20, or 2.5x the level reported at FY16 (FY19: N55.6bn).
- Current debt (of which 56% was drawn from the debt capital market at 1H FY20) funds at least 65% of the Group's trading assets. While this represents improvement from the 70%-107% cover in prior years due to a pickup in deposits, it still shows a significant mismatch between the funding profile and the project cycle. Some comfort is taken from the low hard currency exposure, albeit Mixta Nigeria is still expected to improve its debt maturity profile, reverse the trend of negative cash coverage of debt and raise new equity as planned to achieve a sustainable financial profile.
- Mixta Nigeria recently secured a N1.5bn access facility from FBNQuest Merchant Bank Ltd ("FBN"), which together with unrestricted cash, represents limited coverage of Commercial Paper ("CP") and other short-term liquidity requirements. The Group will be expected to show a sustainable turnaround in its cash generation trajectory for GCR to include stressed operating cash flows in the sources versus uses liquidity assessment.

Factors that could trigger a rating action may include

Positive change: Critical for a positive rating action is an equity injection that materially reduces reliance on debt for large scale project delivery as well as strong internal cash generation with earnings based gearing improving to sustainable levels.

Negative change: The ratings remain sensitive to further delays in project delivery, which materially curtail the group's cash generative capacity, and further constrain its ability to service obligations.

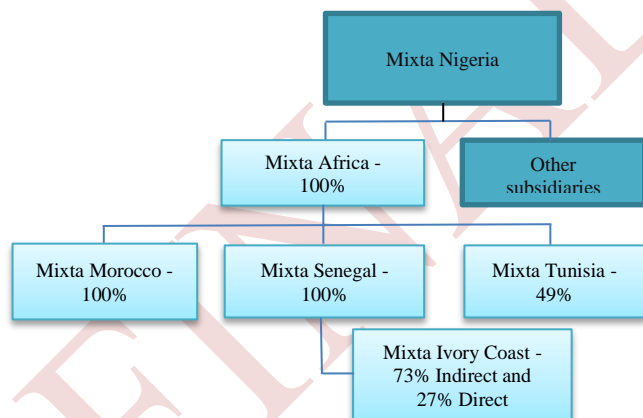
Company profile and recent developments¹

Incorporated in 2006, Mixta Nigeria is one of the leading real estate developers in Nigeria, and a subsidiary of Asset & Resource Management Holding Company Limited (“ARM”). It provides key services across the value chain, including property development and investment, and develops residential, commercial and retail properties. Despite diversification of its internal competencies, most of its business is from the residential segment (72% of ongoing projects at 1H FY20).

Restructuring in December 2019 saw Mixta Nigeria acquire its Spanish registered Mixta Africa from its parent ARM Holdings (“ARM”). The amount ARM charged as consideration for the company was funded by proceeds of an irredeemable convertible bond (N11.6bn) issued by Mixta Nigeria. As ultimate control of Mixta Africa and Mixta Nigeria still vests with ARM, there was no true sale, and in GCR’s view, the restructuring and cash injection were necessary to avoid acceleration of Mixta Nigeria’s bank debt and ultimate default in a liquidation scenario. A review of terms that results in a change in the subordination of this note in relation to interests of Mixta Nigeria’s debt funders, however, would adversely affect the Group’s credit risk profile.

The restructuring positioned Mixta Nigeria parent of regional Mixta entities, from which free cash flows will be upstreamed when the companies become profitable. Mixta Africa provides administrative support to Mixta Nigeria, governed by a long-term Management Service Agreement (effective from December 2016), which has recently seen strong market expansion in Nigeria.

Figure 1: Corporate structure



All subsidiaries are bankruptcy remote, with neither ARM nor Mixta Nigeria guaranteeing their obligations. In cases, Mixta Nigeria has joint control of these entities with financial partners. Some of the projects are vested within a Special Purpose Vehicle (“SPV”), while others outside the land bank are developed in conjunction with landowners, which further reduces the Group’s senior, recourse obligations. That said, these entities are loss making at present, and Mixta Nigeria would suffer material capital erosion from impairment of their interest

in these projects albeit this is however mitigated by provision for impairment. Mixta Nigeria provides resourcing and project management services to all SPVs.

