

# North South Power Company Limited

Nigeria Corporate Analysis

September 2018

Rating class	Rating scale	Rating	Rating Outlook	Expiry date
Long term	National	A <sub>(NG)</sub>	Stable	August 2019
Short term	National	A2 <sub>(NG)</sub>		

## Financial data:

(USD'm comparative)^

	31/12/16	31/12/17
N/USD (avg.)	252.7	305.3
N/USD (close)	304.5	305.5
Total assets	285.8	328.1
Total debt	39.0	29.0
Total capital	92.8	111.4
Cash & equiv.	13.8	5.8
Turnover	111.0	108.5
EBITDA	81.2	58.5
NPAT	53.1	47.0
Op. cash flow	13.4	19.2
Market share:	8%*	
Market cap	n.a	

^Central Bank of Nigeria exchange rate

\*Management estimate

North South Power Company Limited  
("NSP", or the "Company")

## Rating history:

### Initial/Last rating (August 2017)

Long term: BBB<sub>(NG)</sub>Short term: A2<sub>(NG)</sub>

Outlook: Stable

## Rating methodologies/research

Global Master Criteria for rating Corporate entities (updated February, 2018)

Glossary of terms/ratios, February 2018

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## Summary rating rationale

- NSP has established itself as a major private electricity supplier in Nigeria. Total generating capacity is 600 Megawatt ("MW"), whilst a number of projects in the pipeline could see generating capacity more than double over the medium term. NSP is also diversifying its energy sources, leveraging strong technical backing off its diverse shareholder base and an experienced management team.
- The upward growth trajectory was sustained in FY17, as revenue registered at a new high, largely underpinned by the full-year impact of contractual repricing. Moreover, long term offtake agreements contribute to the stability and predictability of revenues.
- Despite an uptick in total expenses, at over 50% in all periods under review, the EBITDA margin is robust and provides substantial headroom to absorb potential earnings shocks. Thus, interest coverage has strengthened substantially and is expected to remain strong. However, the large charges related to debtors impairments and currency fluctuations remain a concern. NSP expects further margin enhancement to be driven by the planned increase in capacity over the medium term.
- Although, around 70% of receivables date to the execution of improved tariff agreement with Nigerian Bulk Electricity Trading PLC ("NBET") in 2016, the major constraint to NSP's credit rating remains the rising debtors' book, with another substantial working capital absorption in FY17. Positively, the intervention from the Central Bank of Nigeria through disbursements from the Payment Assurance Fund has somewhat eased the liquidity pressure with the prompt settlement of around 80% of current invoices, while a portion of the legacy debt was paid in 1H FY18. The FGN continues to explore options to settle the outstanding obligation.
- In addition, efforts to open the industry up to competition and allow generating companies to sell directly to eligible customers are positively considered, as this will serve to diversify/mitigate revenue collection risks. Sustaining the current trend is critical to strengthening the cash flow position of generating companies and enhancing financial strength.
- With no major capex activity in the last couple of years, gross debt reduced to N8.9bn at FY17 and N7.5bn at 1H FY18. Combined with the sustained growth in profitability, debt service metrics have improved, with net debt to equity tapering to 21% at FY17 and 7% at 1H FY18. The decline in net debt to EBITDA to 19% at 1H FY18 (FY17: 40%) further demonstrates the strengthening of the balance sheet.
- Growth prospects in the power sector remain strong given the latent demand and entrenched government support. Accordingly, NSP has outlined a comprehensive strategy for growth over the medium term, however, overcoming macroeconomic headwinds, as well as securing adequate funding (at affordable rates) will prove key to the timely actualisation of planned projects.

## Factors that could trigger a rating action may include

**Positive change:** Resolution to the industry's liquidity issues, leading to a sustained reduction in debtors, would be positively considered. The successful implementation of expansion projects within the specified timeframe would further entrench NSP's dominant market position.

**Negative change:** Further large debtors' absorptions that impair liquidity, could result in a need for debt to meet operational requirements. A substantial rise in the cost base or project cost overruns, could lead to a deterioration in credit protection metrics.

## Background, operation and recent developments

North South Power Company Limited (“NSP” or the “Company”) was established in 2012 to develop, own and operate power plants and other energy infrastructure systems across Africa. NSP’s strategic intent is to be the leading power generation company in Sub-Saharan Africa, focused on providing reliable and sustainable power. To this end, investments are concentrated on renewable energy systems, such as, solar, wind, thermal and hydro power plants.

