

Coleman Technical Industries Limited

2024 Corporate Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

COLEMAN TECHNICAL INDUSTRIES LIMITED

Issuer Rating

A-

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

Outlook: Stable

Issue Date: 18 July 2024

Expiry Date: 30 June 2025

Previous Rating: Bbb

Industry: Wire & Cable
Manufacturing

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RATING RATIONALE

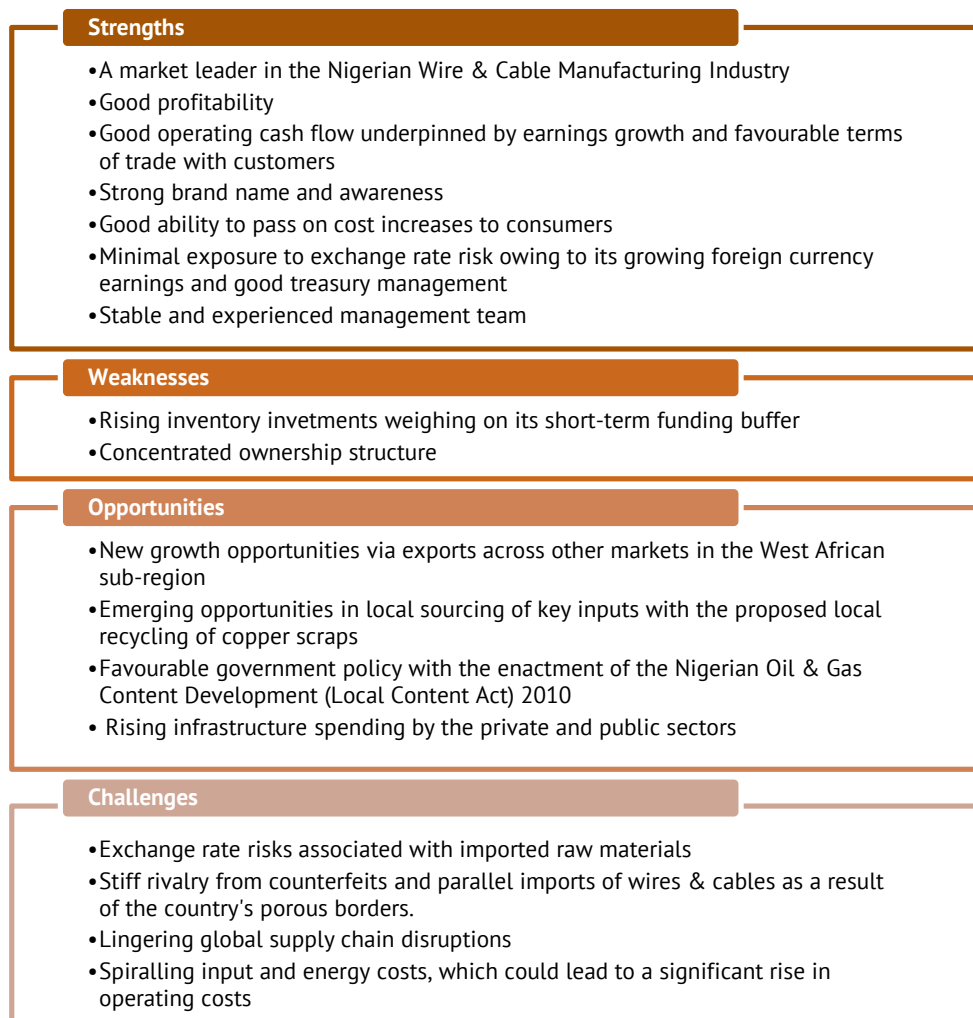
- Agusto & Co. hereby upgrades the rating assigned to Coleman Technical Industries Limited (“Coleman Wires & Cables”, “Coleman”, “CTIL” or “the Company”) to “A-”. The rating upgrade reflects the notable improvement in the Company’s earnings and cash flows supported in part by the sustained demand for its products as well as its growing foreign exchange earnings from its oil & gas product segment, which has helped to somewhat mitigate its foreign currency risk. This is in addition to the sustained growth in profit margins on the back of the positive impact of its procurement price hedging strategy (forward buying) and strong ability to pass on cost increases to consumers. The rating considers CTIL’s expanding electrical cable production and distribution capacities, which should sustain its market leadership status, and the prospects of local recycling of copper scraps (backward integration) that will help to build additional resilience against price and supply risks associated with imported raw materials. The rating is however constrained by sustained inventory investments, which have continued to weigh on the Company’s working capital and overall liquidity.
- Coleman Technical Industries Limited is a leading cable maker and distributor in Nigeria. The Company has over 30 main products across the power, control, aerial, submersible, communication and other specialty cable categories with an extensive distribution network across Nigeria and some markets in West Africa. CTIL’s factories are located in Arepo and Sagamu in Ogun State with annual installed production capacities of 60,000 metric tons of copper and 40,000 metric tons of aluminum conductors. These factories operate at an average capacity utilization of about 65% per annum, although management expects a significant improvement in the average utilization rate as it continues to ramp up production to meet growing demand for its products. The Company is currently constructing a copper smelting plant, which is expected to come on stream in the first quarter of 2025. The Company also plans to expand its current wood drum-making capacity to support the packaging of its power cables.
- In the financial year ended 31 December 2023 (FYE 2023), CTIL’s revenue grew by 37.6% to ₦54.2 billion to reflect robust volume growth as well as translation gains from its dollar-denominated supply contracts. Coleman’s gross profit and operating profit margins improved to 29.3% and 24.7% respectively, in FYE 2023 (2022: 18.5% and 15.3%) to underline the efficiency in raw material procurement after it raised additional Commercial Paper (CP) Notes

Coleman Technical Industries Limited

to fund the bulk purchase of raw materials to hedge against price and currency risks. Buoyed by the interest income and foreign exchange gains, which offset the increase in interest expenses, Coleman posted a much better pre-tax profit margin of 32% in FYE 2023 compared to the previous year's ratio of 14.4%. Even if we adjust for the foreign exchange gains, CTIL would have still posted a healthy pre-tax profit of 17.7% in FYE 2023. Overall, CTIL's return on asset (ROA) and return on equity (ROE) ratios increased significantly to 20.8% and 61.1% respectively, in FYE 2023 (2022: 12% and 37.3%) to reflect the higher profit levels during the year.