Table 1: Subsidiaries/associate	Shareholding (%)
Toll Systems Development Ltd.	70
Summerville Golf Club Ltd	67.9
Adiva Properties Ltd	99.9
Townsville Properties Limited	100
Farapark II Limited	100
Edo Affordable Properties Limited	70
Mixta Africa SA	100
Garden City Golf Estate Development Ltd	51

Sales of serviced stands in the extensive land bank of 1196ha (valued at N132.3bn at FY19) are currently being used as additional cash flow from off-plan sales deposits. In addition to synergies derived from internal competencies amongst its subsidiaries, Mixta Nigeria has also leveraged its well-established relationships with major industry players, which has enabled it to secure a substantial project pipeline. In this regard the Group delivered 292 homes and 1,037 stands in FY19 (up from 177 and 64 respectively in FY18), with an increasing shift in focus to affordable housing versus high-end residential developments in prior years. Overall, Mixta Nigeria has sold over 11,000 homes, stands and retail centres as at December 2019.

Corporate governance and shareholding structure

Mixta Nigeria’s corporate governance structure complies with the requirements of Companies and Allied Matters Act 2014. The Group’s governance framework is supported by internal and external risk management and audit functions. The Board of directors (“the Board”) comprises professionals from diverse backgrounds. Its oversight function (board committees) are carried out through Board and Management Committees comprising representative from each major shareholder.

Table 2: Corporate governance summary	
No. of directors	
Independent non-executives	1
Non-independent non-executives	4 (including the Chairman)
Executives	2 (including the Managing Director).
Separation of the chairman	Yes
Frequency of meetings	Minimum of quarterly. <i>Ad hoc</i> meetings are also convened when necessary.
Board and Management Committees	Board Audit and Risk Committee; Investment Committee; Nomination, Remuneration and Human Resources Committee; Project Monitoring Committee and Business Review Committee
External auditor*	Deloitte & Touche, appointed during FY18.

*formerly KPMG Professional Services.

The shareholding structure shifted post restructuring with the exclusion of Mixta Africa S.A. However, ARM Holdings’ stake still accounts for above 50% of outstanding shares. Notwithstanding plans to raise N29bn from an Initial Public Offering (“IPO”) in the short-term, ARM is expected to retain control of the group.

¹ Please see Mixta Nigeria’s previous issuer rating reports for a detailed background on business profile, subsidiaries and strategic overview.

Table 3: Shareholding structure as at 31 December 2018	2018	2019
	Holding (%)	Holding (%)
ARM Holdings Limited	44.31	50.86
Gairloch Limited	19.92	19.92
Mixta Africa S.A	6.55	-
Watford Properties	22.81	22.81
Other investors*	6.41	6.41
Total	100.00	100.00

*Comprises institutional and individual investors with less than 5% shareholding.

Operating environment

Economic Overview

The Nigerian economy registered annual real GDP growth of 2.27% (2018: 1.91%). The growth was largely underpinned by relative stability within the oil producing areas and the foreign exchange market, declining farmers-herders clashes, favourable climatic conditions and increased monitoring within the land borders. However, the economy is in the midst of a sharp downturn with a sharp contraction of real GDP in 1H FY20 by 6.10% due to the negative impacts of the COVID-19 pandemic and the substantial decline in global demand for oil. The latter saw oil prices fall below USD20/barrel reported mid-April 2020 (before rising to USD44.9/barrel end-August 2020), against an average price of USD64/barrel in 2019. Thus, full recovery remains uncertain in the short term.