Its establishment was followed by the acquisition of a 30-year concession of the 600 Megawatt (“MW”) Shiroro hydroelectric power plant from the Federal Government of Nigeria (“FGN”). The transfer of rights (from FGN to NSP) to the hydroelectric power generating facility is governed by clauses and covenants in the concession agreement, executed in February, 2013. Subsequently, NSP commenced operations at the Shiroro plant in November 2013, after refurbishment and restoration was concluded. Besides a 5% royalty on annual revenue, the company must also pay concession fees. An initial entry fee of c.N19bn was paid, with annual payments of USD23.6m to commence from 2018.

A wholly owned subsidiary, Shiroro Solar Generating Company Limited (not yet operational) was incorporated in 2015 to develop the solar power project at the Shiroro hydro plant to build an integrated solar-hydro power plant. Through the construction of a solar plant, NSP plans to add around 300MW to the current generating capacity by 2019,

A key development in NSP’s expansion drive is the recent award of a 25-year concession of the 30MW Gurara Hydroelectric Power plant by the FGN. NSP is expected to pay around N2.4bn to the FGN as commencement fee, which will represent the present value of concession fees for the first five years and a USD1m fixed entry fee. Negotiations are ongoing on other aspects of the concession agreement. Consequently, NSP is in the process of incorporating an SPV that will acquire the concession rights and manage the plant. It plans to raise around N4bn, in a combination of debt and equity (70:30 ratio respectively), in order to cater for part payment of concession fees and also purchase critical spares to enhance efficiency at the plant.

To raise funds from the capital market, NSP is set to register a N50bn Notes Issuance Programme with Securities and Exchange Commission (“SEC”). An initial N10bn bond Issue is being planned for Q4 2018, to be utilised to refinance existing debt and for capital expenditure.

### Operation

The Company currently runs an on-grid operational model, where power generated is provided to the national grid for onward supply to end users through distribution companies. Given this, invoices are issued to the Nigerian Bulk Electricity Trading PLC (“NBET”),

which is empowered to purchase electricity from the generating companies through Power Purchase Agreements (“PPAs”) and sell the electricity to the distribution companies through vesting contracts.

However, given the liquidity challenges associated with the power sector (and the constrain of dealing with one buyer), NSP is already exploring opportunities under the eligible customer provision of the electricity law to diversify its revenue sources, by selling power directly to end users, through PPAs. A number of PPAs have been executed in this regard, with more expected in the coming weeks. The new customer base includes government agencies, electricity distribution companies, manufacturers and some other corporate establishments. The successful implementation of contracts with these new customers will see over 25% of NSP’s generating capacity taken up by a cluster of new customers (at a more competitive tariff), thus serving to diversify/mitigate revenue collection risks, enhance margins, as well as improving financial flexibility through improved cash flow generation.

## Shareholding and corporate governance

The affairs of NSP are steered by a board of directors (“Board”) comprising one executive director and nine non-executive directors, including an independent non-executive director and the Chairman. The Board comprises a number of professionals with substantial experience in different fields, with some holding other directorships in other companies. There was a change in the Board composition in recent months, with the appointment of three non-executive directors.

The Board meets at least quarterly to review operational and financial performance, while setting strategic plans and providing the guidance required for implementation. The day to day running of the Company is delegated to the management team, led by the managing director. NSP’s corporate governance framework is in compliance with the relevant requirements of the Companies and Allied Matters Act. Five board committees are in place to provide oversight to the management process. The audit and risk management committee is responsible for overseeing the audit process, ensuring the integrity of financial statements, monitoring compliance with internal controls, risk management and assurance functions (*inter alia*).

**Table 1: Corporate governance summary**

Description	Findings
Directors	1 executive 7 non-executive, including an independent director and the Chairman
Frequency of meetings	At least four times a year
Separation of Chairman	Yes
Board committee	Finance and General Purpose, Technical and Operations, Remuneration and Human Resources, Audit and Risk Management, Safety, Health and Environment.
Internal control and compliance	Yes, reports to the audit committee
External auditor	KPMG Professional Services; an unqualified, clean audit opinion was issued for FY17

There was a slight change to the shareholding composition in 2017, following the sale of XS Energy Limited's shares to North South Power Services Limited. The shareholding composition as at December 31, 2017 is provided in Table 2.

