



Credit Rating Announcement

GCR downgrades Mixta Real Estate Plc's national scale long term and short term Issuer ratings to CCC_{-(NG)} / C_(NG) from BB_{+(NG)} / B_(NG) due to significant financial strain; Evolving Outlook.

Rating Action

Lagos, 22 November 2021 - GCR Ratings ("GCR") has downgraded Mixta Real Estate Plc's national scale long-term and short-term Issuer ratings to CCC_{-(NG)} and C_(NG) from BB_{+(NG)} and B_(NG) respectively, with the Outlook accorded as Evolving.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Mixta Real Estate Plc	Long Term Issuer	National	CCC _{-(NG)}	Evolving
	Short Term Issuer	National	C _(NG)	--

Rating Rationale

The downgrade of Mixta Real Estate Plc's ("Mixta", or "the Group") ratings reflects the material increase in debt and corresponding deterioration in credit protection metrics, due to insufficient cash generation. Cognisance is taken of its extensive land bank, the disposal of which GCR considers critical to restoring financial sustainability.

Notwithstanding Mixta's strong competitive position, weak earnings and cash flows have persisted, exacerbated by COVID-19 related disruptions over the past year. Thus, the Group has not been able to complete some existing large projects and thereby monetise its extensive land bank. Accordingly, gross debt increased again to a review period high of N70.5bn in FY20 (FY19: N55.6bn) due to additional Notes obtained to finance projects and meet operational losses. With negative EBITDA and large operating cash outflows, credit protection metrics have been negative in most periods under review.

Mixta's liquidity challenges also contribute to the ratings downgrade. Of the Group's debt, around 68% is expected to fall due within one year, indicating a significant refinancing risk, particularly in light of the relative illiquidity of the property portfolio. Furthermore, the Group also lacks sufficient unutilised funding facilities to cover outstanding commercial paper and facilities maturing in the next six months, translating to a very low liquidity coverage around 0.2x.

Mixta has indicated that it is in the process of raising new bonds of up to N10bn from the capital market to refinance some of the highly priced and short-dated outstanding debt. It is also seeking a N13.3bn equity injection in FY22 to deleverage its balance sheet. However, these funds have not been committed, and are not sufficient to meaningfully improve the liquidity profile. As such, GCR considers the proposed sale of large portions of land critical to rebalance the financial position, but transactions of sufficient scale are likely to take 12-18 months to complete. Accordingly, in the short term, Mixta's solvency is dependent on debt funders continuing to roll their facilities.

GCR has factored some group support into the ratings for Mixta, demonstrated by ongoing operational and financial support from its c.51% shareholder, Asset and Resource Management Company Limited ("ARM"). In this regard, Mixta is well integrated into the broader group, with key management seconded to it to support operational improvements. More importantly, ARM has historically contributed to Mixta's funding, accounting for 28% of current debt. However, these loans are made on behalf of investors, are contracted at commercial rates and rank *pari passu* with all senior debt obligations, limiting the credence of the support.

Mixta's competitive position does provide some underpin to expectation of a potential recovery. Mixta is one of the leading players within the Nigerian Real Estate Sector with a relatively strong track record, having delivered over 14,000 housing units across residential, commercial, and retail property segments. It has an extensive land bank of over 15 million square metres worth over N156.7bn (per external valuation report) and has expanded into four other African countries. On the back of this, the Group is forecasting revenue of N17.5bn for FY21, although the 1H FY21 performance suggest this will be missed. However, the commitment to monetise its land bank could provide important cash flow.

Outlook Statement

The Evolving Outlook reflects the prospects for a return to financial sustainability if the Group is able to raise sufficient cash from property sales, debt refinancing and/ or a recapitalisation. Nevertheless, in the absence of these events, and ongoing funder support, there remains the possibility that Mixta would require a distressed debt restructuring or even default on some of its debt obligations.

Rating Triggers

Failure to meet any interest or principal repayments could result in default of the Issuer. Moreover, a distressed debt refinancing will also result in a default rating.

Stabilisation of the rating is dependent on a meaningful capital injection or the timeous sale of a large tract of land that allows Mixta to substantially reduce its debt burden.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, October 2021
GCR Nigeria Corporate Sector Risk Scores, November 2021
Frequently Asked Questions: Distressed Debt Exchanges

Ratings History

Mixta Real Estate Plc					
Rating class	Review	Rating	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB _(NG)	Stable	June 2016
Short Term Issuer	Initial	National	A3 _(NG)		
Long Term Issuer	Last	National	BB+ _(NG)	Stable	December 2020
Short Term Issuer	Last	National	B _(NG)		

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	5.50
Country risk score	3.75
Sector risk score	1.75
Business profile	0.25
Competitive position	0.25
Management and governance	0.00
Financial profile	(6.00)
Earnings profile	(1.00)
Leverage and capital structure	(5.00)
Liquidity	(5.00)
Comparative profile	1.00
Group support	1.00
Peer analysis	0.00
Total Score	(4.25)

Glossary

Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

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

The credit rating has been disclosed to Mixta Real Estate Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Mixta Real Estate Plc participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Mixta Real Estate Plc and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- Six-month management accounts to 30 June 2021;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;

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