The inflation rate registered at 14.23% in October 2020, rising amidst the prevailing macroeconomic challenges. The Central Bank of Nigeria ("CBN") recently slashed the monetary policy rate by additional 100 basis points to 11.5% on 22 September 2020 and also implemented some policy measures to cushion the adverse impact of the COVID-19 outbreak, including a reduction in interest rates on all CBN applicable intervention facilities from 9% to 5%. While CBN has mainly focused on relative foreign exchange market stability, reserves remain under pressure, declining from USD43bn in January 2019 to a low of c.USD35.2bn in October 2020. As the oil sector accounts for at least 90% of foreign exchange inflows and over 60% of government budgetary revenues, constrained crude oil prices increases sovereign risk, albeit this is somewhat counterbalanced by relatively well-controlled sovereign debt levels.

Industry overview and competitive position

Contrary to more developed markets, Nigerian real estate reflects above average cyclicity, with deep volume and earnings troughs during recessions or slow economic growth. Recovery from such sectoral downturns also typically lags pickup in broader economic productivity, due to low per capita income levels, reliance of a large part of the population on the informal economy, an undeveloped retail mortgage market and limited funding support for developers and contractors from financial institutions or Federal Government (*inter alia*). As such, although there is a substantial housing shortfall, this does not translate to strong or consistent demand.

Significant Naira devaluation since 2016 continues to constrain the performance of the industry, resulting in

high construction costs and by extension substantial volatility in performance. In addition, players typically report negative cash flows, with limited external support, aggressive project rollout, and delays in completing or selling units exacerbating liquidity challenges. Other constraints include high lending rates and limited term funding options, high price competition in a fragmented market, distortions in land valuations, and restrictive land policies.

Notwithstanding the low entry barriers, some developers (including Mixta Nigeria) have developed strong niche positions, due to a demonstrated track record of high-quality developments. Mixta Nigeria's main competitors include, *inter alia*; Lekki Gardens Ltd, UACN Property Development Company Plc ("UPDC"), Haven Homes, Landwey Investment and Megamound Investments. That said, only UPDC is currently listed on The Nigerian Stock Exchange. While it provides key insights on the industry, GCR's rating universe in this space is therefore not considered to be a representative sample of the scale and diversity of the sector.

While Mixta Nigeria is ostensibly larger, both entities are expected to continue to reflect weak earnings profiles as well as negative discretionary cash flows and earnings-based leverage through most of the cycle due to erratic project delivery and turnover.

Table 4: Competitive position (N'm)	UPDC		Mixta Nigeria	
	FY18	FY19	FY18	FY19
Revenue	2,303	2,158	7,013	6,250
Gross profit	(862)	(878)	755	4412
EBITDA*	(1,916)	(1,470)	(978)	1,915
Operating income**	(1,960)	(1,504)	(2,409)	(21)
Equity-accounted and investment earnings	178	(3,024)	(1,206)	(1,671)
Capitalised interest	-	-	3,240	2,280
Other gain/losses	1,806	585	-	-
Fair value gains	(5,303)	(12,842)	7,908	2,125
NPBT	(13,244)	(16,195)	2,159	(2,827)
Total assets	46,437	28,923	143,855	156,883
Total debt	18,558	20,807	43,029	55,613
Less: Cash	(507)	(1,262)	(2,793)	(3,182)
Net debt	18,051	19,546	40,236	52,431
Equity	18,025	2,158	66,918	65,335
Key ratios:				
Gross margin	neg	neg	10.8	70.6
Operating margin	neg	neg	neg	26.4
Total debt : equity	103.0	964.0	64.3	85.1
Net debt : equity	100.1	905.6	60.1	80.2
Total debt : EBITDA	n.a	n.a	n.a	2,904.0
Net debt : EBITDA	neg	neg	neg	2,737.8

*Exclude fair value gains, other gain/loss and equity accounted earnings

Looking ahead, the recessionary impact of the COVID-19 crisis is expected to further restrict or delay Federal Government's policy and related funding support for residential projects, especially for affordable housing. In GCR's view, this will exert more pressure on the sector over the rating horizon. This may be somewhat mitigated by full implementation of FG's planned mass housing project under its Economic Sustainability Plan to cushion the effect of deep recession.

