

CREDIT RATING ANNOUNCEMENT

GCR revises the Outlook to Stable on Presco Plc's National Scale Long-term Issuer rating of A_(NG).

Rating action

Lagos, 13 August 2024 - GCR Ratings (GCR) has affirmed the national scale long-term and short-term Issuer ratings of Presco Plc (Presco) at A_(NG) and A2_(NG), respectively. The outlook has been revised to Stable, from Evolving. Concurrently, GCR has affirmed the national scale long-term Issue rating of A_(NG) assigned to Presco Plc's NGN34.5Bn Series 1 Senior Unsecured Bonds, with the Outlook also revised to Stable.

Rated entity / issue	Rating class	Rating scale	Rating	Outlook
Presco Plc	Long-term issuer	National	A _(NG)	Stable
	Short-term issuer	National	A2 _(NG)	--
NGN34.5Bn Series 1 Senior Unsecured Bonds	Long-term issue	National	A _(NG)	Stable

Rating rationale

In March 2024, Oak and Saffron Limited, a wholly owned investment vehicle of Saroafrica Limited UK (Saroafrica group), completed the acquisition of 86.7% shareholding of SIAT N.V (Belgium), which holds majority shareholding in Presco. Subsequently, GCR accorded an 'Evolving' outlook to Presco in May 2024, as we were unable to assess the credit implications of the acquisition on the Issuer, due to uncertainties regarding the corporate structure and the consequent financial performance of the enlarged Saroafrica group.

The current rating action, revising the outlook to Stable from Evolving, is underpinned by Presco management's confirmations that 1) there are no operational or funding linkages between the SIAT N.V subgroup and the ultimate parent, Saroafrica Limited UK 2) SIAT N.V is not an obligor to any debt of Saroafrica, 3) is a non-operating holding company, with no intention to consolidate SIAT N.V and no risk transfers between the entities. The ratings affirmations reflect the strong financial profile of the SIAT N.V group, given the sustained reduction in debt and improvement in earnings.

We have maintained the analytical approach as group credit analysis using the consolidated financial statements of SIAT N.V, which owns 60% of Presco's shares and wholly owns other subsidiaries. Presco remains the largest contributor to SIAT N.V group earnings, with over 60% of revenue in financial year 2023. While the new ultimate parent is Saroafrica Limited (UK), via an acquisition through Oak and Saffron Limited, management has indicated the entities remain as separate operational and legal entities without consolidation. Furthermore, we do not expect a change in the analytical approach to result from the recent corporate reorganisation within the SIAT N.V group, with the acquisition of a sister company, Ghana Palm Oil Development Company Limited (GOPDC) by Presco in May 2024. However, subsequent analytical approach would be dependent on the evolution of corporate structuring over the medium term.

We affirm the financial profile as positive to the ratings, on the back of sound earnings progression and the material reduction in debt over the review period. We expect the group to maintain revenue growth over the outlook period, but at a more modest rate. We also maintain expectations for a strong leverage position, given the review period low debt level reported as of 30 June 2024, following consecutive reductions over the past five years. Although, Presco is in the process of raising NGN100Bn (USD63.2M), we expect this to be eliminated upon consolidation, given that the

proceeds would be used as part payment for the acquisition of GOPDC, which is commonly owned by the SIAT group. Accordingly, we expect the leverage metrics to remain at modest levels in 2024 and 2025. The capital structure is strong with a long debt maturity profile and the absence of foreign exchange exposures related to debt.

Liquidity remains slightly negative to the ratings, but further weakness could emanate from substantial new investments or aggressive dividend upstreaming over the outlook period. Funding flexibility remains supported low level of assets encumbrance and access to diverse funding sources.

The NGN34.5Bn in Series 1 Senior Unsecured Bonds issued under its NGN50Bn Bond Issuance Programme are senior unsecured debt of Presco, the Issuer. Therefore, the Series 1 Bonds rank *pari passu* with all other senior unsecured creditors of the Issuer. As such, the Bonds bear the same national scale long-term rating as that accorded to Presco. Accordingly, any change in Presco's long-term rating would impact the Bond rating.

Outlook statement

The Stable Outlook reflects our view that the ongoing group's corporate reorganisation would, itself, not lead to ratings transition over the medium term. In this regard, we expect SIAT's financial and business profiles to remain strong over the rating horizon, whilst gearing would remain conservative because of the relatively small debt book.

Rating triggers

A rating upgrade depends on sustained improvement in liquidity and earnings resilience amid the volatile global price of crude palm oil. Operating cash flow coverage of debt sustained above 50% and interest coverage above 10x could also support a rating upgrade.

Conversely, the ratings could be downgraded if we perceive any transaction aimed at upstreaming cash flows or other funding from SIAT N.V to the Sarcos group, as this could have implications in how GCR views the corporate structure. Within SIAT N.V. itself a rating downgrade could arise from an increase in gearing that translates into weaker leverage and liquidity metrics. Any severe adverse market event such as slow demand or a steep fall in global crude palm oil prices could also impact the rating.

Analytical contacts

Primary analyst	Samuel Popoola	Sector Head, Public Finance Ratings
Lagos, Nigeria	Samuel@GCRratings.com	+234 1 904 9462
Committee chair	Eyal Shevel	Sector Head, Corporate and Public Finance Ratings
Johannesburg, SA	Shevel@GCRratings.com	+ 27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Corporate Entities, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, July 2024
GCR Nigeria Corporate Sector Risk Scores, June 2024

Ratings history

Presco Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long-term Issuer	Initial	National	A-(NG)	Stable	February 2022
Short-term Issuer	Initial	National	A2(NG)		February 2022
Long-term Issue	Initial	National	A-(NG)	Stable	June 2022
Long-term Issuer	Last	National	A-(NG)	Evolving	May 2024
Short-term Issuer	Last	National	A2(NG)		May 2024
Long-term Issue	Last	National	A-(NG)	Evolving	May 2024

Risk score summary

Rating components & factors	Risk scores
Operating environment	7.00
Country risk score	4.50
Sector risk score	2.50
Business profile	1.00
Competitive position	1.25
Management and governance	(0.25)
Financial profile	0.50
Earnings performance	0.50
Leverage and Capital Structure	0.50
Liquidity	(0.50)
Comparative profile	(1.50)
Group support	0.00
Peer comparison	(1.50)
Total risk score	7.00

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Consolidated Financial Statements	Financial statements in which the assets and liabilities of a parent company and its subsidiaries are presented as a single entity.
Creditor	A credit provider that is owed debt obligations by a debtor.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The rating has been lowered on its specific scale.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Obligor	The party indebted or the person making repayments for its borrowings.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Rating Horizon	The rating outlook period
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for payment in the event of default.
Senior	A security that has a higher repayment priority than junior securities.
Upgrade	The rating has been raised on its specific scale.
Upstream	A term referring to the exploration and extraction of a commodity, in contrast with the downstream manufacturing and processing.

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 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 ratings have been disclosed to the rated entity.

The rating above was solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- SIAT and Presco's 2022 audited annual financial statements, and prior four years annual financial statements,
- SIAT and Presco's unaudited management accounts for 2023,
- SaroAfrica Limited UK's audited financial statements for 2022,
- Industry comparative data, regulatory framework, and a breakdown of facilities available and related counterparties,
- Trustee's bond performance report dated 26 April 2024 and,
- Information specific to the rated entity and/or industry was also received.
- Exchange rate source: Central Bank of Nigeria | USD1.00 = NGN899.39 (31 December 2023); NGN1,470.19/USD1 on 30 June 2024.

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