



## Credit Rating Announcement

GCR assigns A<sub>(NG)</sub> / A2<sub>(NG)</sub> national scale long and short-term Issuer rating to Sundry Foods Limited; Stable Outlook.

### Rating Action

Lagos, 22 June 2021 - GCR Ratings ("GCR") has assigned national scale long-term and short-term Issuer ratings of A<sub>(NG)</sub> and A2<sub>(NG)</sub>, respectively, to Sundry Foods Limited, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Sundry Foods Limited	Long Term Issuer	National	A <sub>(NG)</sub>	Stable
	Short Term Issuer	National	A2 <sub>(NG)</sub>	

### Rating Rationale

The ratings of Sundry Foods Limited ("Sundry Foods", "SFL" or the "Company") reflects its moderately-strong competitive position within the Nigerian Quick Service Restaurants ("QSR") industry underpinned by well-diversified brands across the QSR, bakery and catering segments. Ongoing expansion has aided strong earnings growth, facilitated by a robust capital structure. Other key rating strengths include its expanding footprint and sustainable cash flows, which has supported strong credit protection metrics.

The Nigerian QSR sector has demonstrated strong resilience since the outbreak of the COVID-19 crisis, maintaining relatively strong earnings growth, reflecting the non-discretionary nature of its products. This distinguishes the sector from the typical hospitality players such as hotels, bars and tourism centres which have seen patronage plunge. Notwithstanding these supporting factors, the sector is highly fragmented with many players, operating within the informal and formal segments. That said, Sundry Foods ranks as the third largest food service company within the Nigerian QSR, with a market share around 10%. Its competitive position is supported by its well-diversified brands and have attracted strong foreign investors, allowing the Company to expand to over 100 outlets across 65 locations, albeit with over 50% of its outlets concentrated in the Southern part of the country. Sundry Foods' aggressive expansion drive continues, with plans to roll-out additional 35 new outlets from 2021 through to 2026.

Sundry Foods has reported strong revenue trajectory over the years, with a 5-year CAGR of 26.7% to FY20, underpinned by volumes growth across business segments which is considered a positive rating factor. Stronger revenue growth is expected over the outlook period given the gradual pick up of economic activity (as evidenced at 1Q FY21) to be supported by its new technologies and value-added services. Despite the increase in operating costs due to business expansion and rising inflationary pressure, the EBITDA margin remains strong, having been maintained between 18% to 23% over the review period. This has translated to consistent profitability in all the years. GCR expects the EBITDA margin to remain strong around 20% for FY21 and FY22 on the back of expected growth in sales to be supported by improving economies of scale and established cost containment initiatives.

SFL has maintained a moderate leverage profile supported by its key shareholders. Strong earnings saw net debt to EBITDA reported at 63.5% at 1Q F21, with OCF coverage of debt currently at 104.3%. While the cash flows have been sufficient to cover operations and have reduced the need for debt, some funding pressure is expected from the planned expansion drive, likely necessitating additional debt support. To this end, Sundry Foods is in the process of negotiating a new debt through the debt capital market, which will be utilised for capex and the refinancing of the outstanding obligations. Nevertheless, refinancing risk is low as the debt maturity profile largely extends past 12 months.

While this could see debt rise to N8bn by end-FY21 (1Q FY21: N2.9bn), the Company's ability to improve earnings should see cash flow and leverage metrics register within moderate level over the medium-term rating horizon if it is eventually raised.

SFL's liquidity profile is considered neutral to the rating with liquidity sources expected to adequately cover uses over the 8 months period to 31 December 2021. This is based on anticipated improvement in operating cash flow, combined with moderate cash holdings, which will be utilised to cover debt redemption and little capex spend. Moreover, Sundry Foods has indicated that expansion will be guided by the availability of funding. As such, GCR expects liquidity coverage to remain within an intermediate range of 1.25x to 2x over a one-year period.

## Outlook Statement

The Stable Outlook reflects GCR's opinion that Sundry Foods will continue to generate robust earnings and cash flow, which will continue to support strong capital structure, gearing and liquidity profile.

## Rating Triggers

The successful rollout of new stores with proven systems to manage the enlarged business will contribute to the attainment of the robust medium-term earnings targets. This should enable Sundry Foods to fund a larger portion of expansion internally, without a need for additional debt.

Negative rating movement could emanate from delays in project rollout and/or adverse exogenous factors, which constrain sales volume, leading to earnings underperformance. If this follows a steep rise in gross debt, there could be a deterioration in credit protection metrics.

## Analytical Contacts

<b>Primary analyst</b>	Busola Akinrolabu	Analyst
Lagos, Nigeria	Busola@GCRratings.com	+234 1 904 9462
<b>Committee chair</b>	Matthew Pirnie	Group Head of Ratings
Johannesburg, ZA	MatthewP@GCRratings.com	+27 11 784 1771

## Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019  
 Criteria for Rating Corporate Entities, May 2019  
 GCR Ratings Scales, Symbols & Definitions, May 2019  
 GCR Nigeria Country Risk Scores, February 2021  
 GCR Nigeria Corporate Sector Risk Scores, February 2021  
 Sundry Foods Limited Rating Report, September 2013

## Ratings History

### Sundry Foods Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer <sup>^</sup>	Initial	National	BBB <sub>(NG)</sub>	Stable	October 2010
Short Term issuer <sup>^</sup>	Initial	National	A3 <sub>(NG)</sub>		
Long Term issuer <sup>*</sup>	Last	National	BBB <sub>(NG)</sub>	Stable	September 2013
Short Term issuer <sup>*</sup>	Last	National	A3 <sub>(NG)</sub>		

<sup>^</sup>/<sup>\*</sup>Performed under Criteria for Rating Corporate Entities, 2010/ 2013.

## Risk Score Summary

Rating Components & Factors	Risk scores
<b>Operating environment</b>	<b>6.25</b>
Country risk score	3.75
Sector risk score	2.50
<b>Business profile</b>	<b>0.00</b>
Competitive position	0.00
Management and governance	0.00
<b>Financial profile</b>	<b>1.25</b>
Earnings profile	0.50
Leverage and capital structure	0.75
Liquidity	0.00
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>7.50</b>

## Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Coverage	Coverage The scope of the protection provided under a contract of insurance.
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.
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.
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.

## Salient Points of Accorded Ratings

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

The credit rating has been disclosed to Sundry Foods Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Sundry Foods participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Sundry Foods Limited and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- Three-month management accounts to 31 March 2021;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;

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