

SG HOLDINGS LIMITED

Final 2024 Corporate Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

SG HOLDINGS LIMITED

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: 3 September 2024

Expiry Date: 30 June 2025

Previous Rating: N/A

Industry: Midstream and Downstream Oil and Gas

Outline	Page
Rationale	1
Industry Overview	4
Company Profile	5
Ownership, Mgt & Staff	6
Financial Condition Review	8
Outlook	13
Financial Summary	14
Rating Definition	16

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RATING RATIONALE

Agusto & Co. hereby assigns an “A-” rating to SG Holdings Limited (“SG Holdings” or “the Company”). The assigned rating reflects the Company’s good profitability metrics despite prevailing macro-economic challenges, healthy cash flow and liquidity position, low leverage and adequate working capital underpinned by a sturdy equity buffer. The rating also considers SG Holdings’ expanding oil shipping business which offers guaranteed income, superior margins and dollar-denominated earnings. However, the rating is constrained by lingering supply challenges in Nigeria’s downstream oil and gas industry, which limit the Company’s ability to expand its oil trading operations, and its concentrated ownership structure.

SG Holdings Limited was incorporated in 2017 and commenced operations in the same year. The Company engages in the bulk and retail trading of petroleum products including premium motor spirit (PMS), automotive gas oil (AGO) and aviation fuel (ATK) across Nigeria and the West Africa Region. SG Holdings’ operation is strategically structured to cover all critical aspects of oil trading, including importation, bulk trading to other downstream companies and large corporations, and retail trading via a network of 19 retail stations. SG Holdings also owns a jetty for vessel berthing and a tank farm with a storage capacity of 52 million litres. Beyond oil trading, the Company has interests in international oil shipping. Currently, SG Holdings operates five ocean-going tankers with a cumulative deadweight tonnage (DWT) of 451,000. The Company plans to double this fleet within the next five years through an annual expansion strategy. Dollar-denominated inflows from the shipping business have been critical in supporting SG Holdings’ local operations.

In the financial year ended 31 December 2023 (FYE 2023), SG Holdings Limited recorded a 36% growth in revenue to ₦301.2 billion, driven by price adjustments and increased volumes of AGO and ATK. Expansion in the oil shipping business via the addition of a suezmax vessel also contributed significantly to this growth. The Company’s cost-of-sales to revenue ratio declined to 77.4% in FYE 2023 (2022: 80.5%) translating to an improved gross profit margin of 22.6% (2022: 19.5%) to reflect the increased contribution of the shipping business which offers better margins. Similarly, operating profit margin rose by 400 basis points to 15.4% in FYE 2023. The Company posted a significantly higher PBT of ₦46.5 billion in FYE 2023 (2022: ₦24.2 billion), resulting in a PBT margin of 15.4% (2022: 11%). SG Holdings’ pre-tax, pre-interest return on assets (ROA) and pre-tax return on equity (ROE) ratios of 22% and 33% respectively, in FYE 2023 surpassed our thresholds for the industry. Based on plans to

acquire additional vessel to further expand its oil shipping operation, we expect SG Holdings' revenue and profit to continue on a growth trajectory in the near term. In our opinion, SG Holdings Limited's profitability is good.

In the year ended 31 December 2023, SG Holdings Limited's operating cash flow (OCF) increased by 62% to ₦38.7 billion due to a 94% growth in net profits and a significant rise in levels of advance payments from customers. The Company's OCF was sufficient to cover returns to providers of finance 13x, which surpassed our internal benchmark. Furthermore, SG Holdings' OCF to sales ratio during the year under review was 12% (2022: 9%) which was in line with our expectation. Given anticipated increase in net profit from ongoing expansion activities, we expect SG Holdings to continue to generate sufficient cash flows from its operations to meet its obligations. In our opinion, SG Holding's cash flow is good.

As at FYE 2023, SG Holdings' spontaneous financing was insufficient to cover its trading assets, resulting in a working capital need of ₦67.5 billion. However, the Company's long-term funds comprising 73.5% equity and 26.5% debt was sufficient to cover its long-term assets and working capital need, resulting in a working capital surplus of ₦24 billion. In the near term, we expect SG Holdings' working capital to remain adequate supported by its strong equity cushion.

During the 2023 financial year, SG Holdings' Limited obtained a term loan of \$30 million from two commercial banks to fund the acquisition of an additional vessel for its shipping business, increasing its interest-bearing liabilities by 388%. As at FYE 2023, SG Holdings' interest-bearing liabilities totalled ₦50.2 billion and comprised ₦14.2 billion and \$44.9 million in loans across various commercial banks and the African Export Import Bank. Nonetheless, the Company's finance cost to sales ratio remained within our acceptable range at 1.4%. Also, we consider the risk of SG Holdings' significant forex-denominated exposure to be minimal, given that the Company generates revenue in dollars from its shipping business, which matches the currency of the loan. SG Holdings is currently investing in the expansion of both its oil trading and oil shipping business lines. Management expects funding for these projects to increase the Company's local currency debt by 9% and dollar-denominated debt by 40% year-on-year as at 31 December 2024, this is estimated to result in interest-bearing debt to equity ratio of 39%. In our opinion, SG Holdings Limited's leverage is low.

