UAC OF NIGERIA PLC

2024 Corporate Rating Review Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

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Issuer Rating:

A-

A company with good financial condition and a strong capacity to meet its obligations relative to all other issuers in the same country.

Outlook: Stable
Issue Date: 22 July 2024
Expiry Date: 30 June 2025

Previous rating: A-

Industry: Diversified Industries

Analysts:
Omya Abu
omyaabu@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 affirms the **"A-"** rating assigned to UAC of Nigeria PLC ("UACN", "the Holding Company" or "the Company"). The rating reflects the Company's low leverage position, and adequate working capital underpinned by its effective fund matching strategy. The rating also considers growth initiatives within UACN's operating entities geared toward capturing more value domestically and expanding its overall market coverage. Nonetheless, the rating is constrained by the weak operating cash flow of the business, impacted by rising inter-company loans (ICLs), as well as lower dividend income resulting from the adverse effect of the intense macro-economic headwinds on UACN's portfolio entities.

In assigning this rating, we reviewed the financial condition of UACN as a stand-alone entity. Agusto & Co. did not consider the performance of UACN Group, which consists of the Holding Company, five subsidiaries[1] and two associate entities[2] (collectively referred to as "Portfolio Companies/Entities"). UACN is an Investment Holding Company focused on raising and allocating capital to its operating verticals to take advantage of growth opportunities in the domestic market. The Company's subsidiaries are responsible for the development and marketing of its strong brands across key industries in Nigeria, including animal feeds and other edibles; paints; packaged food and beverages; quick service restaurants (QSR). As a non-trading entity, UACN generates operating income mainly via dividends from its Portfolio Entities, as well as returns from its exposure to various financial instruments.

During the financial year ended 31 December 2023 (FYE 2023), UACN's total operating income grew by 2.1x to ₦5.8 billion, largely driven by returns from financial assets with foreign exchange (FX) component. As a result, the Company's operating expense to income ratio improved to 48.5% in FYE 2023 (2022: 80.7%), leading to a better operating profit margin of 51.5% (2022: 19.3%). The pre-interest, pre-tax profit margin for the year ended 2023 rose to 179.3% (2022: 49.6%), boosted by gains from the disposal of non-rental yielding property assets. Consequently, the pre-interest, pre-tax return on asset (ROA) and the pre-tax return on equity (ROE) increased notably to 18% (2022: 1.8%) and 25% (2022: 2.3%) respectively. Adjusted for the huge one-off gain on disposal, the ROA and ROE moderated to 3% and 4% respectively, which underperformed our internal benchmarks. Moving forward, we expect price increases (in

[1] *Subsidiaries – Grand Cereals Limited, Livestock Feeds PLC, UAC Foods Limited, UAC Restaurants Limited and CAP PLC*
[2] *Associates – MDS Logistics Limited and UPDC PLC*

response to inflation), expansion of factory capacity and roll out of new stores to boost the financial performance of UACN's portfolio entities, particularly, UAC Foods and UAC Restaurants. Ultimately, we expect the Company's overall operating income to grow.

In the unaudited results for the three months ended 31 March 2024 (Q1 2024), UACN's operating income stood at ₦5 billion (Q1 2023: ₦0.4 billion), mainly driven by exchange gain on FCY denominated financial assets. The OPM for Q1 2024 remained good at 81.7%, while the annualised ROA and ROE of 28% and 41% respectively were in line with our internal benchmarks.

Due to the group's inter-company funding arrangement, on-lending activities continue to weigh on UACN's operating cash flow (OCF). During FYE 2023, a 62% year-on-year growth in ICLs depressed the Company's OCF to a negative of ₦2.6 billion (2022: a positive of ₦0.6 billion). However, since ICLs represent a continuing funding arrangement within the group, we backed it out of working assets to arrive at an adjusted OCF of ₦0.6 billion. Nonetheless, the revised OCF for FYE 2023 was still inadequate to cover returns to providers of finance of ₦0.9 billion, made up of interest expense (57%) and dividend (43%). While we expect the execution of UACN's growth plans to boost its OCF, we believe the ICLs offsetting effect on the metric will persist in the near to medium term.

As at FYE 2023, UACN recorded a financing surplus of ₦4.1 billion and an available working capital of ₦8.4 billion, thus resulting in an overall working capital surplus of ₦12.5 billion. Hinged on the Company's non-trading orientation coupled with the persistent use of spontaneous financing and equity in meeting its short and long-term funding needs respectively, we expect its working capital position to remain adequate.

As at FYE 2023, outstanding series (3 and 6) of issued commercial paper with a cumulative size of ₦3.3 billion raised the Company's total liabilities to ₦15.2 billion (2022: ₦9.3 billion). During the year, the adjusted OCF was adequate to cover interest expense 1.2x, while interest expense to operating income moderated to 8.9% (2022: 23.5%), but remained above our benchmark. All other leverage metrics under our coverage were either zero or negative, reflective of UACN's lowly geared capital structure. Premised on UACN's main dependence on equity and non-interest-bearing debt, we expect its leverage position to remain moderated in the near to medium term.