- In the five months ended 31 May 2024 (unaudited), Coleman posted revenue of ₦42.9 billion, which represented about 79% of the entire revenue in 2023, to reflect higher product prices and sales volume during the period. The Company's operating profit and pre-tax profit margins soared to 45% and 52.1% respectively as the efficiency in the sourcing of raw materials and its cost pass-through pricing strategy became even more evident in the first half of 2024. Therefore, the Company's annualised ROA and ROE ratios grew to 43.7% and 106.2% respectively. Based on its expanding scale of operations, sustained demand and strong ability to pass on cost, we expect a steady improvement in its profitability ratios.
- Coleman's operating cash flow (OCF) rebounded to ₦37.6 billion in FYE 2023 (2022: ₦74 million) to reflect the much-improved earnings and higher inflows from suppliers' credit and customer deposits during the year. The OCF in FYE 2023, which represented a significant 69% of the revenue for the year, was sufficient to cover interest and principal repayments. With the expected upsurge in the demand for its products, particularly in the second half of the year (its peak period), we anticipate better earnings and operating cash flows in FYE 2024. In our opinion, Coleman's operating cash flow is good and sustainable.
- As at FYE 2023, CTIL posted an overall working capital surplus of ₦3.3 billion after it obtained ₦10.5 billion concessional loans from the Bank of Industry (BOI) to support its ongoing expansion while also leveraging customer deposits, suppliers' credits and Commercial Paper (CP) issuances to meet its working capital needs. However, we expect the additional funding pressure from the devaluation-induced higher purchase price of imported raw materials to continue to weigh on CTIL's overall short-term funding.
- As at FYE 2023, the Company's total liabilities rose sharply by 78.3% to ₦85.5 billion owing to the incremental bank borrowings and CP Notes issued during the year. Buoyed by the higher earnings and profit accretion, CTIL's interest-bearing debt to equity ratio reduced to 95.2% as at FYE 2023 (2022: 232.9%), while its net debt to EBITDA ratio as at the same date improved to 1.8x (2022: 5.1x) to underline its moderate leverage position.
- With the expected increase in infrastructure spending by the government and private sector, and the operational efficiency to be derived from its ongoing backward integration, we foresee improvement in Coleman's financial performance. Furthermore, expansion in key sectors such as real estate, power transmission and distribution, oil & gas and telecommunication (data services) present huge growth opportunities for the Company. Therefore, we attach a **stable** outlook to Coleman Technical Industries Limited.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges



PROFILE OF COLEMAN TECHNICAL INDUSTRIES LIMITED

Coleman Technical Industries Limited (“Coleman Wires & Cables”, “Coleman”, “CTIL” or the “Company”) is a leading copper and aluminum cable maker in Nigeria. CTIL was incorporated as a private limited liability company on 1 July 1975 by Asiwaju (Dr.) Solomon K. Onafowokan OON, who doubles as the Founder and Chairman. At inception, Coleman Wires & Cables operated as a trading company but began local production in 1998 following the construction of its first factory at Idimu Road, Ikotun, Lagos with an initial installed annual capacity of 1,200 and 800 metric tons of copper and aluminum respectively.

The Company has expanded rapidly with the commissioning of additional factories in Arepo and Sagamu (both within Ogun State, Nigeria) in 2009 and 2014 respectively to produce low, medium and high-voltage cables. This has seen CTIL’s annual installed capacity increase by multiple folds to about 60,000 metric tons of copper and 40,000 metric tons of aluminum with utilisation hovering around 65% per annum. In addition to the three factories, Coleman Wires & Cables also has a warehouse in Apo, Abuja, which serves as a hub for its distribution activities in the northern part of the country. CTIL is also expanding its footprints across other markets in Nigeria and the West African sub-region. The Company has grown its offerings to over 30 products spanning the wiring, armoured and non-armoured, coaxial, rubber, electrical submersible pump (ESP) and network cable categories, and produces over 560 different variants of these main products. Coleman Wires & Cables has an extensive customer base with clients in the construction, real estate, power, telecommunication and oil & gas sectors.

Coleman Technical Industries Limited sources its raw materials¹ mostly from India and China. In July 2022, CTIL commissioned the first fibre optic production line in West Africa (Arepo III Project) and has subsequently signed an offtake agreement with a major telecom company in Nigeria for the supply of fibre optic cables. The Company recently completed the construction of the Sagamu II factory for the production of power instrumentation and marine cables for oil & gas projects and was awarded a supply contract worth over \$16 million by a leading multinational engaged in oilfield services. Coleman has also embarked on a backward integration project with the ongoing construction of a copper and aluminum smelter plant (Sagamu III Project) to minimise its exposure to raw material supply and foreign exchange risks. This is in addition to the ongoing construction of Phase 2 of its fibre optic factory to meet the growing demand as well as the ongoing expansion of its wood drum-making capacity to minimize the delays in the packaging of its power instrumentation and marine cables.