SG Holdings Limited plans to double its fleet of vessels within the next five years, to maximize the gains from its oil shipping business. The Company also intends to achieve self-sufficiency in its shipping operations by establishing a commercial and technical management subsidiary to oversee its fleet. On the oil trading front, SG Holdings is building structures to support the expansion of its aviation fuel operations. Also, given recent agreement between the Federal Government and Dangote Refinery, we expect improvements in the supply of PMS, which is the dominant petroleum product in the country. SG Holdings has the infrastructure to leverage this increased supply to grow its volumes.

Based on the above, we attach a **stable** outlook to SG Holdings Limited.

Figure 1: Company's Strengths, Weakness, Opportunities and Challenges

Strengths
<ul style="list-style-type: none"> •Dollar-denominated revenue from the shipping operations •Good profitability metrics •Strong cash flow position supported by increasing net profit •Adequate working capital underpinned by strong equity buffer •Low leverage •Stable, qualified and experienced management team •Ability to rapidly expand the shipping operations to capitalize on its superior margins •Export earnings from sale to the broader West Africa Market
Weaknesses
<ul style="list-style-type: none"> •Concentrated ownership structure •Limited track record of its shipping operations
Opportunities
<ul style="list-style-type: none"> •Increasing energy demand driven by population growth and urbanization •Resurgence of in-country refining, potentially reducing import dependence, thus leading to foreign exchange savings •Opportunity to leverage the African Continental Free Trade Agreement to expand beyond the West African Market •Potential to diversify into related businesses such as automotive services and convenience stores, leveraging its retail outlets •Opportunity to expand its gas footprint, by capitalizing on growing demand for autogas following PMS subsidy removal
Challenges
<ul style="list-style-type: none"> •Import dependence due to inadequate domestic refining capacity •Absence of adequate infrastructure causing supply chain bottlenecks and other logistics challenges •Insecurity and vandalism of assets discouraging investment •Policy inconsistency, creating operational uncertainties •Escalating inflation, increasing operating costs •Rising interest rates, elevating the cost of borrowing

OVERVIEW OF NIGERIA'S DOWNSTREAM AND MIDSTREAM OIL AND GAS INDUSTRIES

The downstream oil and gas industry involves the processing, refining and distribution of refined petroleum products and natural gas. Companies engaged in the downstream industry include oil refineries, petroleum product distributors, petrochemical plants, natural gas distributors and retail outlets. In 2023, the market value of the global downstream oil and gas industry was estimated at \$2.9 trillion¹

The Nigerian Downstream Oil & Gas Industry ('the Industry') has expanded significantly over the past decade, driven by rising energy demand due to Nigeria's growing population. The Nigerian National Petroleum Corporation Limited (NNPCL) projects that local demand for petroleum products will increase by 14.6% to 17.1 million metric tons (MMT) by 2025, up from 15.1 MMT in 2020. This growth will be fueled by the expanding population, increasing urbanization and rising industrialisation². Despite issuing 62 refinery licenses over the past 18 years, with a proposed combined refining capacity of 2.3 million barrels per day (mbpd), Nigeria still lacks sufficient refining capacity to meet the growing domestic demand. This shortfall is primarily due to inadequate investment owing to the non-cost-reflective pricing of PMS. In 2023, the Federal Government announced the discontinuation of subsidy on PMS to encourage investment in the Industry, and free up financial resources for other sectors. This move was expected to boost the country's refining capacity and reduce dependence on imported petroleum products. However, given the considerable differential between the current landing cost of PMS estimated at over ₦1,000, and the pump price of petrol, which ranges between ₦568 and ₦797³, we posit that subsidies on PMS remain in effect.

Currently, NNPCL is the primary importer of PMS in the country due to a pricing regime that discourages importation by private companies. This limitation hampers PMS marketers' ability to expand operations, as quotas restrict the volume of products they can procure from NNPCL. As a result, there is a growing shift among PMS marketers toward the sale of diesel and aviation fuels, which are not subject to the same market controls. However, maintaining profit margins remains challenging due to rapid fluctuations in exchange rates.

The midstream oil and gas industry encompasses the transportation and storage of crude oil and natural gas before they are refined and processed into fuels. The Nigerian oil shipping landscape is dominated by smaller vessels due to the substantial capital expenditure associated with larger, deep-sea tankers preferred for international transportation of crude and refined oil products. Consequently, the majority of international crude oil cargoes are handled by foreign shipping companies, while indigenous operators largely ply the local waters. SG Holdings Limited is one of few indigenous companies with ownership of ocean-going tankers.

The commencement of commercial operations at the Dangote Refinery alongside efforts to refurbish state-owned refineries and augment modular refining capacities, present substantial growth prospects for both midstream and downstream oil and gas industry players. This development is anticipated to augment domestic product availability, mitigating foreign exchange volatility and driving increased sales volumes, thereby bolstering the overall financial performance of downstream operators. Also, Dangote refinery's commencement of diesel and aviation fuel exports has expanded opportunities within the maritime oil transportation sector.

Based on the above, we attach a **stable** outlook to Nigeria's downstream and midstream oil and gas industries.