Moving forward, we expect improved profitability of UACN's portfolio entities (especially the animal feeds and QSR segments) to uplift the Company's operating income. Given a devaluing Naira and weakened macro-economic environment, we believe UACN will continue to profit from its open positions in FCY-denominated financial assets (the Eurobond and FCY deposit). We note the Company's investment in key industries and strong experience in the Nigerian market. In our view, these factors will continue to contribute to the success of the business well into the future.

Based on the above, Agusto & Co. attaches a **stable** outlook to UAC of Nigeria PLC.

Figure 1: Strengths, Weaknesses, Opportunities & Threats

Strengths

- Low leverage
- Adequate working capital
- Well diversified portfolio of subsidiaries and associates
- Long track record with several decades of operations in key sectors in Nigeria
- Good brand awareness

Weakness

- High intercompany receivables adversely impacting cash flow position

Opportunities

- Weakening Naira will boost earnings from Dollar generating product segment and returns from FCY denominated financial asset.
- Rising MPR will boost interest income from financial instruments

Threats

- Portfolio companies continue to grapple with the harsh economic environment thus moderating dividend pay-outs
- Foreign exchange scarcity and resultant adverse impact on input costs for portfolio companies
- Intense competition in key markets and weakening consumer purchasing power.

PROFILE OF UAC OF NIGERIA PLC

Overview & Background

UAC of Nigeria PLC ("UACN", "the Holding Company" or "the Company") is an investment holding entity organised along four verticals – animal feeds and other edibles, packaged food and beverages, paints, and quick service restaurants (QSR). The Company also holds 43% equity stake each in MDS Logistics Limited and UPDC Plc, which operate in the Supply Chain and Real Estate Sectors of the economy. Through these portfolio entities, UACN generates dividend income which is further supplemented by returns accruing from its exposure to financial instruments. The Company's core philosophy is to grow its investment capital by galvanising its operating segments through continuous re-investment and challenging them into higher business performance.

Figure 2: UACN Operating Companies

Source: UACN 2024 Management Presentation

UACN incorporates its trading segments under the following portfolio entities: Grand Cereals Limited and Livestock Feeds PLC (animal feeds and other edibles), UAC Foods Limited (snacks, dairy and water), CAP PLC (Paints) and UAC Restaurants (QSR – operator of Mr Biggs outlet). These entities are responsible for a diverse range of products marketed under notable brand names such as Gala, Supreme, Swan, Dulux, Caplux Paint, Debonairs Pizza, Vital Feed, Best Mate, Grand and Aquamax Fish Feed among others. UACN's portfolio entities distribute their products to various markets nationwide by leveraging an expansive network of 121 retail outlets and 60 restaurants. Through its operating segments, the Company also owns five production facilities delivering 30,000 metric tonnes of output annually.

UACN, which has a rich history of success in the Nigerian market, has operations dating back to 1879. Through the years, the Company has evolved, undergoing several transformations before finally shaping out under its current holding structure. In 1970, the Company was listed on the trading floors of the Nigerian Exchange Limited[3] (NGX), reflective of a matured state in its capital raise journey. Moving forward, we expect the plans to expand the existing capacities of UACN's operating segments to boost its overall earnings and consolidate its unique legacy in the Nigerian market.

[3] *Formerly the Nigerian Stock Exchange (NSE)*

OWNERSHIP MANAGEMENT & STAFF

As at the year ended 31 December 2023 (FYE 2023), UACN's authorised share capital amounted to ₦1.463 billion, which consists of 2.9 billion units of ordinary shares at 50 kobo each. The shares have been fully issued and paid for. Themis Capital Management is the majority shareholder with an equity stake of 20.04%, while Dalio Property Development Limited held 5.9% of the shares. Previously, Fund, LP - Main NTC Kuroto held 5.03% of the shares but sold down its position to 4.99%. The rest of the shares (69.07%) were severally held by other institutional and retail investors. In our view, UACN's ownership structure is well diversified.

BOARD COMPOSITION AND STRUCTURE

During the year 2023, the Company had a nine-member Board of Directors, comprising six non-executive directors (Non-ED), including the Chairman, and three executive directors (ED). However, on 21 June 2023, Mr Babatunde Kasali, a Non-ED, retired from the Board, while Mr Vitus C. Ezinwa, an ED, resigned from the Board with effect from 27 July 2023. Mr Adebolanle Badejo joined the Board in the capacity of an ED effective 28 July 2023. The Board is led by Mr Daniel Agbor as the Chairman, while Mr. Folasope Aiyesimoju is the Group Managing Director. The Board performs its oversight functions through two committees namely: Risk Management Committee, and Governance and Remuneration Committee. In our view, UACN's governance environment is well tested and has a good mix of executive and non-executive membership.