<b>Table 2: Shareholding structure- N'm</b>	<b>Shareholding</b>	<b>% Holding</b>
CEC Africa Hydro Investments Limited	121,621,622	24.3
Urban Shelter Limited	113,108,108	22.6
BP Investments Limited	94,864,865	19.0
Niger State Development Company Limited	50,000,000	10.0
Transatlantic Invt. and Dev. Co. LLC	25,540,541	5.1
Pan-African Global Infrastructure Co. Ltd.	25,540,541	5.1
Roads Nigeria Limited	18,243,243	3.6
North South Power Services Limited	18,243,243	3.6
Opec Investment Inc	18,243,243	3.6
Puma Engineering Limited	7,297,297	1.5
Olocorp Nigeria Limited	7,297,297	1.5
<b>Total</b>	<b>500,000,000</b>	<b>100.0</b>

## Industry Overview

The sector is currently regulated under law by the provisions of the National Electric Power Policy, 2001 and the Electric Power Sector Reform ("EPSR") Act, 2005. The EPSR Act provides the general legislative framework on which the power sector reforms are built. The Federal Ministry of Power formulates policies, and provides general direction to agencies operating in the Nigerian power sector. The Nigerian Electricity Regulatory Commission ("NERC") was established under EPSR Act, 2005 as an independent regulatory agency charged with sectoral oversight.

The Nigerian power sector comprises 3 major subsectors namely, the Generation, Transmission, and Distribution subsectors. While the generation and distribution sectors are fully privatised, transmission assets are owned by the FGN. As at Q3 2016, there were 23 grid-connected generating plants in operation in the Nigerian Electricity Supply Industry, with a total installed capacity of 11,165.4MW and an available capacity of 7,139.6MW. The Transmission Company of Nigeria, a successor of Power Holding Company of Nigeria, has a transmission capacity of about 5,523.8km of 330KV lines and 6,801.49km of 132KV lines. There are 11 electricity distribution companies in Nigeria.

Although major reforms have resulted in marginal improvements in the sector, there remains significant structural and operational deficits, while a number of legacy challenges persist. These include illiquidity; shortage of skilled labour, poor gas infrastructure and low supply to power plants, vandalism, mismanagement, inadequate and obsolete facilities, and policy ambivalence, all of which has contributed to high technical, commercial, and collection losses. In particular, the non-payment of various players in the supply value chain has led to accumulated deficits, as the distribution companies are unable to make payments on power purchased when due. The inability of distribution companies to meet obligation is largely attributed to the poor tariff structure which has forced the companies to absorb the bulk of costs, as well as constraining expansion activities.

In a bid to combat the foregoing, and facilitate an efficient cost recovery mandate (pursuant to the EPSR Act, 2005 (S.76)), the regulatory commission drafted a Multi-Year Tariff Order which focuses on an efficient tariff system that strengthens service delivery to consumers with appropriate billing and optimising investors' yield. In the same vein, in May 2017, the government issued a policy directive to NERC aimed at mitigating endemic liquidity problems in the sector. The new arrangement declares four categories of eligible customers, and allows eligible customers to buy power directly from generating companies that have excess capacity, with the transmission company being a third party. By bypassing the 11 distribution companies that have been the sole bulk power sellers since privatisation, the directive is expected to promote competition, tackle cost insensitivity, increase quality service provided by the participants in the sector, reduce electricity losses, and foster investment in the independent electricity distribution networks.

The Power Sector Recovery Programme approved by the FGN in March 2017 provides a number of operational, governance and financial interventions to be implemented over a five year period, in order to improve transparency and service delivery, and reorganise the electricity industry for future growth. The programme is geared towards improving power sector reliability and financial viability, as well as strengthening the sector's institutional framework. According to estimates, the power sector requires c.USD7.6bn over the next five years to ensure stability and growth sustainability. As part of measures to improve liquidity in the supply value chain, Central Bank of Nigeria ("CBN") has continued with the disbursement under the N701bn payment assurance guarantee, leading to a significant portion of outstanding bills being cleared. The Federal Government recently approved a N72bn fund to be invested in Distribution Companies to improve infrastructure and overall performance.

## Financial performance

A five-year financial synopsis (2013-2017) and the 2018 half-year management accounts are reflected at the end of this report, and commentary follows hereafter. NSP's financial statements were compiled in line with International Financial Reporting Standards ("IFRS"), as well as the requirements of CAMA and Financial Reporting Council of Nigeria. The Auditors, KPMG Professional Services issued unqualified opinions for each of the five years of audited financial statements.

The upward growth trajectory was sustained in FY17, as revenue improved by 18% to a new high of N33.1bn, outperforming budget by 14%. Besides the full-year impact of upwards contractual repricing of PPAs with NBET, plant capacity was fully utilised, following the repair of a faulty water intake gate at one of the generating units in 2016. At present all the generating units and other facilities at the plant are functioning efficiently, and the plant is able to achieve the maximum generation capacity of 600MW, when required. As at the

end of the six-month period to June 2018 (“1H FY18”), revenue dipped by an annualised 16% to N13.9bn due to seasonal factors. Notwithstanding this, management anticipates that the full FY18 performance will still surpass previous years, as generating capacity is higher in 2H due to increased water flow from rainfall.