¹ <https://www.thebusinessresearchcompany.com/report/oil-downstream-products-global-market-report#:~:text=Global%20oil%20downstream%20products%20market%20size%20is,segmented%20as%20by%20type%2C%20refined%20petroleum%20products%2C>

² Nigeria Oil and Gas Downstream Market – Growth, Trends, Covid-19 impact, and forecasts (2023 – 2028)

³ Agusto & Co. Research

COMPANY PROFILE

SG Holdings Limited ("SG Holdings" or "the Company") was incorporated in 2017 and commenced operations in the same year. The Company operates in Nigeria's midstream and downstream oil and gas industry, engaging in the bulk and retail sale of fuels, including premium motor spirit (PMS), automotive gas oil (AGO), and aviation fuel (ATK) within Nigeria and the broader West African market. The Company also has interests in international shipping of crude oil and refined petroleum products. SG Holdings Limited is headquartered in Lagos, Nigeria, with branches in Port Harcourt and Abuja. The Company also has offices in Accra (Ghana), Lomé (Togo) and Abidjan (Côte d'Ivoire) which facilitate product distribution across the West African region.

SG Holdings Limited's downstream business is structured to cover all the critical elements of the trade. The Company holds an import license and engages in bulk petroleum product sales to other industry players and corporate clients. In addition, SG Holdings engages in retail sales of PMS, AGO and ATK through its network of 19 retail stations nationwide, operating under the Petrosafe brand. Currently, the Company sells approximately 90% of its products in bulk at the depot, but plans to expand its retail footprint to achieve at least 70% of sales through retail channels, in order to capitalize on higher retail margins. To support its operations, SG Holdings owns and operates marine assets including vessels, tugboats, and a 30,000 metric ton (MT) capacity jetty. Furthermore, the Company's tank farm, located at Ijegun, Lagos State, boasts a 52 million-liter storage capacity across five product tanks and a holding bay capable of holding 200 trucks, to facilitate efficient product handling.

In 2020, SG Holdings expanded into coastal shipping of petroleum products to diversify earnings and generate foreign exchange to meet the forex needs of its local operations. This strategic move has significantly mitigated the Company's exposure to foreign exchange (forex) risk in its oil and gas trading segment, as the shipping business provides forex to the trading operations through a transfer-pricing model, at rates decided by management. The Company currently operates five ocean-going tankers with a cumulative deadweight tonnage (DWT) of 451,000. Counterparties to its shipping business are international oil majors and shipping companies including British Petroleum (BP), Shell UK, Litasco and Union Maritime.

SG Holdings' fleet of ocean-going vessels includes two suezmax vessels for transporting crude oil and three mid-range vessels for moving refined products. The vessels are: MT Adebomi with a deadweight tonnage (DWT) of 165,000, Ijemo (158,000 DWT), Montagu (46,000 DWT), Westmore (46,000 DWT) and Esther (36,000 DWT). SG Holdings partners with commercial managers who are responsible for business development and charter contract negotiations with the charterers, and technical managers who handle the maintenance and repairs of its fleet among others. The Company's technical managers are Alpha Shipping and Atlantis Shipping, while Clarksons Shipping doubles as both commercial manager and technical manager for one of its vessels. The average age of the vessels in the fleet is 17 years, with the two oldest vessels aged 19. The vessels have a useful life of 50 years. However, SG Holdings' strategy is to sell its vessels at 25 years when it can obtain about 20% of initial value from the scrap.

SG Holdings plans to double its fleet over the next five years by acquiring a new vessel each year. Management has disclosed that the process of purchasing an additional vessel for 2024 is underway. The Company also intends to establish a technical management company in London and Dubai in the medium term, to enable self-management of its own fleet of vessels. In addition, SG Holdings plans to offer refueling services at three major Nigerian airports – Lagos, Abuja and Port Harcourt within the next two years. The Company is currently constructing aviation fuel depots at these airports.

OWNERSHIP, GOVERNANCE, MANAGEMENT AND STAFF

As at 30 June 2024, SG Holdings Limited had an authorized share capital of 10 billion ordinary shares with a nominal value of ₦1 per share. Nine billion two hundred twenty-nine million two hundred and eighty-seven thousand (9,229,287,000) of these have been issued and fully paid up. Dr. Odubiyi Abimbola holds 57% of the issued shares, while Mr. Matthew Somoye holds 42%. The remaining shares are held by two other shareholders. In our opinion, SG Holding’s ownership structure is concentrated.

As at 30 June 2024, SG Holdings Limited had a 12-member Board of Directors (“the Board”) comprising the Chairman, Dr. Abimbola Odubiyi, the Managing Director/CEO, Mr. Matthew Somoye, six executive directors and four non-executive directors. The Board functions via four standing committees namely – the Board Establishment, Human Capital, Remuneration and Governance Committee; the Finance and General-Purpose Committee; the Technical Advisory Committee; and the Audit and Risk Management Committee. There were no changes to the Board composition in the year under review.