The Company's products conform with the certification criteria of the Standards Organisation of Nigeria (SON) and the Nigerian Industrial Standard (NIS). Coleman Wires & Cables also prioritizes health, safety, quality and environmental protection (HSEQ) in line with international best practices. The Company is a recipient of global certifications in quality, environment and laboratory management systems (ISO 9001: 2015, ISO 14001: 2015 and ISO 17025), thus demonstrating strong adherence to safety, health, environmental and quality standards. Coleman Wires & Cable was awarded the Conformité Européenne (CE) certifying that its products are in conformity with European requirements and can be sold in any market across the EU. Management has disclosed ongoing discussions with the Nigeria Export Processing Zones Authority (NEPZA) to designate its

¹ These include copper and aluminum rods, fiberglass and polyvinyl chloride (PVC), which is used for insulation, bedding and sheathing.



Sagamu factory as a special economic zone by 2025. This initiative, when actualized, offers massive opportunities for increased export sales and earnings diversification for the business.

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2023, Coleman Technical Industries Limited’s authorised, issued and paid-up share capital stood at ₦2.5 billion, made up of 2.5 billion ordinary shares at ₦1 each. The Company is owned, managed and controlled by the Onafowokan family. Mr. George Onafowokan (the Managing Director) is the single largest shareholder with a 53% direct equity stake in CTIL and a 12% indirect holding through Silverview Innovatives. The other major shareholders are Engr. Michael Onafowokan (28%) and Asiwaju (Dr) Solomon K. Onafowokan, OON (2%). The remaining 5% stake is jointly owned by the other members of the Onafowokan family. In our view, Coleman has a concentrated ownership profile.

Coleman Wires & Cables has a six-member Board of Directors comprising three non-executive directors (including independent directors) and three executive directors. Asiwaju (Dr) Solomon K. Onafowokan, OON doubles as the Founder and Chairman, while Mr. George Onafowokan is the Managing Director and Chief Executive Officer (MD/CEO). The only notable alteration to the composition of the Board of Coleman was the appointment of Mr. Sanusi J. Ilori as the Chief Operating Officer effective 16 October 2023.

CTIL has two Board Committees, namely – the Audit Committee and the Strategy Finance and General-Purpose Committee. Mrs. Folake Sanu (Independent Director) leads the Audit Committee as the Chairperson with support from two other directors, while Engr Ibikunle S. Ogunbayo is the Chairman of the Strategy Finance and General Purpose Committee. We acknowledge positive steps by the Board to formalise the Company’s succession process that will ensure business and management sustainability in line with international best practices.

Table 1: Current Directors

Name	Designation
Asiwaju (Dr) Solomon K. Onafowokan, OON	Chairman
Mr. George Olutope K. Onafowokan	Managing Director/CEO
Engr. Michael Olusegun K. Onafowokan	Executive Director
Mr. Sanusi J. Ilori	Chief Operating Officer
Engr. Ibikunle S. Ogunbayo	Independent Director
Mrs. Folake L. Sanu	Independent Director

Source: Coleman Technical Industries Limited’s 2023 Audited Financial Statements

Coleman Technical Industries Limited’s management team consists of the MD/CEO, two executive directors and eight senior management personnel covering various segments of the business. The members of the management team possess over a decade of relevant industry experience on average. We consider the management team to be adequately qualified and experienced.

MANAGEMENT TEAM

Mr. George Olutope K. Onafowokan is the Managing Director of Coleman Technical Industries Limited. George has over 25 years of experience in accounting and business management. He started his career at Packard Bell UK as Field Manager and worked for PC World UK as a Business Accounts Manager. He later became the pioneer Managing Director of GEM International UK Limited before joining CTIL. Under his leadership, Coleman Wires & Cables has grown tremendously to become a market leader in Nigeria. He holds a Bachelor's Degree in Accounting and Finance from the Manchester Metropolitan University, UK and a Master's Degree in Management and Information Systems from the University of Salford, UK. George is the former chairman of the Electrical and Electronic arm of the Manufacturers' Association of Nigeria (MAN) and currently sits on the Executive Committee of the Lagos Chamber of Commerce and Industry (LCCI).

Engr. Michael Olusegun K. Onafowokan is the Executive Director in charge of production and technical at Coleman Wires & Cables. Before joining CTIL, he worked as a production and quality officer for ICI (Salt Union), UK. He holds a Master of Engineering (MEng) in Chemical Engineering from Loughborough University, UK. Engr. Michael also holds a Diploma in Industrial Studies and is an associate member of the Royal Institute of Chemical Engineers, UK. He supervised the installation of new machinery that effectively increased CTIL's production capacities to the current levels.

Mr. Sanusi J. Ilori is the Chief Operating Officer (COO) at Coleman Technical Industries Limited. Mr. Ilori is an experienced chartered accountant with over 25 years of post-qualification experience. He trained in the Firm of Z O Ososanya & Co. (Chartered Accountants) and has since worked in different sectors of the Nigerian economy. Before his appointment to the Board, he was the Chief Finance Officer of the Company. Mr. Ilori is a Fellow of the Institute of Chartered Accountants of Nigeria (FCA).