Financial performance

Mixta Nigeria's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of Companies and Allied Matters Act 2004, and the Financial Reporting Council of Nigeria Act 2011. Deloitte issued a clean audit opinion on the 2018 and 2019 financial statements. The previous external auditor also issued clean audit opinion on all the prior years' financial statements. A five-year financial synopsis, together with a 6-month management results to 30 June 2020, is reflected at the end of this report, with analysis hereafter.

Despite Mixta Nigeria's well-entrenched niche position in the market, its credit risk profile remains severely constrained by limited financial flexibility and erratic project delivery. As such, while strong double-digit revenue growth has been achieved in certain years, its operations are yet to achieve critical mass. This is demonstrated by the volatile profit trajectory, with the Group either registering operating losses or failing to generate enough cash to meet funding costs each year.

Table 5: Income statement (N'm)	FY17	FY18	FY19	Budget 2019	% Achvd
Revenue	6,080	7,013	6,250	9,654	64.7
Gross Profit	544	755	4,412	2,678	164.7
EBITDA	(345)	(978)	1,915	8,627	22.2
Depreciation	(223)	(225)	(264)	(236)	112.0
Op. profit	(568)	(1,203)	1,651	8,391	19.7
Net interest	(3,734)	(6,581)	(7,211)	(4,170)	172.9
Capitalised interest	2,130	3,240	2,280	-	-
Fair value changes	12,317	7,908	2,125	7,506	28.3
Equity-accounted and investment earnings	(2,199)	(1,206)	(1,671)	-	-
NPBT	7,945	2,159	(2,827)	11,727	neg
Key ratios (%)					
Gross margin	8.9	10.8	70.6	27.7	
EBITDA margin	neg	neg	30.6	89.4	
Op. margin	neg	neg	26.4	86.9	
Net int. cover (x)	neg	neg	0.3	2.1	
EBITDA	neg	neg	0.2	2.0	
Net int. cover (x)	neg	neg	0.2	2.0	

Management is projecting revenue of N22.5bn in FY20 (1H FY20: N5bn), and to nearly quadruple this top line level in FY21. According to Mixta Nigeria, this momentum will be underpinned by planned completion of large projects worth N56.5bn. In GCR's view, however, it will take the Group at least 18-24 months to reach and/or sustain this level of turnover, as project completion will continue to be curtailed by COVID-19 related disruptions and the fallout of the crisis in the next 12 months.

More saliently, Mixta Nigeria has no ostensible sources of capital to finance the high projected rollout, unless it receives further capital support from ARM. GCR also expects revenue recognition and expected credit loss adjustments to reduce the amount of turnover and earnings (relative to budget) over the rating horizon, and expect the Group to adjust its projections for loss of revenue, pressure on margins, and a lower market (or realisable) value from its land bank.

Table 6: YTD and Income forecasts (N'm)	1H FY20	FY20	FY21
Revenue	5,039	22,479	61,639
Gross profit	1,122	5,072	17,906
EBITDA	(518)	1,078	14,263
Depreciation	(145)	(270)	(272)
Op. profit	(664)	517	11,803
Gross interest	3,087	(2,285)	(4,646)
Net finance charges	(2,990)	-	-
Capitalised interest	(160)	-	-
Fair value movement/others	458	-	-
Other gains/losses	-	1,523	2,639
NPBT	(3,355)	(244)	9,796
Key Ratios (%)			
Gross margin	22.3	22.6	29.0
EBITDA margin	neg	4.8	23.1
Op. margin	neg	2.3	19.1
EBITDA Net int. cover (x)	neg	0.5	3.1

Overheads are a moderate proportion of operating costs, albeit at 20%-25%, they exceed international averages (5%-15%), further emphasising lack of critical mass. Accounting for most of the earnings volatility, however, is the cost at which land contributed to the projects, which has seen Mixta Nigeria's gross margin range from c.10%-70% in the years under review. Although a wide differential in the range is typical of the life of the project, Mixta Nigeria's through-the-cycle operating margin (operating income as a percentage of gross development value) of 3%-6% is significantly lower than international peers that are attainable on residential projects. Looking ahead, the thin margins projected for FY20 imply a sizeable new project ramp up. In light of the delays in completion/sales of legacy projects, the Group could face a material liquidity crunch if this ramp up is not deferred.