Table 1: SG Holdings’ Current Directors

Dr. Abimbola Odubiyi (PhD)	Chairman
Mr. Matthew Somoye	Managing Director
Mr. Benedict Omonua	Executive Director – Finance Strategy and Investment
Engr. Barry Esimone	Executive Director – Engineering and Shipping Services
Mr. Henry Akeni	Executive Director – Risk Management
Mrs Nkechi Akunyili	Executive Director – Treasury and Intra African Businesses
Mr. Samson Agbaka	Executive Director – Shared Services
Mrs Judith Ogbara	Executive Director – Public Sector Businesses
Prince Adesoji Ologbenla	Non-Executive Director
Mrs Etuk Mayen	Non-Executive Director
Mr. Temitayo Ojo	Non-Executive Director
Mr. Babatunde Adegoke	Non-Executive Director

Source: SG Holdings Limited

Management Team

The Managing Director is supported by ten management staff with an average experience of over 20 years, spanning finance, oil and gas, risk management, business development, consulting and human resources. Agusto and Co. considers SG Holdings Limited’s management team to have the experience and expertise required to provide strategic direction for the Company.

Mr. Matthew Oladeji Somoye is the Managing Director (MD) / Chief Executive Officer (CEO) of SG Holdings Limited. He holds a Bachelor of Science (BSc) and a Master of Science (MSc) degree in Economics from the University of Lagos, Nigeria, as well as an MSc in Finance from the University of Liverpool, United Kingdom. In addition, he has attended management courses at the Wharton Business School, Stanford Business School and Harvard Business School, all in the United States. Prior to his time in SG Holdings, Mr. Somoye worked in the Nigerian banking industry for over 24 years, culminating in his role as Group General Manager in charge of finance and performance management at the United Bank for Africa.

Table 2: Other Members of SG Holdings Limited's Management Team

Name	Position
Mr. Benedict Omonua	Executive Director – Finance, Strategy and Investment
Engr. Barry Esimone	Executive Director – Engineering and Shipping Services
Mr. Henry Akeni	Executive Director – Risk Management
Mrs Judith Ogbara	Executive Director – Public Sector Businesses
Mrs Nkechi Akunyili	Executive Director – Treasury and Intra African Businesses
Mr. Samson Agbaka	Executive Director – Shared Services
Mr. Samson Oyedemi	Head, Risk Management
Mrs Aramide Kehinde-Abel	Head, Human Capital
Mr. Michael Onalise	Head, Internal Control
Mr. Tosin Afonja	Head, Depot Operations

Source: SG Holdings Limited

As at 31 December 2023, SG Holdings Limited had a staff strength of 284 personnel (2022: 259). The Company's staff cost represented 0.8% of turnover, and average cost per employee was ₦9 million (2022: 7million). SG Holdings recorded an average contribution per employee of ₦160 million which was sufficient to cover the average cost per employee 18x, depicting a good staff productivity level in our view.

FINANCIAL CONDITION REVIEW

ANALYSTS' COMMENTS

We have analysed the audited financial statements of SG Holdings Limited for the three years ended 31 December 2023 and the unaudited management accounts for the period ended 30 June 2024

PROFITABILITY

SG Holdings Limited generates revenue from the bulk and retail sale of refined petroleum products including Petroleum Motor Spirit (PMS), Automotive Gas Oil (AGO) and Aviation Fuel (ATK) to other downstream operators, large corporations and individual consumers in Nigeria. The Company also sells petroleum products in bulk to offtakers in Ghana, Côte d'Ivoire, Mali, Togo and Burkina Faso. Approximately 10% of SG Holdings' downstream revenue comes from its West African operations. In addition, the Company earns income from the leasing of ocean-going vessels to international oil and gas companies, for the transportation of crude and refined oil products.

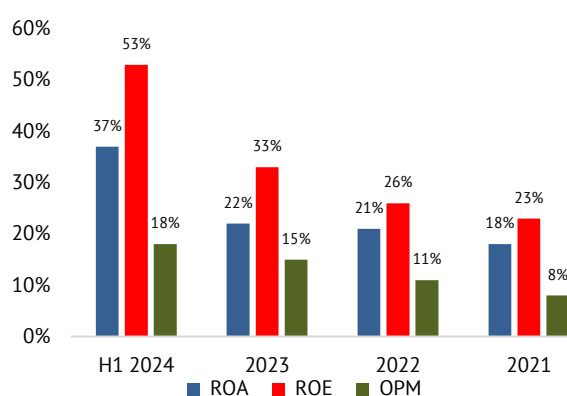
In the financial year ended 31 December 2023 (FYE 2023), SG Holdings Limited recorded a 36% growth in revenue to ₦301.2 billion. PMS sales contributed 43% to total revenue, AGO (32%), shipping (19%) and ATK (6%). Growth in revenue was driven by significant upward movements in the prices of AGO, ATK and PMS. In addition, the Company achieved increased sales volumes of Automotive Gas Oil and Aviation Fuel, despite a 51% year-on-year decline in volumes of Petroleum Motor Spirit. Following the Federal Government's deregulation of the PMS market and subsequent discontinuation of subsidy payments to oil marketers, importation of the product by private companies has become unprofitable due to the inability to implement cost-reflective pricing in the face of Nigerian National Petroleum Company Limited's (NNPCL) lower price points. Consequently, SG Holdings had to rely on its product allocation from NNPC Limited for most of the year, hence the decline in PMS volumes. The Company's growth was further boosted by a 186% increase in revenue from its shipping business, which rose from ₦19.6 billion in 2022 to ₦56.1 billion in 2023. This upsurge is attributed to business expansion through the acquisition of an additional suezmax vessel, and favorable exchange rates, as earnings from the oil-shipping business are dollar-denominated.