Table 2: Other Members of CTIL's Management Team

Name	Position
Mr. Oluwaseun Owolabi	Chief Finance Officer
Mr. Sheyi Adebayo	General Manager, Sales & Marketing
Mrs. Grace O. Adefemi	General Manager, Accounts
Mr. Oyebode Akinlagun	Head, Strategy
Mr. Odunayo K. Babatunde	Head, Internal Audit
Ms. Temidola Ladeinde	Admin/HR Manager
Mr. Kadri A. Oyebamiji	Head, Production
Mr. Hakeem Akindipe	Head, Maintenance

Source: Coleman Technical Industries Limited's 2023 Audited Financial Statements

As at 31 December 2023, Coleman's staff strength increased by 44% to 642 employees in tandem with its ongoing expansions. The average cost per employee increased to ₦1 million in FYE 2023 (2022: ₦800,000 per annum), while the average contribution per employee in the same period (measured as pre-tax profit adjusted for staff cost) more than doubled to ₦28 million (2022: ₦13.5 million). The contribution per staff was more than sufficient to cover the average cost per employee 28x, thus depicting a strong staff productivity level.

FINANCIAL CONDITION

ANALYSTS' COMMENTS

We have analysed the audited financial statements of Coleman Technical Industries Limited ("Coleman Wires & Cables", "Coleman", "CTIL", or "the Company") for the three years ended 31 December 2023 and the management account for the five months ended 31 May 2024.

PROFITABILITY

Coleman Technical Industries Limited generates revenue from the production and marketing of electrical wires and cables to users in the residential, commercial, construction, telecommunications and oil & gas sectors. These wires and cables are sold through an extensive supply network that includes major distributors, contractors and retailers. The Company generates the bulk of its revenue from the southwest region, although plans are on the way to deepen its market presence across the country with the establishment of new sales hubs in other regions. CTIL prices its specialized cables (especially instrumentation cables used in oil & gas projects) in United States Dollars (USD), thus providing some buffer against exchange rate risks.

Despite the currency redesign and election-induced disruptions to real estate and construction activities, Coleman's revenue grew by 37.6% to ₦54.2 billion in the financial year ended 31 December 2023 (FYE 2023) to reflect robust volume growth on the back of the favourable product mix. This is in addition to the translation gains from its dollar-denominated revenues following the massive depreciation in the value of the local currency. CTIL's revenue has maintained a compounded annual growth rate (CAGR) of 44.6% over the last five years (2019 – 2023). Based on the growing demand for wires and cables, together with its expanding production capacity and clientele base, we expect Coleman's revenue to maintain an upward trajectory despite worsening economic headwinds.

In line with its strategic focus on optimising input cost through the forward purchase of critical raw materials and energy transition (conversion from diesel to gas-powered generators), Coleman's cost of sales to revenue ratio improved to 70.7% in FYE 2023 (2022: 81.5%), thus resulting in a much better gross profit margin of 29.3%, which was higher than previous year's ratio of 18.5%. The Company's operating expenses to revenue ratio inched up slightly to 4.6% in FYE 2023 (2022: 3.2%) to reflect the negative impact of the rising price levels on its administrative and distribution expenses during the year. Overall, CTIL posted a higher operating profit margin of 24.7% in FYE 2023 (2022: 15.3%), which was better than our benchmark for the domestic cable manufacturing industry, while its EBITDA margin in the same period grew to 27% compared to previous year's ratio of 17.5%. Based on its diversified product portfolio as well as its strong brand acceptance and pricing power, we believe that Coleman has sufficient headroom to further grow its operating profit and EBITDA margins.

In FYE 2023, Coleman's other income arising mainly from foreign exchange gains and interest from its fixed income investments amounted to ₦10.4 billion and represented a significant 19.2% of its revenue. Based on the sizeable fixed income investment capital (supported by its cash sales) and its growing dollar earnings, we expect the contribution from this income line to remain elevated, especially with the rising interest and exchange rates in Nigeria.



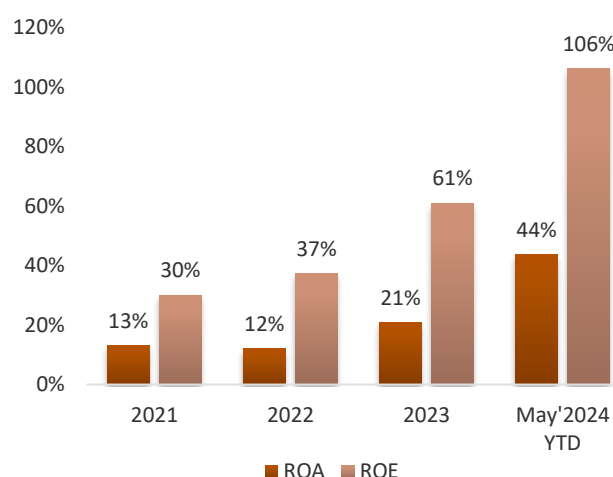
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Unlike many local manufacturers in Nigeria, Coleman posted a zero foreign exchange loss in FYE 2023 to reflect the positive impact of its hedging strategy. Before the floatation of the naira in 2023, the Company changed its payment method for imported raw materials, which was predominantly by way of letter of credit facilities. Currently, Coleman settles about 80% of its import bills on a prepayment basis, while payment for the remaining 20% is against documents². Despite the added funding pressure associated with this new method, management believes that it has helped the Company to significantly minimize its exposure to currency risk.

However, Coleman’s interest expense increased by 237.1% to ₦6.4 billion on the back of the incremental borrowings during the year, thus resulting in a higher finance cost to revenue ratio of 11.8% in FYE 2023 (2022: 4.8%). However, we note positively that the interest income from fixed income investments and foreign exchange gains from its dollar earnings provide sufficient cushion against the rising interest costs. Overall, CTIL’s pre-tax profit margin more than doubled to 32% in FYE 2023 (2022: 14.4%), which we consider good.