Table 3: Income statement (N'm)	FY16	FY17	Budget FY17	% achieved	1H FY18
Revenue	28,037.8	33,131.5	28,949.8	114.4	13,927.9
Gross Profit	22,873.3	28,678.0	23,861.9	120.2	11,851.5
<b>EBITDA</b>	<b>20,472.0</b>	<b>17,730.3</b>	<b>21,267.8</b>	83.4	<b>5,543.1</b>
Depreciation	(62.5)	(66.9)	(68.0)	98.5	(66.9)
<b>Op. Profit</b>	<b>20,409.4</b>	<b>17,663.3</b>	<b>21,199.8</b>	83.3	<b>5,476.1</b>
Net interest	(2,069.4)	(1,599.4)	(4,717.1)	33.9	(617.1)
Forex loss	(4,000.1)	(429.8)	0.0	n.a	0.0
Other charges*	(4,486.5)	(6,226.5)	0.0	n.a	(3,499.6)
<b>NPBT</b>	<b>9,853.5</b>	<b>9,407.6</b>	<b>16,482.7</b>	57.1	<b>1,359.5</b>
<b>Key ratios (%)</b>					
Gross margin	81.6	86.6	82.4	-	85.1
EBITDA margin	73.0	53.5	73.5	-	39.8
Op. margin	72.8	53.3	73.2	-	39.3
Net int. cover (x)	9.9	11.0	4.5	-	8.9

\*Includes unwinding of discount on concession fees and unrealised exchange loss

The cost structures appear fixed and are directly attributable to generation activities. As such, the bulk of costs relate to royalties payable to the BPE, management service fees and amortisation of concession costs. Despite the growth in revenue, direct costs reduced by N0.7bn to N4.5bn, as a portion of royalties payable was written off following an impairment charge in receivables. Given this, the gross profit rose to N28.7bn (FY16: N22.9bn), with the margin reaching an all-time high of 87% in FY17 (FY16: 82%).

Staff costs almost doubled, rising to N1.4bn in FY17, attributed to increased emoluments, including a productivity bonus. More significantly, a large N7.6bn impairment charge was made to trade receivables as a portion of outstanding receipts on “deemed capacity” charge was written off. Thus, total administrative expenses spiked to N10.9bn (FY16: N2.4bn). As a consequence, operating income reduced by N2.6bn to N17.8bn, albeit, operating margin remained robust at 54% (FY16: 73%).

The net finance charge moderated to N1.6bn (FY16: N2.1bn), underpinned by the reduction in debt. As a result, the debt service metrics remained robust, with the net interest cover strengthening to 11x in FY17 (FY16: 9.9x).

The unwinding of discount on concession fees<sup>2</sup> was reported at a higher N6.2bn in FY17 (FY16: N4.5bn), following the re-computation of the concession fees payable during the concession period. This tracked the correction of an earlier error, where the commencement of yearly concession payments was incorrectly interpreted to commence from 2019 (payment made in arrears), instead of 2018 (where payment is made in advance). This had the impact of understating the value of concession fees payable, intangible assets and other

related costs. Prior year figures of affected entries have thus been restated to reflect the appropriate impact of the misstatements on the financial statements.

Resulting from the relative stability in the value of the Naira, a much smaller net exchange loss of N427m was reported in FY17 (FY16: N4bn), relating mainly to the year-end translation of trade receivables and loans. This partly offsets the impact of the debtors’ impairment and higher provision on concession fees. Nevertheless, NPBT evidenced a slight decline to N9.4bn in FY17 (FY16: N9.9bn), albeit after accounting for the higher tax credit<sup>3</sup>, net profit edged higher to N14.3bn (FY16: N13.4bn). 1H FY18 net profit was reported at a low N1.4bn, attributed mainly to a further N4.4bn provision in respect of irrecoverable sums on “deemed capacity”

### Cash flows

Coupled with increased collection, the contractual repricing effected in 2016 significantly bolstered earnings, which led to a corresponding improvement in cash generation over the last two years. Notwithstanding this, the high level of debtors is of concern. The debtors are a consequence of the operating model for successor generating companies, who have, historically, been subjected to dealing with only one off-taker (NBET). This has exposed their cash flows to the inefficiencies within NBET, in collecting outstanding debtors from distribution companies. Management attributes around 70% of outstanding receivables to the legacy debt, in respect of which the FGN is exploring a number of options to settle this obligation. Pertaining to current power sales obligation, the intervention of the CBN, through the disbursement of funds from PAF has enabled NBET to settle on a prompt basis, around 80% of all invoices from January 2017. Despite this, the working capital absorption widened to N18.9bn in FY17 (FY16: N16.8bn). Although, working capital consumed over 70% of cash generated, NSP still reported a higher net operating cash flow of N5.8bn in FY17 (FY16: N3.4bn).