SG Holdings Limited's cost of sales majorly comprises the purchase and transportation cost of petroleum products for its downstream business, and the fees paid to commercial and technical managers of its fleet in the oil transportation business. SG Holdings imports all of its AGO and ATK requirements, as well as a portion of its PMS needs. However, due to the removal of subsidy on PMS and the uncompetitive pricing of the product in Nigeria, all of the Company's imported PMS is sold in the other West African countries. The Company's cost of sales is therefore impacted by fluctuations in the foreign exchange (forex) market. In the financial year ended 31 December 2023, SG Holdings' cost-of-sales to revenue ratio declined to 77.4% (2022: 80.5%), translating to a gross profit margin of 22.6% (2022: 19.5%), despite the foreign exchange challenges that characterized the year. This improvement is attributed to increased contribution of the shipping business, which offers superior margins. Furthermore, the Company effectively managed forex-related cost volatilities in the downstream business through its in-house transfer pricing model. This system facilitates the flow of foreign exchange from the oil shipping business, to the oil trading business, ensuring both the availability and relative price stability of forex for downstream operations. During the same year, SG Holdings' operating profit margin increased to 15.4% (2022: 11.4%), supported by the 'Time Charter Model' under which the Company operates its shipping business, which minimizes its operating costs. In the near to medium term, we expect the Company's gross and operating profit margins to continue to improve, supported by ongoing expansion of the shipping business.

SG Holdings Limited earned other income of ₦4.4 billion in FYE 2023 (2022: ₦2.6 billion) from its tank farm and jetty, and the sale of Lube oil, Liquefied Petroleum Gas (LPG) and Dual-Purpose Kerosene (DPK) from its retail stations. Also included in other income was ₦1.4 billion from interest earnings and foreign exchange gains. SG Holdings' other income represented 1% of revenue earned during the year. Considering that SG Holdings Limited has structures in place to support continued earnings from these business lines, we consider its other income to be sustainable.

On the whole, the Company posted a profit before tax (PBT) of ₦46.5 billion in FYE 2023 (2022: ₦24.2 billion), which translated to a higher pre-tax profit margin of 15.4% (2022: 11%). Despite the improved margins, SG Holdings Limited's pre-tax pre-interest return on assets (ROA) remained flat year-on-year at 22% due to a 71% increase in asset base from the addition of a new vessel to the Company's fleet. However, pre-tax return on equity (ROE) increased to 33%, up from the 26% recorded in 2022. We note favourably that the Company's ROA and ROE surpassed our upper threshold for companies in the down-stream oil and gas industry.

Figure 2: ROA, ROE and OPM (H1 2024 – H1 2021)



In the period ended 30 June 2024 (H1 2024), SG Holdings Limited recorded a turnover of ₦279.6 billion naira, which represented a 77% achievement of its 2024 full year budget. The Company earned 20% of this revenue from its oil transportation business, 11.8% from sales of petroleum products in the West African Region, while the sale of petroleum products in Nigeria accounted for the rest. In the same period, the Company posted a gross profit margin of 23.1% and an operating profit margin of 17.7%, while PBT margin was 17.9%. SG Holding's annualized ROA and ROE in H1 2024 were 37% and 53% respectively, which surpassed our internal benchmarks. In the near term, we expect the Company to sustain its revenue growth, primarily driven by ongoing expansion of its oil shipping operations. In addition, the recent agreement between the Nigerian Government and the Dangote refinery to secure consistent naira-denominated crude supply is anticipated to boost PMS availability, further driving top-line growth. We also expect margins to continue to improve, as the oil shipping segment's contribution to overall profitability strengthens.

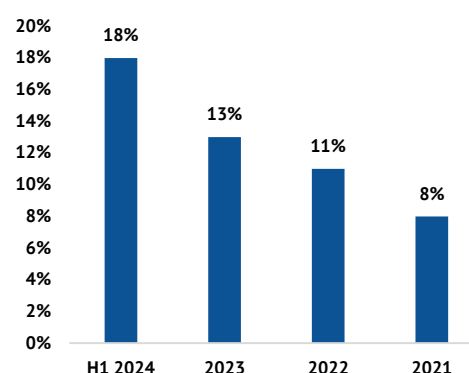
In our opinion, SG Holdings Limited's profitability is good.

CASH FLOW

SG Holdings Limited generates cash from the sale of PMS, AGO and ATK, as well as from leasing its ocean-going tankers to oil and gas companies. The Company enjoys up to 90-day credit from some of its foreign suppliers, allowing it to sell the products before payments are due. However, for products purchased from NNPC, which accounts for about 55% of total cost of sales, the Company has to make payment in advance. Sales of petroleum products in Nigeria are on a pre-order and cash-and-carry basis, except for blue-chip corporations and international oil companies, which are granted up to 30 days of credit. The Company exports to the West African market on a standby letter of credit basis, which is effectively a cash-and-carry arrangement, while revenue from the shipping business accrues daily, with payment made monthly or quarterly in arrears depending on the specific contract terms. The company's average receivables collection period in the year under review was 25 days, which was in line with its credit policy, and payable days was 16.