As a result of the higher profit levels, Coleman’s return on average asset (ROA) and return on equity (ROE) ratios soared to 20.8% and 61.1% respectively, in FYE 2023 (2022: 12% and 37.3%), and were better than our benchmarks for the industry. Similarly, the Company’s three-year (2021 – 2023) weighted average ROA and ROE ratios of 16.6% and 48% respectively, underscore the steady growth in its profit.

Figure 2: ROA & ROE (2021 – May'2024 YTD)



Coleman’s unaudited accounts for the five months ended 31 May 2024 showed revenue of ₦42.9 billion, which represented about 79% of the entire revenue in 2023. The Company’s operating profit and pre-tax profit margins rose sharply to 45% and 52.1% in the period under review as the efficiency in the procurement of raw materials became evident. Therefore, Coleman’s annualised ROA and ROE ratios rose to 43.7% and 106.2% respectively. As a price setter, we expect Coleman to continue to adapt its product pricing to reflect rising costs. Also, we expect the various backward integration initiatives including the ongoing construction of a smelting plant for the recycling of copper scraps and wood drum making capacities, to further lower its overall cost of production. Therefore, we anticipate a steady improvement in the Company’s profit margin.

In our opinion, Coleman Technical Industries Limited’s profitability is good and sustainable.

² Cash against documents is a payment agreement that involves the bank acting as a neutral entity to hold shipping documents until the importer pays in full.



CASH FLOW

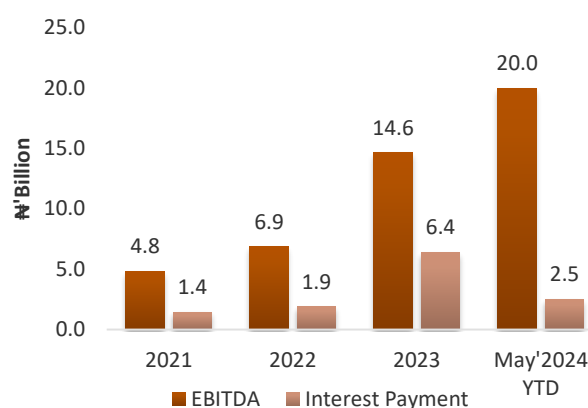
Coleman Technical Industries Limited generates cash from the production and marketing of various cables and wires to major distributors, contractors and retail customers in Nigeria. The bulk of the Company's sales are on a cash or prepayment basis although credit periods of up to 30 days are sometimes granted to key distributors and corporate clients (mostly in the oil & gas sector) that meet its credit risk criteria. CTIL has continued to maintain an average trade debtors' day of less than 5 days over the last three years (2021 – 2023), thus reinforcing its favourable trade terms with customers as well as its efficient collection strategy.

Following the massive depreciation of the naira that trailed the currency reform policies of President Bola Ahmed Tinubu's administration, there has been an upsurge in the invoice prices of imported raw materials. Also, the operational challenges posed by forex shortages and the lingering global supply chain disruptions on both the price and availability of imported raw materials have resulted in huge capital being tied up in closing inventories. In the wake of the country's forex crisis and its expanded scale, Coleman's closing inventories nearly doubled to ₦31.6 billion as at FYE 2023 (2022: ₦16.1 billion).

Despite the huge capital tied up in closing inventories, Coleman Technical Industries Limited's operating cash flow (OCF) rebounded to ₦37.6 billion in FYE 2023 (2022: ₦74.1 million) to underscore the much-improved earnings and higher inflows from suppliers' credit and deposit from customers. The Company's EBITDA more than doubled to ₦14.6 billion in FYE 2023 (2022: ₦6.9 billion) to reflect the expanded scale and strong ability to pass on cost increases to customers. Coleman's trade payables and advance payment from customers grew exponentially to ₦15.9 billion and ₦11.3 billion respectively as at FYE 2023 (2022: ₦160 million and ₦757.7 million) on the back of the favourable trade terms it enjoys with customers and suppliers. The OCF in FYE 2023, which represented 69.4% of the revenue for the year, was more than sufficient to meet both interest and principal obligations due (totalling ₦16.2 billion) as well as dividend payment of ₦1.5 billion, thus reinforcing its adequate capacity to meet maturing debt obligations. Similarly, CTIL's cumulative OCF over three years (2021 – 2023) of ₦39.1 billion was sufficient to cover the cumulative interest and dividend payments of ₦12.6 billion over the same period.

Despite worsening economic headwinds, Coleman posted an operating cash flow of ₦3.8 billion in the five months ended 31 May 2024 (unaudited) to reflect the sustained demand for its products amid the rebound in construction activities across the country. With the favourable market fundamentals, coupled with the ongoing capacity expansion and backward integration initiatives, we expect the sales volume for its wires and cables to remain elevated. Therefore, we expect Coleman to continue to generate sufficient earnings and operating cash flows to meet maturing debt obligations as and when due. In our view, Coleman Technical Industries Limited's overall cash flow position is good.