Earnings pressure is compounded by the challenging operating climate, which presents low per capita income levels, erratic demand, high levels of imported cost inflation (which impacts the cost of debt, contractor and other project costs), as well as limited funding support for the retail real estate market from the financial sector. Against this backdrop, the Group continues to book net cash losses, compounded by intermittent impairment of stocks and realisable land bank values.

Cash flows

The inherently working capital-intensive nature of the industry's operations requires the developers to rollout projects quickly so as to finance new developments from both deposits and the sale of completed projects. In GCR's view, therefore, Mixta Nigeria's especially long cash conversion cycle is partly due to an aggressive project pipeline, without enough headroom between collection of cash proceeds from completed developments and the launch of new ones.

After an upfront deposit is collected on each unit before the project begins (10%-20% of the purchase price) and the balance spread over 18-24 months instalment payment, Mixta Nigeria (and most developers) can only

collect the balance of about 20% on completion of a project. GCR notes Mixta Nigeria's relatively conservative project launch criteria (i.e. building only begins after up to 20% receipt of commitment fees). While this is aligned to the practice in other frontier and emerging markets, it is not enough to alleviate liquidity pressure. Therefore, the Group has a significant running liquidity gap, which if sustained, will result in default or fire sale of its land bank and stock.

The mismatch is also increased by the payment plans extended to buyers to settle the remaining balance, which sees Mixta Nigeria sitting with the stock of completed units that it cannot transfer from its balance sheet until they are fully paid for. In addition, deposits received, and loans are used to fund advances to contractors. This implies that while Mixta Nigeria does not guarantee the debt of the project vehicles, deposits are effectively ringfenced and cannot be used to service Mixta Nigeria's debt.

The Group needs at least five years to release cash from its inventory of residential and debtors. As a result, it is increasingly reliant on debt to fund the project cycle. Against this backdrop, operating cash flows have been consistently negative, with outflows lately compounded by a N12.3bn spike in working capital in FY19 (FY18: N1.1bn inflow).

Although the inventory build-up supports the Group's expectations of much higher revenue over the rating horizon, Mixta Nigeria has so far not demonstrated the ability to release cash from working capital cycle (as of 1H FY20, the substantial FY19 increase in working capital had still not been reversed). While the cost of funding is largely aligned to that achieved in the industry, the fact that the Group's operations continue to absorb cash, together with the high reliance on short-term debt and rising quantum of external obligations worsens debt service. Mixta Nigeria does not seem to be benefiting from assessed tax losses and continues to report tax pay-out despite its inability to generate cash.

Funding and liquidity profile

In view of the above, external debt had risen to N63.6bn (albeit about 30% payable upon equity raise) at 1H FY20, or 2.5x the FY16 debt position (FY19: N55.6bn). While capital from ARM provided some relief by offsetting most of the N17.7bn net cash outflow in FY19, debt in the 18 months to June 2020 still rose by N11.8bn. Mixta Nigeria's leverage metrics have been negative or unsustainably high in recent years, with the trend only expected to be reversed by the offloading of the sizeable inventory of units on hand (or close to completion). To illustrate the unsustainable nature of current debt levels, Mixta would need to achieve an operating margin of 20%-25% on a turnover of at least N20bn to achieve reasonable interest coverage, unless it is able to reduce borrowings substantially in the short-term.

Mixta Nigeria plans to raise N30bn-N35bn from medium term notes (to be guaranteed by Infrastructure Credit

Guarantee Company), term out the N5.5bn Access Bank facility by four years and raise N29bn from the planned IPO. These measures are expected to reduce debt to c.N42bn by December FY20, while improving the cost and tenor of funding.