SG Holdings' operating cash flow (OCF) in the year under review increased by 62% to ₦38.7 billion, attributable to the 94% increase in after-tax profits, and a significant rise in the level of advance payments from customers. This was sufficient to cover returns to providers of finance (RTPOF) comprising solely interest payments 13x, surpassing our internal benchmark of 3x. Over the past three years (2021 to 2023), the Company has consistently generated enough cash from its operations to cover RTPOF. Cumulatively, the Company's OCF of ₦74.5 billion generated between 2021 and 2023, was sufficient to cover its aggregate returns to providers of finance 5x, highlighting its good repayment capacity. Also, the Company posted an OCF to sales ratio of 12% as at FYE 2023 (2022: 9%) which we consider satisfactory.

Figure 3: OCF to Sales Ratio



In H1 2024, SG Holdings' OCF was ₦49.4 billion, and remained sufficient to cover returns to providers of finance 10x. The Company's OCF represented 18% of revenue, which we consider to be good. In the near term, we expect SG Holdings to continue to generate enough cash from its operations to fund its obligations, supported by increased after-tax profits.

In our view, SG Holdings Limited's cash flow position is good.

LIQUIDITY PROFILE

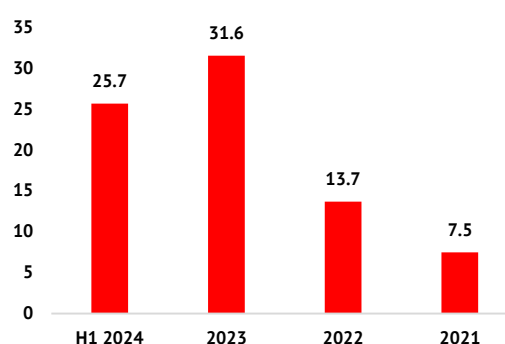
As at 31 December 2023, SG Holdings' liquidity position which comprised ₦31.6 billion in cash and ₦31.2 billion in other liquid assets, was sufficient to cover its maturing short-term obligations 8x, which we consider to be good. Given the Company's substantial cash-based operations, and its access to a committed undrawn credit line of ₦29.4 billion, we consider SG Holdings Limited to be well positioned to meet its maturing obligations as and when due.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at FYE 2023, SG Holdings Limited’s trading assets stood at ₦110 billion, representing a 36% increase from its 2022 position (₦81.2 billion). The Company recorded year-on-year increments on all items of trading assets, with significant contributions from advance payments and inventory, which increased by 80% and 57%, respectively. This growth was primarily driven by substantial price hikes in petroleum products due to naira devaluation and the partial removal of subsidy on PMS.

The Company’s spontaneous financing as at 31 December 2023 increased by 65% to ₦42.6 billion (2022: ₦25.8 billion) largely due to a 112% increase in advance payments from customers, driven by product shortages. Despite this growth, SG Holdings’ spontaneous financing was insufficient to cover its working assets, resulting in a working capital need of ₦67.5 billion. Given the Company’s continuous reliance on NNPC for the supply of PMS, which requires advance payments, and subsisting unfavourable trade terms with some foreign suppliers, we do not anticipate any improvement in its level of spontaneous financing in the near term.

Figure 4: Overall Working Capital Position (₦Billions)



As at 31 December 2023, SG Holdings’ long-term assets grew by 160% to ₦90 billion (2022: 34.6 billion), due to the addition of a seuzmax vessel to its fleet. Similarly, as at FYE 2023, the Company’s long-term funds increased by 82% to ₦189.2 billion (2022: 103.7 billion). This growth was driven by increments in equity from profit accretion, and a \$35 million loan obtained during the year. The Company’s long-term funds comprising 73.5% equity and 26.5% debt were more than sufficient to cover its long-term assets, and working capital need. Overall, SG Holdings Limited closed the year with a working capital surplus of ₦24 billion.

As at 30 June 2024, the Company’s spontaneous financing of ₦45 billion was inadequate to cover its working assets of ₦118.9 billion, resulting in a working capital need of ₦73.8 billion. However, as at the same date, the Company’s long-term funds were sufficient to cover its long-term assets and working capital need, resulting in an overall working capital surplus of ₦25.8 billion. In the near term, we expect the Company’s working capital position to remain adequate, supported by its strong equity cushion.

SG Holdings Limited’s working capital is adequate in our opinion.

LEVERAGE

As at 31 December 2023, SG Holdings Limited's funding structure comprised interest-bearing liabilities (22%), non-interest-bearing liabilities (18%) and equity (60%). Given the Company's financing policy, which sets a debt funding limit of 40% for all investment and expansion activities, we expect its equity cushion to remain strong in the near term.

In 2023, SG Holdings' Limited obtained a term loan of \$30 million from two commercial banks, to fund the purchase of a suezmax vessel for the expansion of its oil shipping operation. This increased the Company's interest-bearing liabilities by 388% year-on-year. As at 31 December 2023, SG Holdings Limited's interest-bearing liabilities was ₦50.2 billion and comprised loans of ₦14.2 billion and \$44.9 million across various commercial banks and the African Export Import Bank (Afriexim). Agusto & Co. considers the risk of SG Holdings' significant forex-denominated exposure to be minimal, given that the Company's shipping business is priced in dollars, and therefore matches the currency of the loan.