No major capex activity was undertaken in FY17, with non-operational outflows during the year relating to intangible assets, including, acquisition of IT software and additional concession cost. Small additions were made to fixed assets, with the purchase of vehicles and office equipment. Accordingly, NSP made a maiden dividend payment of N4.9bn in FY17. While this accounts for only a fraction of net income, it represents over 80% of net operational cash flow. In addition, NSP was able to reduce net debt by N506m.

Although GCR does not have a detailed cash flow for 1H FY18, a further improvement in the cash position is apparent from the balance sheet. During this period, NSP received payments for c.N6bn of legacy debt (for the period 2013-2015), owed by the Market Operator

<sup>1</sup>NSP is entitled to a fee from NBET for power generated but not taken up by the national grid

<sup>2</sup>A provision representing the present value of the future payments of annual concession fees

<sup>3</sup>NSP enjoys pioneer status in respect of its activity in electric power generation at Shiroro, Niger State. The initial three-year period lapsed in November 2016, however, the Company was able to secure a two-year extension, which is expected to lapse in November 2018.

(NBET's predecessor). Some of the receipts were used to reduce debt, whilst the balance was retained in cash.

### Funding Profile

Given that NSP only manages (under a concession agreement) the vast power generating assets at Shiroro, as the FGN has retained ownership, a significant portion of the asset base is represented by intangible assets. This basically comprises of the initial cost to acquire the concession, additional costs incurred to upgrade the plant, and the estimated yearly payments through the life of the concession. The value of intangible assets is determined by discounting the estimated future payments, using a market based rate, subsequent to which the carrying cost is amortised on a straight line basis over the 30-year period. An amortisation charge of N1.8bn was recognised in FY17 (FY16: N1.5bn), reducing the carrying value to N46.2bn (46% of asset base) at FY17, and further to N45.3bn at 1H FY18.

On the other hand, the asset composition mix has moved progressively to short term assets. With trade receivables rising to N36.7bn at FY17 (FY16: N29.8bn), this saw the value of short term assets rise by over 300% since FY14, to register at N38.9bn at FY17 (39% of asset base), although, there was a small decline at 1H FY18. While around 80% of current invoices being settled timeously, the higher value of receivables is attributed to the impact of currency variation on the unpaid portion.

Due to the dividend payment, NSP relied on its cash reserves to settle a portion of debt. Accordingly, cash balance reduced by N2.4bn to N1.8bn at FY17. However, following the strong collections in 1H FY18, the cash position improved significantly to N5.2bn.

Table 4: Funding profile (N'm)	FY16	FY17	1H FY18
ST Debt	2,911.5	2,903.0	1,501.3
LT Debt	8,965.8	5,957.5	5,955.2
<b>Total Debt</b>	<b>11,877.3</b>	<b>8,860.5</b>	<b>7,456.5</b>
Cash	4,199.2	1,757.7	5,245.8
<b>Net Debt</b>	<b>7,678.1</b>	<b>7,102.9</b>	<b>2,210.7</b>
Equity	28,267.3	34,018.9	30,515.1
<b>Key ratios (%):</b>			
Total debt: equity	42.0	26.0	24.4
Net debt: equity	27.2	20.9	7.2
Total debt: EBITDA	58.0	50.0	65.2
Net debt: EBITDA	37.5	40.1	19.3

On the back of increased earnings, shareholders' equity increased to N34bn at FY17 (FY16: N28.3bn), equating a higher 34% of funding. The decline to N30.5bn at 1H FY18 was attributed to a reduction in retained earnings, following an interim dividend payment.

NSP has evidenced efficient management of obligations, with debt maintained at moderate levels through the review period. Moreover, with improving cash flows and little capex and investment spend, gross debt reduced from a high of N12.4bn in FY15 to N8.9bn at FY17 and further to N7.5bn at 1H FY18. Debt comprises solely of term loans, provided by Zenith Bank PLC. The local currency loan has a current interest rate of 19.25% and is expected to have been fully settled by FY20, while the

USD loan carries an interest rate of 9.25%, with full settlement expected by year-end FY20.