Table 1: UACN Directors as at 31 December 2023

Name	Designation	Representing
Mr Daniel O. Agbor	Chairman	Self (Direct)[4] and Oakbrook Investments Limited (Indirect)
Mr Folasope B. Aiyesimoju	Group Managing Director	Self (Direct), Themis Capital Management and AM&P Advisory Services (Indirect)[5]
Mrs Funke Ijaiya-Oladipo	Group Finance Director	Self (Direct)
Mr Adebolanle Badejo	Group Investment Director	Member[6]
Mr Khalifa Biobaku	Non-Executive Director	Dalio Property Development Limited and AM&P Advisory Services (Indirect)
Mr Bolaji A. Odunsi	Non-Executive Director	Member
Mrs Suzanne O. Iroche	Independent Non-Executive Director	Member
Mr Karl O. Toriola	Independent Non-Executive Director	Member

Source: UAC of Nigeria PLC's 2023 Annual Report

MANAGEMENT TEAM

UACN's executive management team is led by Mr Folasope Aiyesimoju, the Group Managing Director, backed by six other competent professionals. The team coordinates various functional units of the business including Finance, Operations, Internal Control, Legal Services, Treasury and Human Resource Management. Combined, the team has an average of 13 years of quality experience, with specialties in business restructuring, mergers and acquisitions, private equity and venture financing, accounting, investment strategy and capital allocation,

[4] *Self (Direct) – Board member with equity holdings in UACN*
[5] *Indirect – Board member with indirect equity holdings in UACN through another entity*
[6] *Member – Board member with no shares in UACN as at 31 December 2023. It is important note this position is not static and may change subsequent to FYE 2023.*

financial services, legal services, information technology, internal audit and human resource support.

Mr Folasope Aiyesimoju is the Group Managing Director of UAC of Nigeria PLC. He joined the Board of Directors of UACN in March 2018 and was appointed Group Managing Director on 1 April 2019. Mr Aiyesimoju is a finance professional with experience in corporate finance, private equity, and principal investing. He is the founder of Themis Capital Management, an investment firm that focuses on high-potential opportunities in sub-Saharan Africa. He previously worked at Kohlberg Kravis Roberts, a leading global investment firm, before founding Themis. He began his career with Ocean and Oil Holdings Limited - a Nigerian principal investment firm, and later worked at ARM Investment Managers and Standard Bank Group, where he oversaw several mergers and acquisitions in Nigeria. He holds a Bachelor's Degree in Estate Management from the University of Lagos (2001).

Table 2: Other Members of UACN's Management Team

Name	Position
Mrs Funke Ijaiya-Oladipo	Group Finance Director
Mr Adebolanle Badejo	Group Investment Director
Ms Ayomipo Wey	Group General Counsel and Company Secretary
Mr Tunji Rabiu	Group Internal Auditor
Mrs Queenette Durosinmi-Etti	Chief Operating Officer
Mrs Abosede Ogundiyan	Head, Talent Strategy

Source: UAC of Nigeria PLC's 2024 Management Presentation

In FYE 2023, the Company had 31 employees (2022: 39 employees). An increase in overall employee benefits for the year ended 2023 led to a rise in the average cost per employee to ₦46.8 million (2022: ₦35.1 million). Upheld by relatively higher operating income, earnings per staff (measured as operating profit margin adjusted for staff cost divided by headcount) grew by 193.2% to ₦143.4 million for FYE 2023. The earnings per employee was sufficient to cover the average cost per employee 3.1x, which we consider to be acceptable.

FINANCIAL CONDITION

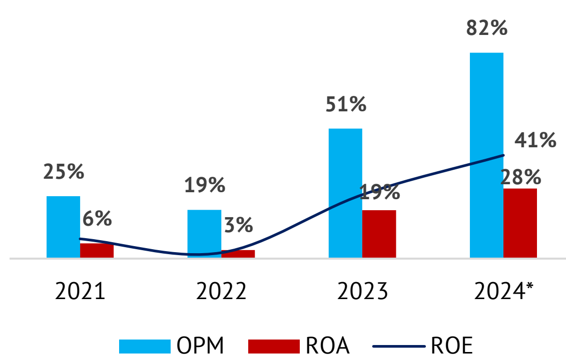
Analysts' Comments

- ***We have analysed the financial condition of UAC of Nigeria PLC as a standalone entity, based on the three-year audited financial statements ended 31 December 2023 as well as the management account (unaudited) as at 31 March 2024.***
- ***Our analyses exclude the review of UAC Group, which comprises UACN and its subsidiaries and associate companies.***

PROFITABILITY

UAC of Nigeria PLC is the holding company of the UAC group and a non-trading entity, with five subsidiaries specialised in animal feeds and other edibles, paints, packaged food and beverages, and QSR businesses. UACN also holds equity investments in MDS Logistics Limited and UPDC Plc, which operate in the logistics and real estate sectors of the economy, respectively. The Company generates dividend income principally from its investment in portfolio companies (subsidiaries and associate entities), interest from tradeable market instruments, rental income from its investment property and management fees (commercial service fee)[7] for services to its portfolio companies. Income from the market instrument accounted for 66.9% of the total operating income for the year ended 2023 (FYE 2023), while management fees, dividends from UACN's portfolio companies and rental income contributed 15.9%, 13.5%, and 3.7% respectively.