Table 7: Gearing forecasts (N'm)	FY20	FY21
Total debt	55,451	58,802
Cash and cash equivalent	(11,226)	(12,789)
Net debt	44,225	46,014
Equity	71,588	78,298
EBITDA	1,078	14,263
Key ratios (%):		
EBITDA: net int. cover (x)	0.5	3.1
Total debt: equity	77.5	75.1
Net debt: equity	61.8	58.8
Total debt: EBITDA	5146.1	412.3
Net debt: EBITDA	4104.3	322.6

Current debt funds a high percentage of inventory and debtors (two-year average: c.65%). While this represents improvement from the 70%-107% cover in prior years due to a pickup in deposits, it still shows a significant mismatch between the funding profile and the project life cycle. Recourse to commercial paper (56% of short-term debt at 1H FY20) also increases refinancing risk and liquidity risk, as investors are not typically amenable to rolling high yielding short-term exposures and are more likely to call debt than financial institutions. Overall, the bond market exposure equates to 15% of external debt, which apart from the GuarantCo guarantee with respect to the Series 1 and Series 2 Tranche A Bonds as well as secured Series 2 Tranche B Bonds, are all senior unsecured claims maturing in six to 24 months.

Table 8: Funding profile (N'm)	FY17	FY18	FY19	1H FY20
ST debt	22,478	26,405	34,852	34,819
LT debt	12,050	16,624	20,761	28,781
Total debt	34,528	43,029	55,613	63,600
Cash	(2094)	(2793)	(3182)	(2576)
Net Debt	32,434	40,236	52,431	61,024
Equity	68,915	66,918	65,335	62,984
Total assets	133,433	143,855	156,883	156,412
Key ratios (%):				
Net debt: equity	47.1	60.1	80.2	96.9
Total debt: equity	50.1	64.3	85.1	101.0
Total debt : EBITDA	neg	neg	2904.0	neg
Net debt : EBITDA	neg	neg	2737.8	neg

A further challenge is presented by lack of coverage of the CP exposure by undrawn facilities or unrestricted cash, as the Group only has a N1.5bn undrawn access credit line from FBN. This, coupled with restricted cash, represents very low coverage of its short-term liquidity requirements. Accordingly, the Group will be expected to show a sustainable turnaround in its cash generation trajectory for GCR to include stressed operating cash flows or signed land sale contracts in the sources versus uses assessment of liquidity.

Table 9: Debt profile	CCY	Int. rate (%)	FY19 (N'm)	1H FY20 (N'm)	Maturity
External			41,223	40,156	
Summerville Notes	NGN	14-16	1,536	1,623	Aug-20
Summerville Preferred Notes	USD	7-8.0	1,704	1,721	Sep-20
Access Bank Plc	NGN	21	7,467	5,915	Mar-22
Various investors - CP	NGN	17.8	19,249	19,395	Jul-20-Mar-21
MODD family	NGN	17	164	174	Sep-20
Series 1 and 2 Bonds	NGN	17	9,442	8,978	Jan-22/Oct 23
Other borrowings	NGN		1,661	2,350	
Related party loans			14,390	23,444	
ARM Trustees	NGN	18	14	15	Nov-20
Garden City Golf Estate	NGN	20.08	1,772	1,942	Jun-22
Beechwood Properties Ltd	NGN	18	643	730	Apr-21
Fara Park Ltd	NGN	18	63	68	Apr-21
ARM Hospitality & Retail Fund	NGN	4	98	126	Call
ARM Investment Mgr	NGN	17-21	11,800	20,563	Dec-21
Total			55,613	63,600	

* 27% of the land bank serves as security for Bonds

Debt funding is relatively diverse, ranging from related parties, as well as Bonds and CPs issued through the capital market. The financial institutions include Access Bank Plc, Amen Bank Ltd, Suntrust Bank Ltd, FBNQuest, and Merchant Bank Ltd ("FBN"). Thus, access to capital market has improved steadily, with related party loans accounting for 37% of interest-bearing debt at 1H FY20 from 67% at FY16. Although GCR notes the liquidity support from ARM, related party loans carry commercial rates and therefore still represent senior debt obligations.