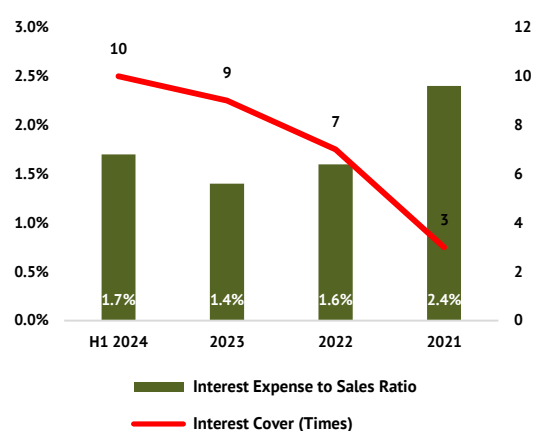
As at 31 December 2023, the Company's interest-bearing debt (net of cash) as a percentage of equity was 13%, which was better than our expectation. Also, SG Holdings recorded a finance cost to sales ratio of 1.4% as at FYE 2023 (2022: 1.6%) remaining within our benchmark of not more than 5%. In the same year, SG Holdings' interest cover increased to 9x (2022: 7x), exceeding our internal benchmark of 3x.

In H1 2024, SG Holdings Limited obtained an import finance facility of ₦17 billion to fund letters of credit for product importation, thus raising the level of the Company's interest-bearing liabilities to ₦63 billion. However, the Company's interest cost to sales ratio remained within our benchmark at 1.7%. Also, interest cover was 10x, which surpassed our upper threshold.

SG Holdings Limited is in the process of purchasing an additional vessel in line with its annual fleet expansion strategy. Also, the Company is currently constructing aviation fuel depots at Lagos, Port Harcourt and Abuja airports to support its planned expansion into offering into-plane refuelling services. These projects will be funded by a mix of equity and debt. Management expects funding for these projects to increase the Company's local currency debt by 9% and dollar-denominated debt by 40% year-on-year as at 31 December 2024. This is estimated to result in an interest-bearing debt to equity ratio of 39%.

In our opinion, SG Holdings Limited's leverage is low.

Figure 5: Interest Expense to Sales Ratio & Interest Cover



OUTLOOK

Nigeria's downstream oil and gas industry has significant growth potential, which is being hindered by structural challenges. The industry grapples with inadequate refining capacity and an unfavorable pricing regime, which has made it difficult to meet the rising domestic demand for petroleum products driven by population growth and urbanization. In 2023, the Nigerian Government withdrew subsidy on premium motor spirit (PMS) to stimulate investment in the industry and reduce reliance on imports. However, implementation of this policy has been inconsistent. The Nigerian National Petroleum Company Limited (NNPCL) is currently the primary importer of PMS (the dominant petroleum product) in the country, as restrictive pricing regimes discourage private companies' participation. Consequently, petroleum marketers now depend majorly on their product quotas from the NNPCL to drive their business, which has limited their ability to expand. Nevertheless, a recent agreement between the Nigerian Government and Dangote Refinery to supply crude oil priced in naira to the refinery, is expected to address supply constraints and create new growth opportunities for industry players.

SG Holdings Limited has sustained revenue growth and improved profitability despite the challenges in the downstream oil and gas industry. This has been driven primarily by its expansion into international oil shipping, which offers guaranteed income through fixed-rate contracts that typically span four to five years, and provides dollar inflows that support its downstream operations. To sustain this growth trajectory, the Company plans to double its current fleet of ocean-going tankers in the next five years via an annual fleet expansion strategy. Furthermore, SG Holdings intends to set up technical and commercial management subsidiaries in Dubai and London in the medium term, to oversee its fleet, as well as offer third party services. On the downstream front, the Company is expanding its aviation fuel business via the construction of aviation fuel depots at the airports in Port Harcourt, Lagos and Abuja, with the Lagos depot slated for completion in 2024. SG Holdings also plans to drive its PMS volumes by expanding into more African countries. These expansion activities are expected to drive continued revenue and profitability growth for the Company in the near to medium term.

We project that rising net profits anticipated from ongoing expansion activities will continue to bolster the Company's cash flow and liquidity positions in the near term. In addition, we expect SG Holdings' working capital to remain adequate, underpinned by its strong equity buffer. Furthermore, given plans by the Company to raise more debt in the near term to fund its expansion activities, we anticipate an increase in its debt profile. However, the Company has a strong enough buffer to cushion this planned debt injection.

Based on the above, we attach a **stable** outlook to SG Holdings Limited.

FINANCIAL SUMMARY

<u>STATEMENT OF COMPREHENSIVE INCOME</u>	31-Dec-21		31-Dec-22		31-Dec-23		30-Jun-24 (Unaudited)	
	R'million		R'million		R'million		R'million	
REVENUE	151,294	100%	220,883	100%	301,225	100%	279,586	100%
GROSS PROFIT	23,277	15%	42,988	19%	68,176	23%	64,556	23%
OPERATING PROFIT	12,017	8%	25,173	11%	46,418	15%	49,353	18%
INTEREST EXPENSE	(3,583)	-2%	(3,508)	-2%	(4,339)	-1%	(4,820)	-2%
PROFIT BEFORE TAXATION	16,290	11%	24,269	11%	46,511	15%	50,154	18%
TAX (EXPENSE) BENEFIT	(656)	0%	(792)	0%	(938)	0%	(468)	0%
PROFIT AFTER TAXATION	15,634	10%	23,476	11%	45,573	15%	49,687	18%
DIVIDEND	(4,615)	-3%	-	0%	-	0%	-	0%
PROFIT RETAINED FOR THE YEAR	11,019	7%	23,476	11%	45,573	15%	49,687	18%
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		-		-	
PROFIT RETAINED B/FWD	49,721		60,740		84,216		129,789	
PROFIT RETAINED C/FWD	60,740		84,216		129,789		179,476	

