

RATING ANNOUNCEMENT

GCR assigns national scale issuer ratings of BBB+(NG)/A2(NG) to Champion Breweries Plc, Outlook Stable.

Rating action

Lagos, 07 May 2025 - GCR Ratings (GCR) has assigned national scale long-term and short-term issuer ratings of BBB+(NG) and A2(NG) respectively to Champion Breweries Plc, with the outlook accorded as stable.

Rated entity	Rating class	Rating scale	Rating	Outlook
Champion Breweries Plc	Long-term issuer Short-term issuer	National	BBB+(NG) A2(NG)	Stable

Rating rationale

Champion Breweries Plc (Champion Breweries or the company) is majority owned by Raysun Nigeria Limited, a non-operational company. There are no consolidated accounts, and the ratings accorded to Champion Breweries are based on its stand-alone credit strengths and weaknesses. The assigned ratings of Champion Breweries balance its net ungeared position, strong liquidity and modest cash flows against the relatively small business scale and limited diversification.

The competitive assessment of the company is a major rating constraint given the small size as well as limited geographical spread and product range. Champion Breweries operates on a much smaller scale with current installed production capacity at 500,000 hectolitres per annum (hlpa) compared to other peers that can produce more than 5 million hlpa. Furthermore, the company has only two brands, and operations are all within the Southern region of Nigeria with around 60% of revenue generated from Akwa-Ibom state. However, we have considered the company's favourable cost model which has supported EBITDA margin above peer average.

Revenue has grown over the review period and peaked at NGN20.9 billion (USD14.1 million) in 2024 (2023: NGN12.7 billion) due to higher volumes and upward price adjustments. The company plans to ramp up capacity utilisation to 80% in 2025 (2024: 69%) and drive volumes to underpin a further growth in revenue. We expect this, in addition to higher prices to support a revenue size of NGN37 billion for 2025. While higher operating expenses, especially electricity cost, have moderated EBITDA margin in recent years, the margin is still relatively strong at 21.5% in 2024 (2023: 19.9%). Champions Breweries' major inputs, including hops and barley, are sourced from local suppliers rather than direct importation, thus hedging against foreign exchange volatilities. Consequently, the company has remained profitable all the years under review, and we expect EBITDA margin sustained around 20% over the next 18 months.

Leverage is a positive rating factor given the company's net ungeared position over the five-year review period to 2024. The only debt in the books of Champion Breweries relates to lease liabilities on rented gas generator and office building. Operating cash flow (OCF) has been supported by favourable working capital cycle because inventory is sourced from local suppliers and receivables are low. This, in addition to the conservative gearing have supported OCF coverage of debt at strong levels above 100x over the review period. Champions Breweries has no interest-bearing debts, therefore EBITDA coverage of interest has remained strong at above 10x over the five-year period to 2024. We anticipate a rise in debt given the company's plans to obtain a NGN5 billion loan from Bank of Industry (BOI) to part finance the acquisition of an empty bottle inspection machine and installation of a canning line. Nonetheless, we expect Champion Breweries to sustain a net ungeared position and maintain interest coverage above 10x over the next 18 months, supported by the

earnings. Also, the business model should continue to underpin modest cashflows to keep OCF coverage of debt above 100% over the next 12-18 months.

Liquidity assessment is underpinned by the low short term lease obligations of NGN191 million against the strong cash balance of NGN4.31 billion as of December 2024. Moreso, we expect the favourable working capital to support operating cash flows of NGN4.32 billion. In addition to the expected debt of NGN5 billion, the company plans to raise NGN7.1 billion in equity via a public offer to finance the estimated capital expenditure of NGN9 billion. Dividend payment is projected at NGN537 million in 2025 on the premise of 6kobo/share recommended by the board. Liquidity sources versus uses coverage is estimated at 1.9x over the 12-month period to December 2025 and 1.3x over the 24-month period to December 2026.

Outlook statement

The stable outlook is based on the view that the company would remain profitable and sustain strong gearing and liquidity metrics despite the expected rise in debt.

Rating triggers

A rating upgrade could follow a material improvement in the company's business scale as well as better product and geographical diversification which supports robust cashflows. Also, the sustained ability to grow scale while maintaining strong gearing metrics could support better ratings.

A rating downgrade could follow earnings underperformance or a higher-than-expected rise in debt which leads to a deterioration in leverage metrics and creates refinancing risk. Also, unfavourable working capital movement that places pressure on operating cash flow and weakens liquidity would negatively impact the ratings.

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 Rating Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, August 2024
GCR Nigeria Corporate Sector Risk Scores, June 2024

Ratings history

Champion Breweries Plc

Rating class	Review	Rating scale	Rating	Outlook	Date
Long-term issuer	Initial/Last	National	N/A	N/A	N/A
Short-term issuer	Initial/Last	National	N/A	--	

Risk score summary

Rating Components & Factors	Score
Operating environment	6.25
Country risk score	3.50
Sector risk score	2.75
Business profile	(2.00)
Competitive position	(2.00)
Sustainability	0.00
Financial profile	3.00
Earnings	(0.25)
Leverage & cash flow	2.00
Liquidity	1.25
Comparative profile	0.00
Group support	0.00
Peer comparison	0.00
Total Risk Score	7.25

Glossary

Capital Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Capital	The sum of money that is invested to generate proceeds.
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	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
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.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
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.
Short Term	Current; ordinarily less than one year.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entity.

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

- 2024 audited financial statements, and prior four years' annual financial statements
- Internal and/or external management reports; and
- Industry comparative data and regulatory framework
- Exchange rate source: Central Bank of Nigeria USD1.00 = NG1,479.6 (Average exchange rate for 2024)

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