

CREDIT RATING ANNOUNCEMENT

GCR assigns SG Holdings Limited's national scale issuer ratings of AA_{-(NG)}/A1_{+(NG)}, with a Stable Outlook.

Rating action

Lagos, 30 October 2024 - GCR Ratings (GCR) has assigned national scale long and short term issuer ratings of AA_{-(NG)} and A1_{+(NG)}, respectively, to SG Holdings Limited. The outlook on the ratings remains Stable.

| Rated Entity | Rating class | Rating scale | Rating | Outlook |
|---------------------|-------------------|--------------|---------------------|----------------|
| SG Holdings Limited | Long term issuer | National | AA _{-(NG)} | Stable Outlook |
| | Short term issuer | National | A1 _{+(NG)} | |

Rating rationale

The ratings assigned to SG Holdings Limited (SG Holdings or the company) is underpinned by its well-integrated asset base across the downstream oil and gas value chain, which has supported solid earnings growth and robust free cash flows. The ratings also take cognisance of the natural hedge provided by the USD-denominated component to the company's earnings, the margin uplift from its profitable oil vessels leases and is supportive of the modest net debt position.

SG Holdings' focus on the oil and gas ocean transportation niche remains a major underpin of its strong business profile. In addition to increasing its retail footprint and diversification into aviation fuel and liquefied petroleum gas (LPG) trading, the company plans to invest in the construction of a gas plant as well as acquire three mid-sized ships over the next 18 months to enhance its fleet and global reach. As of 30 September 2024 (Q3 2024), the company had made advance deposits of at least USD22 million for a mid-sized oil vessel, expected to be delivered in the near term. While demand and charter rates for oil vessels remains upbeat, geopolitical headwinds pose major risks to operations and profitability. Overall, we expect the company's well established relationships with large corporates and multinational firms to continue to entrench the company's bulk trading foothold.

SG Holdings has maintained a sound earnings trajectory over the review period, with an above-budget annualised turnover growth of 79% in 3Q 2024, following growth of 22% in the 2023 fiscal year. The strong momentum in the current year is being primarily driven by stronger petroleum prices, as well as the higher traded volumes and pricing of both aviation turbine kerosine (ATK) and diesel. There remains product concentration to petroleum in line with market demand, with diesel and ATK accounting for a combined 32% of the company's top line. Profit margins are bolstered by the throughput on storage services and strong leasing income streams from oil vessel charters, which are received net of all ship running expenses borne by the charterer. Looking ahead, we project EBITDA margins will average approximately 24% over the 2024 and 2025 fiscal years, underpinned by the sustained uplift in charter rates. We also anticipate this

will be enhanced by the company's defensive trading segment margins, given the price deregulation of petrol in May 2023, enabling cost reflective pricing of the product.

Leverage remains a positive ratings consideration, reflecting our expectations of a sustained modest net debt position relative to earnings over the outlook period. Gross debt rose to NGN69.2Bn as of Q3 September 2024 (2023: NGN50.2Bn; 2022: NGN10.3Bn). However, cash retention was similarly boosted, as the expected outflows for capex has been delayed by a slowdown in the global supply of oil vessels. Although the company anticipates largely leveraged acquisitions of more vessels and other expansion projects over the next 18 months, we expect the net gearing metrics to remain conservative, supported by strong earnings, sizable cash reserves on hand, and highly liquid investments.

Specifically, we project net debt to EBITDA below 1x (2023: 0.4x) and operating cash flow to debt sustained above 70% over the outlook period. We have taken cognisance of the potential for elevated finance costs, given the planned rise in debt amid the spike in domestic lending rates. However, we expect this to be mitigated by yields from the substantial bank deposits and short term investments as well as expected robust earnings. Accordingly, we forecast net interest coverage will be maintained above 10.0x in 2024 and 2025 (2023: 18.0x). The capital structure is relatively conservative, evidenced by a well-diversified funding pool, long term debt maturities and natural foreign currency risk mitigants provided by sizable USD earnings and liquid assets.

The liquidity assessment remains strong, with sources versus uses coverage estimated at over 2x for the 15-month period to 31 December 2025. This is premised on the sizable cash on hand of over NGN58Bn as well as short term investments of approximately NGN23.5Bn as of Q3 2024. This provides sufficient cover for the estimated debt repayments of NGN18Bn and cumulative capital spending of over NGN80Bn in 2024 and 2025, with some portion of the budgeted capex already prefunded with deposits for new ships of over NGN35Bn as of Q3 2024. On the other hand, the liquidity coverage could be slightly lower if the company implements higher capital spending upon successful debt issuance.

Outlook statement

The Stable Outlook reflects our expectations that plans to increase debt would be balanced by strong cash flows, with a resulting modest impact on the gearing metrics and liquidity coverage.

Rating triggers

There is a limited scope for a rating uplift in the next 12-18 months, as the current ratings have already factored in the strong potential growth and financial profile over the outlook period. This notwithstanding, successful execution of the expansion plans and further business line diversification could further entrench the business profile and support ratings upgrade.

Conversely, the ratings could be downgraded if debt materially escalates beyond expectations, without a commensurate growth in earnings. Specifically, the ratings could be lowered if interest coverage falls below 7.5x, net debt to EBITDA rises above 2.0x, or OCF to debt contracts below 35%. The ratings could also be lowered if liquidity coverage deteriorates below 1.3x for an 18-month period.

Analytical contacts

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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 2024
GCR Country Risk Scores, August 2024
GCR Nigeria Corporate Sector Risk Scores, June 2024

Ratings history

| SG Holdings Limited | | | | | |
|---------------------|--------------|--------------|--------|---------|--------------|
| Rating class | Review | Rating scale | Rating | Outlook | Date |
| Long term issuer | Initial/last | National | n/a | n/a | October 2024 |
| Short term issuer | Initial/last | National | n/a | n/a | October 2024 |

Risk score summary

| Rating components and factors | Risk scores |
|--------------------------------|-------------|
| Operating environment | 6.00 |
| Country risk score | 3.50 |
| Sector risk score | 2.50 |
| Business profile | 0.75 |
| Competitive position | 0.75 |
| Sustainability | 0.00 |
| Financial profile | 2.75 |
| Earnings performance | 0.50 |
| Leverage and capital structure | 1.25 |
| Liquidity | 1.00 |
| Comparative profile | 0.00 |
| Group support | 0.00 |
| Peer analysis | 0.00 |
| Total risk score | 9.50 |

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. |
| Cash Flow | The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities. |
| Cash | Funds that can be readily spent or used to meet current obligations. |
| Credit Rating | An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories. |
| Currency Risk | The potential for losses arising from adverse movements in exchange rates. |
| 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. |
| Diversification | Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in. |
| Downgrade | The rating has been lowered on its specific scale. |
| 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. |
| Interest Cover | Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period. |
| Lease | Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent. |
| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| Liquid Assets | Assets, generally of a short term, that can be converted into cash. |
| 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. |
| Multinational | A company that operates commercially in a number of countries outside of the one wherein it is based. Such companies are often listed on more than one stock exchange or have shares available via depository receipts. |
| 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. |
| Private | An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market. |
| Repayment | Payment made to honour obligations in regard to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt. |
| Risk | The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives. |
| Short Term | Current; ordinarily less than one year. |
| Upgrade | The rating has been raised on its specific scale. |

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 rating has been disclosed to the rated entity.

The rating above was solicited by 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:

- 2023 audited annual financial statement, and prior four years annual financial statements;
- Management accounts for the nine months ended 30 September 2024;
- Updated strategy document;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties; and
- Information specific to the rated entity and/or industry.

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