<u>STATEMENT OF FINANCIAL POSITION</u>	31-Dec-21		31-Dec-22		31-Dec-23		30-Jun-24 (Unaudited)	
	R'million		R'million		R'million		R'million	
ASSETS								
CASH & EQUIVALENTS	7,499	7%	13,707	11%	31,618	14%	46,296	16%
TOTAL TRADING ASSETS	75,023	69%	81,236	63%	110,226	48%	118,919	40%
TOTAL LONG-TERM ASSETS	26,856	25%	34,649	27%	90,067	39%	131,612	44%
TOTAL ASSETS	109,377	100%	129,591	100%	231,910	100%	296,827	100%
<i>Growth</i>	22.9%		18.5%		79%		28%	
LIABILITIES & EQUITY								
TOTAL INTEREST-BEARING LIABILITIES	15,170	14%	10,295	8%	50,200	22%	63,034	21%
TOTAL NON-INTEREST-BEARING LIABILITIES	24,238	22%	25,851	20%	42,693	18%	45,091	36%
TOTAL LIABILITIES	39,408	36%	36,146	28%	92,892	40%	108,125	36%
SHAREHOLDERS' EQUITY	69,969	64%	93,445	72%	139,018	60%	188,705	64%
TOTAL LIABILITIES & EQUITY	109,377	100%	129,591	100%	231,910	100%	296,830	100%

<u>CASH FLOW STATEMENT</u>	31-Dec-21		31-Dec-22		31-Dec-23		30-Jun-24 (Unaudited)	
	R'million		R'million		R'million		R'million	
OPERATING ACTIVITIES								
POTENTIAL OPERATING CASH FLOW		20,629		28,943		52,318		55,741
WORKING CAPITAL CHANGES:								
CASH FROM (USED BY) SPONTANEOUS FINANCING		4,277		1,613		16,841		2,399
CASH FROM (USED BY) TRADING ASSETS		(12,481)		(6,214)		(28,990)		(8,693)
CASH FROM (USED IN) OPERATING ACTIVITIES		12,424		24,343		40,170		49,447
RETURNS TO PROVIDERS OF FINANCING (RTPOF)								
INTEREST PAID		(3,583)		(3,508)		(4,339)		(4,820)
DIVIDEND PAID		(4,615)		-		-		-
OPERATING CASH FLOW AFTER RTPOF		4,227		20,835		35,831		44,627
CASH FROM (USED IN) INVESTING ACTIVITIES		(6,891)		(9,752)		(57,825)		(42,779)
CASH FROM (USED IN) FINANCING ACTIVITIES		5,089		(4,875)		39,905		12,834
CHANGE IN CASH INC/(DEC)		2,425		6,208		17,911		14,681
OPENING CASH & MARKETABLE SECURITIES		5,074		7,499		13,707		31,618
CLOSING CASH & MARKETABLE SECURITIES		7,499		13,707		31,618		46,299

KEY RATIOS	31-Dec-21	31-Dec-22	31-Dec-23	30-Jun-24 (Unaudited)
-				
PROFITABILITY				
SALES GROWTH	32%	46%	36%	86%
OPERATING PROFIT MARGIN	8%	11%	15%	18%
RETURN ON ASSETS (PRE-INTEREST PRE-TAX)	18%	21%	22%	37%
RETURN ON EQUITY (PRE-TAX)	23%	26%	33%	53%
CASH FLOW				
OCF AS % OF RETURNS TO PROVIDER OF FINANCING	152%	694%	926%	1026%
OCF AS % OF SALES	8%	11%	13%	18%
WORKING CAPITAL				
WORKING CAPITAL NEED (DAYS)	123	92	82	96
OVERALL WORKING CAPITAL DEFICIENCY (DAYS)	-	-	-	-
LEVERAGE				
NET DEBT AS % OF AVERAGE TOTAL ASSETS	34%	21%	39%	27%
TOTAL LIABILITIES TO EQUITY	56%	39%	67%	57%
OTHER ADDITIONAL INFORMATION				
STAFF COSTS (₦' MILLION)	1,102	1,842	2,444	2,235
AVERAGE NUMBER OF STAFF	212	259	284	289
STAFF COSTS PER EMPLOYEE (₦' MILLION)	5	7	9	8
CAPITAL EXPENDITURE (₦' MILLION)				
CAPITAL EXPENDITURE (₦' MILLION)	8,260	14,447	2,406	5,833
DEPRECIATION AND AMORTISATION (₦' MILLION)	1,412	1,959	2,406	1,235
AUDITORS				
AUDITORS	Ojewole O. & Co.	Ojewole O. & Co.	Ojewole O. & Co.	Unaudited
OPINION				
OPINION	CLEAN	CLEAN	CLEAN	N/A

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 a 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.

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