Figure 3: OPM, ROA & ROE (2021 – Q1'2024)



In FYE 2023, the Company's operating income more than doubled to ₦5.8 billion (2022: ₦2.8 billion) driven largely by growth in returns from market instruments (finance income) and management fees. During the year ended 2023, finance income rose by 312.6% to ₦3.9 billion underpinned by an increase in exchange gain to ₦2.4 billion (2022: ₦0.01 billion), as well as interest income. Considering the rising interest rate environment and the devaluation of the Naira, we expect further growth in interest income and exchange gain (on the Eurobond and FCY cash deposit) to boost the operating income of the Company. Further, we project that improvement in UACN's portfolio companies will facilitate higher dividend income, which will uplift operating income even more.

Personnel cost is a key driver of UACN's operating expenses (OPEX), responsible for 51.4% of the total spend reported in FYE 2023. During the year, OPEX rose to ₦2.8 billion (2022: ₦2.3 billion) largely due to a 5.9% year-on-year (YoY) growth in personnel cost. Nonetheless, the Company's OPEX to total income ratio improved to 48.5% (2022: 80.7%) based on superior growth in finance income during FYE 2023. As a result, the operating profit margin (OPM) for the year increased to 51.5% (2022: 19.6%), which conformed with our internal benchmark. During the year ended 2023, UACN's other income surged to ₦7.4 billion (2022: ₦0.8 billion), boosted by a ₦7 billion profit realised on the disposal of non-rental yielding property assets. Buoyed by this

[7] *Commercial service fee – represents 0.75 to 1% of revenue of subsidiaries and associate entities for support services provided to them by UACN under a commercial service agreement. Among others, the services relate to treasury management, legal, secretariat and human resource support.*

gain, the pre-interest, pre-tax profit margin grew to 179.3% (2022: 49.6%).

Amidst a high interest rate environment, the Company has pivoted to the fixed-rate debt market in a bid to rebalance its loan portfolio previously made up of bank borrowings with floating charges. This reflected positively in UACN's overall borrowing cost as the interest expense to operating income ratio reduced to 8.9% (2022: 23.5%), but remained above our benchmark. Also, the pre-tax profit margin of the Company improved to 170.4% in FYE 2023 (2022: 26.2%) supported by higher operating income, as well as the gain on property disposal. On the back of this performance, the pre-interest, pre-tax return on asset (ROA) and the pre-tax return on equity (ROE) both jumped to 18% (2022: 1.8%) and 25% (2022: 2.3%) respectively. We note that without the impact of the huge one-off gain on disposal, the ROA and ROE would, instead, have been 3% and 4% respectively. Therefore, while we expect the profit performance of the Company to improve based on higher returns from its equity and non-equity investments, we believe the pace of growth will remain modest in the near to medium term.

In the unaudited results for the three months ended 31 March 2024 (Q1 2024), UACN's operating income stood at ₦5 billion, which was significantly better than ₦0.4 billion reported in Q1 2023. Exchange gain was a key driver of the quarter's operating income, accounting for 69.4% of the sum reported. The OPM for Q1 2024 remained good at 81.7%, while the annualised ROA and ROE of 28% and 41% respectively conformed with internal our benchmarks.

The year 2023 was a particularly difficult year for businesses as the general elections and attendant change of government led to an initial slowdown of economic activities in the country, especially in the first quarter of the year. Notwithstanding, UACN's portfolio companies proved to be resilient as all, but the real estate business, recorded growth in top line, underpinned by price increase, higher volume sales, acquisition of new trucks and expansion of its warehouse business. Although operational efficiency across its portfolio companies improved during FYE 2023, the animal feeds and quick service restaurant (QSR) segments remained in loss territory, albeit better than FYE 2022. Ultimately, this resulted in lower dividend pay-out which was neutralised by the exchange gain on financial assets, as well as the profit from disposal of non-core property assets in FYE 2023.

Amidst a heightened interest rate environment, we expect UACN to continue to benefit from higher interest income through its exposure to various financial instruments. In light of ongoing initiatives aimed at production efficiency and cost containment, we anticipate continuous improvement in UACN's portfolio companies' performances, which should result in higher dividend income in the near to medium term.

In our view, the Company's profitability requires improvement.

CASH FLOW

UAC of Nigeria PLC, being an investment holding entity, generates cash primarily from dividends from its portfolio companies, interest income on financial instruments, rentals on its investment property and management fees. In addition, the Company receives cash from the disposal of property, as well as from its subsidiaries in the form of Board fees[8] and recharged costs[9]. Given its non-operating holding structure, UACN channels its resources mainly into investment in its portfolio entities and treasury operation, which enable the Company to grow across multiple verticals and take advantage of rising yields in the financial market.