Underlying the sustained increase in profitability, debt service metrics have remained strong, with the gross debt to equity ratio tapering to 26% and 24% at FY17 and 1H FY18 respectively, while net gearing registered at a lower 7% at 1H FY18 (FY17: 21%). Similarly, net debt to EBITDA declined to 19% at 1H FY18, from 40% previously. In contrast, the gross debt to EBITDA increased to 65% at 1H FY18 (FY17: 50%), following the lower earnings reported.

### Outlook, Forecasts and Year-to-date performance

The medium term growth strategy is geared towards a full and efficient utilisation of existing capacity at the Shiroro plant, while exploring opportunities for expansion across the power generation industry.

In addition to the aforementioned acquisition of the Gurara plant, the proposed construction of a 300MW solar power generating plant at Shiroro has reached an advanced stage, with the technical feasibility report and other preparatory works concluded. This integration of the solar and hydroelectric plants (at Shiroro) is expected to stabilise the power generating capacity and ensure full utilisation, as the solar plant is more active during the dry season, when there is low level of water at the dam. The plant is projected to become operational in 2020. NSP also plans to expand the generating capacity of the turbines at Shiroro plant to around 180MW from the current 150MW, which would increase the hydro plant's generating capacity to 720MW. There appears to be a comprehensive strategy on medium term expansion (overall generating capacity could reach 1,750MW over the next five years), but securing adequate funding (at affordable rates) will prove a key challenge to the timely actualisation of these projects.

Underlying assumptions for the approved 2018 budget reflect the impact of macro-economic indices including, stability in both the benchmark interest rate and exchange rate. On the back of anticipated increase in rainfall (water inflow to the dam), NSP projects to increase power generation by around 30% in 2018. Accordingly, the revenue target of N28.6bn appears conservative, and is well below the period high N33.1bn in FY17.

Profit margins are expected to remain robust, given the efficient management of costs and improved scale economies, as all generating units are expected to work at optimum level. Accordingly, the net interest cover should remain firm over the medium term.

With the improvement in the cash flow position, NSP was able to settle a portion of debt, as well as pay a dividend of N3bn in 1Q FY18. Around N3.6bn has also been invested in fixed income security, as part of its liquidity risk management. However, as the yearly concession fee payment becomes payable from 2018, this could widen the cost base, constraining flexibility, especially if the prompt settlement of invoices by NBET

is not sustained. Management has however indicated that discussions are ongoing with the FGN for the set-off of a portion of concession fees against the huge receivables from NBET.

Table 5: Forecasts* (N'm)	1H FY17	1H FY18	Forecast			
			FY18	FY19	FY20	FY21
Revenue	10,691.5	13,927.9	28,638.7	31,610.7	32,370.3	33,394.3
<b>EBITDA</b>	<b>7,580.0</b>	<b>5,718.1</b>	<b>24,345.2</b>	<b>26,852.7</b>	<b>27,475.8</b>	<b>28,314.1</b>
Concession fee	0.0	0.0	(1,705.7)	(1,705.7)	(1,705.7)	(1,705.7)
Depreciation	(138.5)	(241.9)	(211.5)	(601.0)	(660.8)	(660.8)
<b>Op. Profit</b>	<b>7,441.5</b>	<b>5,476.1</b>	<b>22,428.0</b>	<b>24,546.0</b>	<b>25,109.2</b>	<b>25,947.6</b>
Net interest/others	(3,591.5)	(4,116.7)	(9,111.6)	(10,146.7)	(9,742.5)	(10,119.5)
<b>NPBT</b>	<b>3,850.0</b>	<b>1,359.5</b>	<b>13,316.4</b>	<b>14,399.3</b>	<b>15,366.7</b>	<b>15,828.0</b>
<b>Balance sheet</b>						
Concession fees	38,217.5	43,414.9	44,436.4	44,211.6	43,970.4	43,669.5
Debt	8,979.4	7,456.5	15,095.6	24,427.6	20,855.9	23,449.8
<b>Equity</b>	<b>23,592.2</b>	<b>30,515.1</b>	<b>25,956.1</b>	<b>24,807.5</b>	<b>25,638.6</b>	<b>26,109.2</b>
<b>Key ratios (%):</b>						
EBITDA margin	70.9	41.1	85.0	84.9	84.9	84.8
Op. Margin	69.6	39.3	78.3	77.7	77.6	77.7
Debt: Equity	38.1	24.4	58.2	98.5	81.3	89.8
Debt: EBITDA	59.2	65.2	62.0	91.0	75.9	82.8

\*The forecast is conservative, excludes expected income from operating the Gurara plant and additional income from sales to other corporates and government agencies under the eligible customer provision.