Liquidity profile

Table 10: Analysis of liquidity (Uses vs. Sources)	2020	2021
Sources		
Unrestricted cash on hand	3,182	11,226
Escrowed cash in respect of trading asset sales		
Facilities - non-committed	1,500	
Total sources	4,682	11,226
Uses		
Debt redemption	34,852	-
Capex	270	272
Investments	-	-
	-	-
Total uses	35,122	272
Sources coverage of uses - 12 months	0.13	41.23
Sources coverage of uses - 24 months	0.13	29.97

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Mixta Real Estate Plc

(Naira in millions except as noted)

Statement of comprehensive Income	31 December	2015	2016	2017	2018	2019	1H 2020^
Turnover		3,683.4	4,923.5	6,079.8	7,012.9	6,249.8	5,039.4
EBITDA		709.6	1,012.1	(345.0)	(978.3)	1,915.1	(518.5)
Depreciation and amortisation		(223.2)	(239.2)	(223.5)	(224.9)	(264.3)	(145.1)
Operating income		486.4	772.9	(568.5)	(1,203.3)	1,650.8	(663.6)
Net finance charge		(1,283.4)	(2,634.3)	(3,733.8)	(6,580.9)	(7,211.3)	(2,989.6)
Capitalised interest		1,220.5	1,331.0	2,129.8	3,240.5	2,279.7	(159.9)
Foreign exchange and fair value movements		976.4	1,846.6	12,317.2	7,908.2	2,124.9	375.2
Equity-accounted and investment earnings		(29.6)	(59.1)	(2,199.3)	(1,205.6)	(1,671.4)	83.1
NPBT		1,370.3	1,257.0	7,945.5	2,159.0	(2,827.3)	(3,354.8)
Taxation charge		(299.7)	(291.6)	(1,283.2)	(813.7)	2,269.3	(339.0)
NPAT		1,070.6	965.4	6,662.3	1,345.3	(558.0)	(3,693.8)
Attributable earnings		1,070.6	965.4	6,662.3	1,345.3	(558.0)	(3,693.8)

Cash Flow Statement

Cash generated by operations		1,796.5	2,352.4	937.0	(1,589.7)	(1,327.6)	51.9
Utilised to increase working capital		(3,543.6)	(3,526.9)	(4,316.1)	1,112.7	(12,298.3)	(3,240.1)
Net interest paid		33.2	(806.4)	(2,077.9)	(2,013.7)	(3,109.5)	(1,523.5)
Taxation paid		(50.0)	(265.5)	(109.3)	(278.9)	(710.0)	(341.0)
Operating cash flow		(1,763.9)	(2,246.4)	(5,566.3)	(2,769.6)	(17,445.3)	(5,052.6)
Maintenance capex*		(106.1)	(30.0)	(35.7)	(73.8)	(209.8)	(3.5)
Discretionary cash flow		(1,869.9)	(2,276.4)	(5,602.0)	(2,843.4)	(17,655.1)	(5,056.1)
Dividends paid		(336.7)	(387.2)	(303.0)	0.0	0.0	0.0
Retained cash flow		(2,206.7)	(2,663.6)	(5,905.0)	(2,843.4)	(17,655.1)	(5,056.1)
Net expansionary capex		0.0	0.0	0.0	0.0	0.0	0.0
Investments and other		0.0	(101.7)	(86.8)	396.5	(1,004.0)	0.0
Proceeds/(losses) on sale of assets/investments		0.0	0.0	(0.2)	238.2	0.0	0.0
Retained cash		(2,206.7)	(2,765.3)	(5,992.1)	(2,208.7)	(18,659.1)	(5,056.1)
Shares issued/(repurchased) and other		0.0	0.0	(1.3)	0.0	11,648.9	0.0
Borrowings: increase/(decrease)		947.6	2,573.7	7,430.6	2,907.5	7,399.3	4,450.4
Increase/(decrease) in cash		(1,259.1)	(191.6)	1,437.3	698.7	389.1	(605.7)