In FYE 2023, UACN's operating cash flow (OCF) worsened to a negative ₦2.6 billion from a positive ₦0.6 billion previously, due to increase in inter-company loans (ICLs). During the year, ICLs (which make up 68% of total working asset) grew by 62% to ₦5.3 billion, effectively depressing the OCF of the Company. As a result, the OCF to operating income ratio was negative at 44% (2022: positive of 20%).

Within the group, an inter-company funding arrangement exists which enables UACN to seek funding on better negotiated terms (hinged on the group's financial strength) and on-lend to the operating entities as inter-company loans. The ICLs are typically backed by the revenue of the beneficiary entity(ies) with no recorded history of default. Agusto & Co notes that the risk of default on ICLs is low based on past performance, coupled with the credit guarantee of UACN. In line with this, we have made analyst adjustments backing out the ICLs from working assets to moderate its overall weight on the OCF of the Company. Consequently, UACN's adjusted OCF for FYE 2023 calibrated to ₦0.6 billion (Actual: a negative of ₦2.6 billion). Notwithstanding, the adjusted three-year cumulative OCF of ₦4.7 billion was still insufficient to cover the cumulative returns to providers of finance (RTPoF) of ₦7.2 billion, made up of interest expense (84%) and dividend (16%).

In the unaudited results for Q1 2024, the adjusted OCF of the Company was ₦4.7 billion (Actual: a negative of ₦1 billion) based on our exclusion of the notably increased ICL of ₦13.1 billion (2023: ₦5.3 billion) during the quarter. The adjusted OCF for the period was adequate to cover the interest expense 21.7x.

Projecting forward, UACN plans to grow its cash flow through various strategic initiatives within its operating segments aimed at boosting earnings beyond the currently reported levels. During the year, the Company streamlined its group structure via a merger between Spring Waters Nigeria Limited (SWAN) and UAC Foods, allowing for a more refined focus on its growth strategies. Over the near to medium term, the UACN group plans to continue to assess growth opportunities in the market and invest in projects that will enhance its cash-generating capacity.

In our view, UACN's overall cash flow position requires improvement.

LIQUIDITY PROFILE

As at FYE 2023, UACN's liquidity position stood at ₦10.5 billion, comprised wholly of cash and equivalents adjusted for restricted cash in the sum of ₦5.3 billion which represented unclaimed dividend received from the Company's registrar. In line with the Finance Act 2020, listed entities are mandated to transfer all unclaimed dividend over six years to a Trust Fund under the purview of the Debt Management Office. As at the same date, the Company had committed undrawn bank lines worth ₦1.5 billion in external liquidity support. Aggregated, the liquidity sum of ₦12 billion was sufficient to cover UACN's maturing short-term obligations

[8] Board fees - payments received from subsidiaries to compensate personnel from the parent company who serve on the boards of those subsidiaries.
[9] Recharged cost - reimbursable expenses incurred by UACN on behalf of the subsidiaries which are then recharged to the subsidiaries

(arising from Commercial Paper issue) 3.6x.

We note UACN's unique legacy, strong experience in the Nigerian market and overall financial strength. In our view, these factors, coupled with its relationship with nine established banks, will continue to promote access to easy funding for the business.

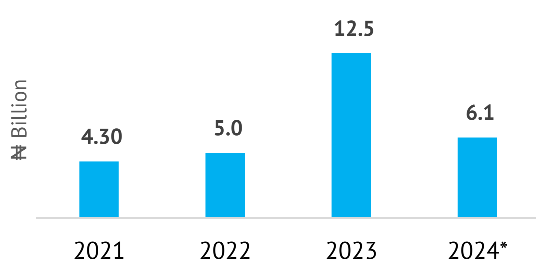
Financing Structure and Adequacy of Working Capital

As at FYE 2023, UACN's working assets rose by 49.2% to ₦7.8 billion, reflective of considerable growth in inter-company loans (ICLs). As with previous years, ICLs continue to dominate the Company's working asset position, accounting for 68% of the recorded sum, while other receivables made up the remainder of 32%. Included in other receivables as at the review date were amounts due from UACN's portfolio companies, advances to staff and other prepayments, as well as value added tax (VAT) and withholding tax recoverable.

The Company's spontaneous financing as at FYE 2023 increased to ₦11.9 billion (2022: ₦9.3 billion) underpinned by growth in dividend payable and tax liabilities. As at the same date, the main components of spontaneous financing were dividend payable (42.6%), tax liabilities (28.9%) and other creditors and accruals (23.3%). UACN's spontaneous financing as at FYE 2023 was sufficient to cover the working assets, thus resulting in a financing surplus of ₦4.1 billion.