The proposed financing of the acquisition of concession rights at the Gurara plant would see debt level increase to N9bn by FY18. Nevertheless, the expected increase in earnings (from Gurara and other sources) would see the equity base strengthen further, serving to cushion the effect of any additional debt on the balance sheet, as gearing and other credit protection metrics are expected to remain manageable. Additional comfort is taken from the relative stability of revenue underpinned by long term contracts, which allows for predictable debt coverage metrics.

# North South Power Company Limited

(Naira in Millions except as Noted)

31 December						
Statement of Comprehensive Income	2013	2014	2015	2016	2017	1H 2018*
Turnover	3,964.9	10,335.5	11,989.6	28,037.8	33,131.5	13,927.9
<b>EBITDA</b>	<b>3,096.7</b>	<b>5,409.5</b>	<b>7,254.4</b>	<b>20,472.0</b>	<b>17,730.3</b>	<b>5,718.1</b>
Depreciation	(12.0)	(16.6)	(46.0)	(62.5)	(66.9)	(241.9)
<b>Operating income</b>	<b>3,084.7</b>	<b>5,392.9</b>	<b>7,208.4</b>	<b>20,409.4</b>	<b>17,663.3</b>	<b>5,476.1</b>
Net finance charges	(770.7)	(1,843.5)	(2,099.5)	(2,069.4)	(1,599.4)	(617.1)
Exchange loss	0.0	0.0	(3,043.1)	(4,000.1)	(429.8)	0.0
Other operating income/(expense) <sup>†</sup>	(326.1)	(4,879.1)	(2,415.1)	(4,486.5)	(6,226.5)	(3,499.6)
<b>NPBT</b>	<b>1,987.9</b>	<b>(1,329.7)</b>	<b>(349.3)</b>	<b>9,853.5</b>	<b>9,407.6</b>	<b>1,359.5</b>
Taxation paid	(606.7)	398.7	14.5	3,575.8	4,937.5	0.0
<b>Profit from continuing operations</b>	<b>1,381.3</b>	<b>(931.0)</b>	<b>(334.7)</b>	<b>13,429.3</b>	<b>14,345.1</b>	<b>1,359.5</b>
Interim dividend paid	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Comprehensive Income</b>	<b>1,381.3</b>	<b>(931.0)</b>	<b>(334.7)</b>	<b>20,011.8</b>	<b>14,431.1</b>	<b>1,359.5</b>
Statement of cash flows						
<b>Cash generated by operations</b>	<b>3,297.1</b>	<b>6,394.8</b>	<b>8,429.1</b>	<b>21,924.1</b>	<b>26,472.4</b>	<b>n.a</b>
Utilised to increase working capital	(1,836.9)	(4,328.2)	(2,477.5)	(16,846.9)	(18,936.0)	n.a
Finance charges/interest paid	(481.9)	(1,306.1)	(1,735.7)	(1,685.6)	(1,689.3)	n.a
Taxation paid	0.0	0.0	0.0	0.0	0.0	n.a
<b>Cash flow from operations</b>	<b>978.3</b>	<b>760.5</b>	<b>4,215.9</b>	<b>3,391.6</b>	<b>5,847.1</b>	<b>n.a</b>
Maintenance capex <sup>‡</sup>	(0.1)	(16.6)	(28.7)	(0.5)	(48.6)	n.a
<b>Discretionary cash flow from operations</b>	<b>978.2</b>	<b>743.9</b>	<b>4,187.1</b>	<b>3,391.1</b>	<b>5,798.5</b>	<b>n.a</b>
Dividends paid	0.0	0.0	0.0	0.0	(4,876.8)	n.a
<b>Retained cash flow</b>	<b>978.2</b>	<b>743.9</b>	<b>4,187.1</b>	<b>3,391.1</b>	<b>921.7</b>	<b>n.a</b>
Net expansionary capex	0.0	(97.9)	0.0	0.0	0.0	n.a
Investments and other	(18,987.7)	(98.8)	(4,851.0)	(806.7)	(420.0)	n.a
Proceeds on sale of assets/investments	0.0	0.0	0.0	3,680.0	3.7	n.a
Shares issued	8,111.2	0.0	0.0	0.0	0.0	n.a
Cash movement: (increase)/decrease	(1,102.7)	(134.3)	1,115.1	(4,071.9)	2,441.6	n.a
Borrowings: increase/(decrease)	11,001.0	(412.8)	(451.2)	(3,247.3)	(2,947.9)	n.a
<b>Net increase/(decrease) in debt</b>	<b>9,898.3</b>	<b>(547.1)</b>	<b>663.9</b>	<b>(7,319.1)</b>	<b>(506.3)</b>	<b>n.a</b>
Statement of financial position						
Ordinary shareholders interest	8,981.4	8,050.4	9,645.3	28,267.3	34,018.9	30,515.1