Figure 3: EBITDA vs Interest Payment



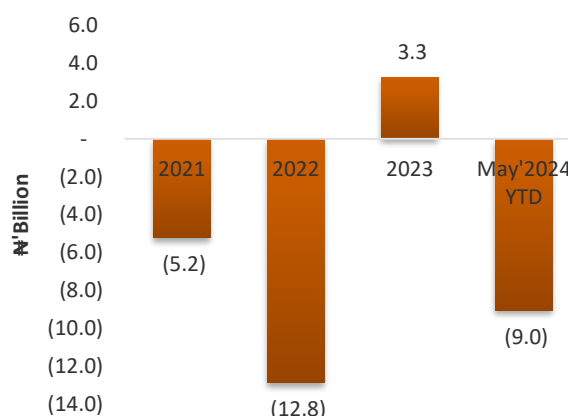
LIQUIDITY PROFILE

As at 31 May 2024 (unaudited), Coleman’s liquidity position from internal sources (unrestricted cash, marketable securities and liquid inventories³) stood at ₦52.3 billion. Furthermore, the Company maintains a good relationship with seventeen commercial and merchant banks, which are reliable sources of external liquidity support for its operations, if needed. This is in addition to the utilised portion of its ₦30 billion Commercial Paper (CP) Programme. The sizeable cash balances as well as the funding support from the banks and the CP Notes, support Coleman’s good liquidity profile.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

In line with its procurement strategy, CTIL maintains a high inventory of copper and aluminum rods to hedge against price volatilities and stockout risks caused by persistent currency depreciation and lingering global supply chain disruptions. As at 31 December 2023, Coleman Technical Industries Limited’s trading assets nearly doubled to ₦38.8 billion (2022: ₦20.8 billion) with inventory alone accounting for about 82% of this amount. The other major components of the Company’s trading assets as at FYE 2023 were advance payment to suppliers (10%) and other debtors and prepayments (8%). With the material devaluation of the naira, which has triggered an upsurge in the invoice prices of imported raw materials, and the worsening forex liquidity in the country, we expect Coleman’s investments in trading assets to remain elevated.

Figure 4: Working Capital Surplus/(Deficiency)



As at FYE 2023, Coleman’s spontaneous financing increased exponentially to ₦40.5 billion (2022: ₦8 billion) to reflect the upsurge in trade payables amid the devaluation-induced higher invoice prices for copper, aluminum and other imported raw materials. This is in addition to the huge advance payment from its oil & gas contracts as well as the pent-up demand and pre-stocking by distributors to hedge against price hikes. The Company’s spontaneous financing was sufficient to fund its trading assets, resulting in a financing surplus of ₦1.7 billion at year-end.

As at FYE 2023, Coleman’s long-term assets grew by 52.1% to ₦57.2 billion following increased investments in property, plant and equipment (PPE) in tandem with its ongoing capacity expansion, while its long-term funds, which comprised equity (48%) and long-term borrowings (52%), amounted to ₦58.7 billion. The Company’s long-term funds were sufficient to cover its long-term assets, leaving a working capital of ₦1.5 billion. Therefore, Coleman posted an overall working capital surplus of ₦3.3 billion as at FYE 2023.

³ In arriving at the liquid (inventory) assets, we applied a 10%, 20% and 30% haircuts on the Company’s finished goods, work-in-progress and raw materials, respectively.

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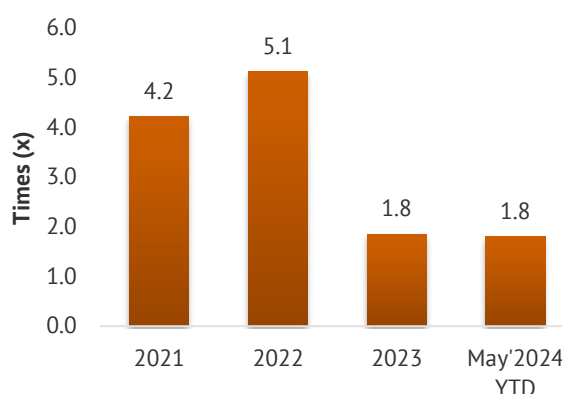
As at 31 May 2024 (unaudited), CTIL’s posted an overall working capital deficiency of approximately ₦9 billion amid the sustained inventory investment during the period, which was funded using CP Notes. Looking ahead, management expects the localization of critical inputs with the coming on stream of the copper and aluminium smelting plant (Sagamu III Project) to improve the Company’s inventory and working capital management.

In our opinion, Coleman Technical Industries Limited’s working capital requires improvement.

LEVERAGE

As at 31 December 2023, Coleman Technical Industries Limited’s total liabilities soared by 78.3% to ₦85.5 billion and comprised non-interest bearing (47%) and interest-bearing liabilities (53%). The interest-bearing debts are concessional loans from the Bank of Industry (BOI) used to support CTIL’s ongoing expansions and Commercial Paper (CP) Notes for working capital needs. During the review period, the Company raised CP Series 7, 8, 9 & 10 Notes totalling ₦26.7 billion under its ₦30 billion CP Programme. The interest rates on these CP Notes, which have tenures of 182 days and 270 days, range from 4.8% to 9.1%. The Company obtained an additional ₦10 billion and ₦5 billion BOI concessional loans through First City Monument Bank (FCMB) and Infrastructure Credit Guarantee Company Limited (InfraCredit), respectively. These loans, which are for 7 years, attract a 9% interest rate per annum. CTIL had no letter of credit (LC) exposures as at FYE 2023. Given the rising interest rate environment in Nigeria, we believe that the concessional interest rates on these BOI loans and the single-digit interest rate on the CP Notes offer significant competitive pricing advantage to the Company. Also, we expect the subsisting two year moratorium on principal repayment and the dispersed maturities of the BOI loans to somewhat ease pressure on the Company’s liquidity.