As at FYE 2023, the Company's long-term assets were largely stable at ₦30.8 billion (2022: ₦30.5 billion). On the other hand, long-term fund, wholly equity, grew by 25.2% to ₦39.2 billion mainly on the back of profit retention. The long-term fund was sufficient to cover the long-term assets, resulting in an available working capital of ₦8.4 billion. Overall, the Company posted a working capital surplus of ₦12.5 billion, reflecting adequacy of its resources for the current level of operations.

Figure 4: Overall Working Capital Surplus (2021 – Q1'2024)



The unaudited results as at Q1 2024, revealed a working capital need of ₦3 billion, which was offset by an available working capital of ₦9.2 billion, to arrive at an overall working capital surplus of ₦6.1 billion.

Moving forward, we expect the Company to maintain its matching strategy, which tie funding appropriately to asset life cycle. However, we believe the planned strategic investments aimed at expansion of UACN's portfolio companies will drive further debt issue under the Company's ₦45 billion Commercial Paper (CP) Programme. We expect ICLs to grow leading to temporary working capital challenges which should be muted by higher returns from invested capital. Overall, we anticipate continuous growth in UACN's long-term fund anchored on consistent profit retention, which will promote financial stability of the Company in the near to medium term.

In our view, the Company's working capital position is good.

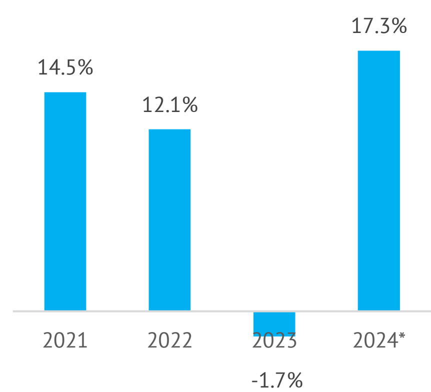
LEVERAGE

During the year 2023, the Company issued four CP Notes (Series 3 to 6) with a cumulative size of approximately ₦6 billion[10], of which ₦3.3 billion representing Series 3 (83.6%) and Series 6 (16.4%) were outstanding as at the year ended 2023. As a result, UACN's total liabilities increased by 27.5% to ₦11.9 billion as at FYE 2023, comprising interest bearing debt (22%) and non-interest-bearing debt (78%).

The non-interest-bearing debt (NIBD) as at FYE 2023 stood at ₦11.9 billion (2022: ₦9.3 billion) and was largely made up of dividend payable (42.6%), tax liabilities (28.9%), as well as other creditors and accruals (23.3%). Dividend payable and tax liabilities were mainly responsible for the growth in NIBD as at the review date.

On the other hand, obligations arising from the CP issuance constituted the interest-bearing debt (IBD) of ₦3.3 billion as at FYE 2023. UACN operates a financing system wherein it raises funds (under the group name) on behalf of its portfolio companies and on-lend to them as ICLs backed by the revenue of the beneficiary entities. As at the review date, the IBD was lent to Grand Cereals Limited and UAC Foods Limited to support their working capital financing needs. The CPs were issued at a discount rate of 12.7% and 12.3% for Series 3 and 6 respectively and have been settled within Q1 2024. In view of the plans to expand the operations of UACN's portfolio entities and the concerns with expensive bank loans, we expect the Company to maintain a preference for fixed-rate debt in the near to medium term.

Figure 5: Net debt to Average total assets (2021 – Q1'2024



As at the year ended 2023, UACN's capital structure revealed a healthy equity buffer denoted by a debt to equity split of 28% and 72% respectively. Largely, this structure reflects the Company non-trading orientation, but more fundamentally, management's overarching philosophy to organically fund business growth across all its ventures through re-investment of profit. As at the review date, UACN's cash and equivalent balance of ₦15.8 billion surpassed its total debt obligations of ₦15.2 billion. As a result, leverage metrics under our coverage were mostly flat at zero or negative, reflective of an overall lowly geared capital structure. In line with our analyst adjustment (exclusion of ICLs from working assets), OCF cover of interest expense during FYE 2023 was satisfactory at 1.2x (Actual: a negative of 4.4x). On the back of improved earnings, UACN's interest expense to operating income ratio moderated to 8.9% (2022: 23.5%) but remained higher than our internal benchmark of not more than 5%. Given the group's inter-company funding structure, we expect UACN's finance cost to rise in line with prevailing market rates. However, we believe the business practice of recharging the cost of funds back to the beneficiary portfolio entity will continue to mute the impact of future borrowings on the Company's books.

As at Q1 2024, UACN's total liabilities amounted to ₦23.2 billion, inclusive of IBD (41%) and NIBD (59%). The IBD as at the same date, grew by a multiple of 2.8x to ₦9.4 billion following issuance of series 7 and 8 under the established ₦45 billion CP Programme. Consequent upon the CP issue, the net debt as a percentage of

[10] *Series 4 and 5 with a combined size of ₦2.7 billion were settled before the balance sheet date*

average total assets (excluding cash) increased to 17% (2023: a negative of 2%), but remained in line with our benchmark. During the period, the interest expense to operating income ratio moderated to 4.5% (2023: 8.9%), while the adjusted interest cover of 2.1x was lower than Agusto & Co's internal benchmark of 3x.