Outside shareholders interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' interest</b>	<b>8,981.4</b>	<b>8,050.4</b>	<b>9,645.3</b>	<b>28,267.3</b>	<b>34,018.9</b>	<b>30,515.1</b>
Current debt	1,683.1	1,561.2	2,907.7	2,911.5	2,903.0	1,501.3
Non-current debt	9,606.7	10,497.9	9,489.5	8,965.8	5,957.5	5,955.2
<b>Total interest-bearing debt</b>	<b>11,289.8</b>	<b>12,059.1</b>	<b>12,397.2</b>	<b>11,877.3</b>	<b>8,860.5</b>	<b>7,456.5</b>
Interest-free liabilities	24,809.0	28,082.3	24,498.2	46,868.4	57,349.2	56,518.3
<b>Total liabilities</b>	<b>45,080.3</b>	<b>48,191.8</b>	<b>46,540.6</b>	<b>87,013.1</b>	<b>100,228.6</b>	<b>94,489.9</b>
Property, Plant and Equipment <sup>~</sup>	39,047.3	37,935.2	29,594.8	47,484.2	46,263.5	45,597.7
Investments and other non-current assets	0.0	10.0	6.5	3,591.0	13,268.6	8,319.7
Cash and cash equivalent	1,108.2	1,242.5	127.4	4,199.2	1,757.7	5,245.8
Other current assets	4,924.7	9,004.1	16,811.9	31,738.6	38,938.8	35,326.7
<b>Total assets</b>	<b>45,080.3</b>	<b>48,191.8</b>	<b>46,540.6</b>	<b>87,013.1</b>	<b>100,228.6</b>	<b>94,489.9</b>
Ratios						
<b>Cash flow:</b>						
Operating cash flow : total debt (%)	8.7	6.3	34.0	28.6	66.0	0.0
Discretionary cash flow : net debt (%)	3.2	2.1	13.1	7.0	12.3	7.0
<b>Profitability:</b>						
Turnover growth (%)	0.0	160.7	16.0	133.9	18.2	(15.9)
Gross margin (%)	85.3	71.1	79.3	81.6	86.6	81.6
EBITDA : revenues (%)	78.1	52.3	60.5	73.0	53.5	41.1
Operating profit margin (%)	77.8	52.2	60.1	72.8	53.3	39.3
EBITDA : average total assets (%)	14.0	11.9	15.5	31.7	19.6	6.1
Return on equity (%)	32.6	neg	neg	70.8	46.1	70.8
<b>Coverage:</b>						
Operating income : gross interest (x)	4.0	2.9	3.4	9.9	11.0	9.9
Operating income : net interest (x)	4.0	2.9	3.4	9.9	11.0	9.9
<b>Activity and liquidity:</b>						
Trading assets turnover (x)	1.9	1.6	1.2	1.5	1.2	1.0
Days receivable outstanding (days)	183.0	210.6	282.2	267.7	375.7	471.0
Current ratio (:1)	1.1	2.0	2.2	4.0	2.0	2.8
<b>Capitalisation:</b>						
Net debt : equity (%)	113.4	134.4	127.2	27.2	20.9	7.2
Total debt : equity (%)	125.7	149.8	128.5	42.0	26.0	24.4
Net debt : EBITDA (%)	328.8	200.0	169.1	37.5	40.1	19.3
Total debt : EBITDA (%)	364.6	222.9	170.9	58.0	50.0	65.2

<sup>†</sup> Depreciation used as a proxy for maintenance capex expenditure

\*Unaudited numbers as at 1H FY18

^Includes non-cash sums for present value of concession fees payable

~The bulk of PPE comprises intangible assets, representing initial and future concession fees

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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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the ratings will expire in August 2019.

North South Power Company Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to North South Power Limited with no contestation of the ratings

The information received from NSP to accord the credit rating included;

- 2017 audited annual financial statements (plus four years of comparative numbers),
- Unaudited management accounts as at 1H FY18
- Medium term budget
- industry comparative data and regulatory framework
- a breakdown of facilities available and related counterparties.
- information specific to the rated entity and/or industry was also received.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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