Figure 5: Net Debt to EBITDA Ratio



Despite the incremental borrowings, Coleman’s interest coverage ratio rebounded to 5.9x (2022: 0.1x) to underscore the upsurge in operating cash flow, while its net debt (interest bearing debts less cash) to EBITDA ratio fell to 1.8x in FYE 2023 (2022: 5.1x) to reflect the improvement in earnings during the period. Although the Company’s interest-bearing debt to equity and net debt to total assets ratios improved to 95.2% and 87.5% respectively, as at FYE 2023 (2022: 232.9% and 90.5%), they were still higher than our benchmarks.

As at 31 May 2024 (unaudited), CTIL’s total liabilities remained relatively flat at ₦86.2 billion (FYE 2023: ₦85.5 billion) as the impact of the additional Series 11, 12, 13 & 14 CP Notes raised during the period was muted by a proportionate reduction in non-interest bearing liabilities (notably trade payables and advance payment from customers). As a result of the higher earnings and profit accretion, the Company’s interest-bearing debt to equity ratio improved markedly to 71.4% as at 31 May 2024 (FYE 2023: 95.2%), while its net debt to EBITDA ratio in the same period remained unchanged at 1.6x. Although CTIL’s interest expense to revenue ratio of



5.9% in the five months ended 31 May 2024 represented a much-improved position from the 11.8% recorded in FYE 2023, it was still slightly above our 5% threshold. Based on its strong earnings forecast and its hedging strategies to reduce the adverse impact of foreign exchange risk on its operations and loan book, we anticipate further improvement in the Company's overall leverage position.

In our view, Coleman Technical Industries Limited's leverage is moderate.

OUTLOOK

The adverse impact of the upsurge in both input and energy costs following the material depreciation of the local currency and the hike in diesel prices and electricity tariffs became evident throughout the economy. Unlike many local manufacturers that posted huge foreign currency losses, Coleman Technical Industries Limited, through a combination of efficiency in raw material procurement and value-based pricing, was able to navigate twin headwinds of commodity price and exchange rate fluctuations in 2023. Looking ahead, the Company estimates revenue of ₦160 billion in FYE 2024, which translates to a 195% year-on-year growth rate on the back of its favourable product mix and expanding capacity. The Company expects its gross profit and EBITDA margins to remain modest at 20% and 17% respectively. With the sustained cost pass-through pricing as well as the ongoing expansion and backward integration strategies, we anticipate some improvement in the Company's overall profitability over the near to medium term.

Based on the strong earnings forecast and the fact that the bulk of its sales are on a cash or prepayment basis, we expect Coleman's good operating cash flow and liquidity positions to be sustained. Although management plans to leverage internal funding sources (advance payment from customers and suppliers' credit) to fund its working capital needs, we expect the additional funding pressure from the devaluation-induced higher purchase price of imported raw materials to continue to weigh on CTIL's overall short-term funding. With the steady decline in its leverage metrics, Coleman continues to demonstrate a satisfactory ability to use debt efficiently. Therefore, we anticipate further improvement in its leverage ratios on the back of the steady growth in revenue, efficient treasury management, which has continued to moderate its finance costs, and sustained profit accretion.

Moving ahead, Coleman plans to deepen its market presence with the ongoing expansion of its product portfolio and the introduction of new SKUs to meet current trends in cable technology. In addition to expanding its house wiring and power cable capacities, CTIL has commenced the production of specialized cables (power instrumentation/marine and fibre optic cables) used mostly in the oil & gas and telecommunication projects. Furthermore, the Company intends to optimise its route-to-market strategy with increased investments in regional distribution centres, while investing aggressively in its backward integration initiative with the ongoing construction of a wood drum-making factory and a smelting plant for the recycling of copper scraps.

Buoyed by its expanding capacity and the planned conversion of its Sagamu plant to a free trade zone, we believe that Coleman is better positioned to deepen market penetration in Nigeria and other markets across

Coleman Technical Industries Limited

the West African region. Based on its expanding geographical spread and revenue streams, we attach a **stable** outlook to Coleman Technical Industries Limited.

FINANCIAL SUMMARY

STATEMENT OF COMPREHENSIVE INCOME	31-DEC-21		31-DEC-22		31-DEC-23		31-MAY-24 UNAUDITED	
	₹'MNS		₹'MNS		₹'MNS		₹'MNS	
TURNOVER	27,310.4	100.0%	39,344.8	100.0%	54,152.9	100.0%	42,940.5	100.0%
OPERATING PROFIT	4,106.6	15.0%	6,031.9	15.3%	13,361.8	24.7%	19,311.5	45.0%
INTEREST EXPENSE	(1,448.4)	-5.3%	(1,894.3)	-4.8%	(6,386.0)	-11.8%	(2,526.0)	-5.9%
PROFIT BEFORE TAXATION	3,667.2	13.4%	5,648.5	14.4%	17,354.8	32.0%	22,372.8	52.1%
TAX (EXPENSE) BENEFIT	(1,103.1)	-4.0%	(1,734.1)	-4.4%	(2,611.9)	-4.8%	(230.2)	-0.5%
PROFIT AFTER TAXATION	2,564.1	9.4%	3,914.4	9.9%	14,743.0	27.2%	22,142.6	51.6%
DIVIDEND	(324.9)	-1.2%	(974.7)	-2.5%	(1,462.5)	-2.7%	-	-
PROFIT RETAINED FOR THE YEAR	2,239.2	8.2%	2,939.7	7.5%	13,280.5	24.5%	22,142.6	51.6%
PROFIT RETAINED B/FWD	2,182.0		4,421.2		7,360.9		20,641.3	
PROFIT RETAINED C/FWD	4,421.2		7,360.9		20,641.3		42,783.9	