Going forward, we expect the continuous dependence on NIBD, underpinned by UACN's non-trading orientation, to maintain leverage at low levels. We note the rise in the monetary policy rate (MPR) amidst heightened inflation. Therefore, we believe management's effort aimed at re-balancing the group's loan book with fixed-rate debt will moderate UACN's overall borrowing cost.

In our view, the Company's leverage position is low.

OUTLOOK

In 2023, UACN continued to simplify its group structure via a merger between its portfolio entities (SWAN Water Nigeria Limited and UAC Foods Limited) and liquidation of non-rental yielding property assets. These steps are part of a broader group initiative to streamline the focus of the Company, free up scarce resources, and ultimately position the business to achieve its minimum return on invested capital (ROIC) target of 25% annually. After a difficult year 2022, in which three of UACN's operating segments (animal feeds and other edibles, packaged food and water, and QSR) returned losses, which depressed the group's financial strength, management executed various strategic initiatives to optimise efficiency across its verticals.

Among other actions, the Company's portfolio entities implemented price increases across its various products to shield bottom line from surging inflation. Production processes within its factories were also re-engineered to scale down sub-optimality and attain efficiency. Further, management embarked on belt-tightening measures to contain growing operational costs and improve the overall profitability of the business across board. These actions yielded positive results as its loss-making segments (Animal feeds and QSR) showed significant recovery toward profit position. Top line growth across the board and improved efficiency further complemented UACN's profitability, reflected in notable growth in its ROIC to 20.1% for the year ended 2023 (2022: a negative of 4.9%).

Moving forward, the Company plans to continue to direct the focus of its portfolio businesses towards tackling key cost drivers such as raw materials, energy and distribution expenses. Considering the concerns posed by the existing franchise arrangement to UACN's brand equity, management intends to continue the reversion of franchise stores in place of more self-owned corporate outlets. If well implemented, we believe these initiatives, coupled with the plan to expand existing capacity (via investment in new factories) will boost top line growth and the overall profitability of the Company.

Given the group's inter-company funding structure, we expect further on-lending activities to UACN's operating segments to exert pressure on its operating cash flow (OCF). However, we believe improved earnings across its verticals (arising from this investment) will continue to mute the impact of ICLs on the OCF of the Company. Premised on the existing strategy which appropriately matches funding to asset life cycle, we expect UACN's working capital position to remain good. In view of the Company's non-trading orientation and business philosophy to grow its ventures through ploughing back of profit, we expect the leverage position to continue at low levels.

We note UACN's long history and strong experience in the Nigerian market which confers significant competitive advantage to continue to dominate across its operating segments. Moreover, we expect the plan to scale the operations of its portfolio entities to sustain top line growth and improve the business' economic resilience against market volatilities.

Based on the aforementioned, we hereby attach a **stable** outlook to UAC of Nigeria PLC.

Financial Summary

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-21 ₦'mns		31-Dec-22 ₦'mns		31-Dec-23 ₦'mns		31-Mar-24 (Unaudited) ₦'mns	
REVENUE	3,537	100.0%	2,791	100.0%	5,819	100.0%	4,950	100.0%
GROSS PROFIT	874	24.7%	538	19.3%	2,996	51.5%	4,044	81.7%
OPERATING PROFIT	874	24.7%	538	19.3%	2,996	51.5%	4,044	81.7%
INTEREST EXPENSE	-	0.0%	(655)	-23.5%	(517)	-8.9%	(224)	-4.5%
PROFIT BEFORE TAXATION	2,487	70.3%	731	26.2%	9,914	170.4%	4,286	86.6%
TAX (EXPENSE) BENEFIT	(143)	-4.0%	(49)	-1.8%	(1,375)	-23.6%	(1,691)	-34.2%
PROFIT AFTER TAXATION	2,345	66.3%	682	24.4%	8,539	146.8%	2,595	52.4%
DIVIDEND	(3,458)	-97.8%	(1,873)	-67.1%	(644)	-11.1%		0.0%
PROFIT RETAINED FOR THE YEAR	(1,113)	-31.5%	(1,191)	-42.7%	7,896	135.7%	2,595	52.4%
OTHER APPROPRIATIONS/ ADJUSTMENTS	(0)		(2)		-		16	
PROFIT RETAINED B/FWD	16,562		15,449		14,256		22,152	
PROFIT RETAINED C/FWD	**15,449**		**14,256**		**22,152**		**24,763**	