Balance Sheet

Ordinary shareholders equity		21,484.1	21,850.9	62,008.3	60,272.6	53,389.0	51,063.7
Outside shareholders equity		6,642.8	6,854.1	6,907.0	6,645.5	296.9	271.8
Compulsorily convertible debentures		0.0	0.0	0.0	0.0	11,648.9	11,648.9
Total shareholders' equity		28,126.8	28,705.0	68,915.3	66,918.2	65,334.7	62,984.4
Short term debt		14,299.3	9,370.1	22,477.7	26,405.3	34,852.4	34,818.9
Long term debt		5,963.4	15,796.4	12,050.1	16,623.5	20,760.6	28,781.3
Total interest-bearing debt		20,262.7	25,166.5	34,527.8	43,028.8	55,613.0	63,600.2
Interest-free liabilities		69,562.7	64,373.0	29,989.7	33,908.2	35,935.6	29,827.7
Total liabilities		117,952.2	118,244.5	133,432.8	143,855.1	156,883.3	156,412.3
Fixed assets		12,336.0	11,612.6	11,424.8	11,273.7	11,394.0	11,248.5
Investments and advances		58,232.2	60,073.7	84,196.3	90,197.1	72,668.2	71,211.5
Cash and cash equivalent		848.4	656.8	2,094.2	2,792.9	3,182.0	2,576.3
Other assets		46,535.6	45,901.4	35,717.5	39,591.4	69,639.0	71,376.0
Total assets		117,952.2	118,244.5	133,432.8	143,855.1	156,883.3	156,412.3

Ratios

Cash flow:

Operating cash flow : total debt (%)		neg	neg	neg	neg	neg	neg
Discretionary cash flow : total debt (%)		neg	neg	neg	neg	neg	neg

Profitability:

Turnover growth (%)		neg	33.7	23.5	15.3	neg	61.3
Gross profit : revenues (%)		39.1	34.0	8.9	10.8	70.6	22.3
EBITDA : revenues (%)		19.3	20.6	neg	neg	30.6	neg
Operating profit margin (%)		13.2	15.7	neg	neg	26.4	neg
EBITDA : average total assets (%)		0.6	0.9	neg	neg	1.3	neg
Return on equity (%)		5.0	4.5	15.9	2.2	neg	neg

Coverage:

EBITDA : gross interest (x)		0.4	0.3	neg	neg	0.2	neg
EBITDA : net interest (x)		0.6	0.4	neg	neg	0.3	neg
Operating income : net interest (x)		0.4	0.3	neg	neg	0.2	neg

Activity and liquidity:

Trading assets turnover (x)		0.2	0.2	0.2	0.3	0.2	0.2
Cash conversion cycle (days)		2,661.5	2,348.4	1,378.2	1,287.3	5,753.1	2,340.3
Days receivable outstanding (days)		880.1	640.1	394.8	357.1	702.3	495.6
Current ratio (:1)		1.0	1.3	0.8	0.8	1.1	1.2

Capitalisation:

Net debt : equity (%)		69.0	85.4	47.1	60.1	80.2	96.9
Total debt : equity (%)		72.0	87.7	50.1	64.3	85.1	101.0
Total debt : EBITDA (%)		2,855.4	2,486.6	n.a	n.a	2,904.0	n.a
Net debt : EBITDA (%)		2,735.8	2,421.7	neg	neg	2,737.8	neg

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

** 6 months management accounts to 30 June 2020.

^ Unaudited management account to 30 June 2020.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the ratings expire in July 2021.

Mixta Real Estate Plc participated in the rating process via teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Mixta Real Estate Plc.

The information received from Mixta Real Estate Plc and other reliable third parties to accord the credit rating included:

- the 2019 audited annual financial statements and audited comparative results for the preceding four years,
- revised budgeted financial statements for the year 2019 and 2020,
- 6-month unaudited management accounts to 30 June 2020,
- a breakdown of facilities available and related counterparties as at 30 June 2020,
- a completed rating questionnaire containing additional information of Mixta Real Estate Plc.

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

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