STATEMENT OF FINANCIAL POSITION	31-DEC-21		31-DEC-22		31-DEC-23		31-MAY-24 UNAUDITED	
	₹'MNS		₹'MNS		₹'MNS		₹'MNS	
ASSETS								
CASH & EQUIVALENTS	1,858.5	4.7%	4,601.3	7.3%	17,884.4	15.7%	20,961.9	15.3%
TOTAL TRADING ASSETS	11,575.2	29.6%	20,839.6	33.0%	38,793.1	34.1%	48,879.5	35.7%
TOTAL LONG TERM ASSETS	25,698.0	65.7%	37,632.7	59.7%	57,224.0	50.2%	66,942.2	48.9%
TOTAL ASSETS	39,131.7	100.0%	63,073.5	100.0%	113,901.5	100.0%	136,783.6	100.0%
GROWTH	50.7%		61.2%		80.6%		20.1%	
LIABILITIES & EQUITY								
TOTAL INTEREST BEARING LIABILITIES (TIBL)	22,238.1	56.8%	39,880.2	63.2%	44,933.5	39.4%	57,060.4	41.7%
TOTAL NON-INTEREST BEARING LIABILITIES	4,687.1	12.0%	8,047.1	12.8%	40,541.4	35.6%	29,153.9	21.3%
TOTAL LIABILITIES	26,925.2	68.8%	47,927.4	76.0%	85,474.9	75.0%	86,214.4	63.0%
SHAREHOLDERS' EQUITY	12,206.5	31.2%	15,146.2	24.0%	28,426.6	25.0%	50,569.2	37.0%
TOTAL LIABILITIES & EQUITY	39,131.7	100.0%	63,073.5	100.0%	113,901.5	100.0%	136,783.6	100.0%

CASH FLOW STATEMENT FOR Y/E	31-DEC-21		31-DEC-22		31-DEC-23		31-MAY-24 UNAUDITED	
	₹'MNS		₹'MNS		₹'MNS		₹'MNS	
OPERATING ACTIVITIES								
POTENTIAL OPERATING CASH FLOW	4,726		6,635		22,407		25,318	
CASH FROM (USED BY) SPONTANEOUS FINANCING	1,904		2,704		33,150		(11,387)	
CASH FROM (USED BY) WORKING ASSETS	(5,212)		(9,264)		(17,954)		(10,086)	
CASH FROM (USED IN) OPERATING ACTIVITIES	1,418		74		37,604		3,844	
INTEREST PAID	(1,448)		(1,894)		(6,386)		(2,526)	
DIVIDEND PAID	(422)		(319)		(2,119)		0	
OCF AFTER PAYMENTS TO PROVIDERS OF FINANCING	(453)		(2,139)		29,099		1,318	
CASH FROM (USED IN) INVESTING ACTIVITIES	(7,678)		(12,761)		(20,869)		(10,368)	
CASH FROM (USED IN) FINANCING ACTIVITIES	9,114		17,642		5,053		12,127	
CHANGE IN CASH INC/(DEC)	983		2,743		13,283		3,077	
OPENING CASH & MARKETABLE SECURITIES	875		1,858		4,601		17,884	
CLOSING CASH & MARKETABLE SECURITIES	1,858		4,601		17,884		20,962	

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KEY RATIOS	31-DEC-21	31-DEC-22	31-DEC-23	31-MAY-24 UNAUDITED
PROFITABILITY				
SALES GROWTH	92%	44%	38%	90%*
OPERATING PROFIT MARGIN	15%	15%	25%	45%
RETURN ON ASSETS (PRE-INTEREST PRE-TAX)	13%	12%	21%	44%*
RETURN ON EQUITY (PRE-TAX)	30%	37%	61%	106%*
CASH FLOW				
EBITDA AS % OF RETURNS TO PROVIDERS OF FINANCING	258%	311%	172%	792%
EBITDA AS % OF SALES	18%	17%	27%	47%
WORKING CAPITAL				
WORKING CAPITAL NEED (DAYS)	92	119	-	168
OVERALL WORKING CAPITAL DEFICIENCY (DAYS)	69	119	-	77
LEVERAGE				
INTEREST BEARING DEBT TO EQUITY	167%	233%	95%	71%
NET DEBT AS % OF AVERAGE TOTAL ASSETS (EXCLUDING CASH & REVALUATION SURPLUS)	80%	91%	88%	62%
EBITDA COVERAGE (TIMES)	3	4	2	8
NET ASSETS/(LIABILITIES) IN FCY				
NET EXPOSURE TO CURRENCY RISK (\$'000)	5,071	2,994	(2,987)	(4,210)
NET EXPOSURE TO CURRENCY RISK (£'000)	-	-	49	19
NET EXPOSURE TO CURRENCY RISK (€'000)	-	-	88	3
OTHER ADDITIONAL INFORMATION				
STAFF COSTS (H'MILLION)	200	341	623	1,120*
AVERAGE NUMBER OF STAFF	355	445	642	693
STAFF COST PER EMPLOYEE (H'MILLION)	0.6	0.8	1.0	1.6*
CAPITAL EXPENDITURE (H'MILLION)	7,723	12,764	20,872	10,446
DEPRECIATION AND AMORTISATION (H'MILLION)	726	844	1,281	682
EBITDA (H'MILLION)	4,832	6,875	14,643	19,994
AUDITORS	KPMG	KPMG	KPMG	N/A
OPINION	CLEAN	CLEAN	CLEAN	N/A

*Annualised

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 a 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 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.



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