STATEMENT OF FINANCIAL POSITION	31-Dec-21 ₦'mns		31-Dec-22 ₦'mns		31-Dec-23 ₦'mns		31-Mar-24 (Unaudited) ₦'mns	
ASSETS								
CASH & EQUIVALENTS	4,304	10.5%	4,958	12.2%	15,841	29.1%	15,568	23.9%
TOTAL TRADING ASSETS	5,627	13.7%	5,210	12.8%	7,775	14.3%	16,780	25.8%
TOTAL LONG-TERM ASSETS	31,138	75.8%	30,453	75.0%	30,771	56.6%	32,692	50.3%
TOTAL ASSETS	**41,068**	**100.0%**	**40,621**	**100.0%**	**54,386**	**100.0%**	**65,041**	**100.0%**
Growth	**-11.1%**		**-1.1%**		**33.9%**		**19.6%**	
LIABILITIES & EQUITY		0.0%		0.0%				
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	-	0.0%	-	0.0%	3,323	6.1%	9,444	14.5%
TOTAL NON-INTEREST-BEARING LIABILITIES	9,263	22.6%	9,334	23.0%	11,897	21.9%	13,741	21.1%
TOTAL LIABILITIES	9,263	22.6%	9,334	23.0%	15,220	28.0%	23,184	35.6%
SHAREHOLDERS' EQUITY	31,805	77.4%	31,287	77.0%	39,166	72.0%	41,856	64.4%
TOTAL LIABILITIES & EQUITY	**41,068**	**100.0%**	**40,621**	**100.0%**	**54,386**	**100.0%**	**65,041**	**100.0%**

CASH FLOW STATEMENT FOR Y/E	31-Dec-21	31-Dec-22	31-Dec-23	31-Mar-24 (Unaudited)
	₦'mns	₦'mns	₦'mns	₦'mns
OPERATING ACTIVITIES				
Potential operating cash flow	2,616	193	(2,314)	6,167
WORKING CAPITAL CHANGES:				
Cash from (used by) spontaneous financing	167	(51)	2,313	1,844
Cash from (used by) working assets	(3,443)	416	(2,564)	(9,006)
CASH FROM (USED IN) OPERATING ACTIVITIES	**(660)**	**558**	**(2,565)**	**(994)**
RETURNS TO PROVIDERS OF FINANCING (RTPOF)				
Interest paid	-	(655)	(517)	(224)
Dividend paid	(3,892)	(1,751)	(394)	-
OPERATING CASH FLOW AFTER RTPOF	**(4,553)**	**(1,848)**	**(3,476)**	**(1,218)**
CASH FROM (USED IN) INVESTING ACTIVITIES	**(2,050)**	**525**	**(7,472)**	**(1,962)**
CASH FROM (USED IN) FINANCING ACTIVITIES	**(3,897)**	**495**	**3,323**	**6,121**
CHANGE IN CASH INC/(DEC)	(10,590)	744	10,883	(272)
OPENING CASH & MARKETABLE SECURITIES	14,804	4,304	4,958	15,841
CLOSING CASH & MARKETABLE SECURITIES	**4,304**	**4,958**	**15,841**	**15,568**

KEY RATIOS	31-Dec-21	31-Dec-22	31-Dec-23	31-Mar-24 (Unaudited)
PROFITABILITY				
OPERATING INCOME GROWTH	24.0%	-21.1%	108.5%	240.3%
OPERATING PROFIT MARGIN	24.7%	19.3%	51.5%	81.7%
RETURN ON ASSETS (PRE-INTEREST, PRE-TAX)	6.1%	3.4%	19.2%	27.7%
RETURN ON EQUITY (PRE-TAX)	7.8%	2.3%	25.3%	41.0%
CASH FLOW				
OCF AS % OF RETURNS TO PROVIDERS OF FINANCE	-17%	23%	-282%	-445%
OCF AS % OF SALES	-19%	20%	-44%	-20%
WORKING CAPITAL				
WORKING CAPITAL NEED (DAYS)	0	0	0	224
OVERALL WORKING CAPITAL DEFICIENCY (DAYS)	0	0	0	0
LEVERAGE				
NET DEBT AS % OF TOTAL ASSETS	15%	12%	-2%	17%
TOTAL LIABILITIES TO EQUITY	16%	14%	0%	18%
OTHER ADITIONAL INFORMATION				
STAFF COSTS (₦' MILLION)	1,116	1,369	1,451	
AVERAGE NUMBER OF STAFF	40	39	31	
STAFF COSTS PER EMPLOYEE (₦' MILLION)	28	35	47	
CAPITAL EXPENDITURE (₦' MILLION)	215	160	219	106
DEPRECIATION AND AMORTISATION (₦' MILLION)	136	160	155	41
AUDITORS	**EY**	**KPMG**	**KPMG**	**N/A**
OPINION	CLEAN	CLEAN	CLEAN	UNAUDITED

RATING DEFINITIONS

Aaa	A company with the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Aa	A company with very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
A	A company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
Bbb	A company with satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
Bb	A company with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
B	A company with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
C	A company with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
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.

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