



Credit Rating Announcement

GCR affirms Ardova Plc's national scale ratings of A_(NG)/ A2_(NG) due to its strong market position, Stable Outlook.

Rating Action

Lagos, 02 July 2021 - GCR Ratings ("GCR") has affirmed the national scale long and short term Issuer ratings of A_(NG) and A2_(NG) respectively, assigned to Ardova Plc, with the Outlook accorded as Stable. Concurrently, the ratings assigned to the Series 1 Bonds have been affirmed at A_(NG).

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Ardova Plc	Long Term Issuer	National	A _(NG)	Stable
	Short Term Issuer	National	A2 _(NG)	
Series 1 Senior Unsecured Bonds	Long Term Issue	National	A _(NG)	Stable

Rating Rationale

The ratings of Ardova Plc ("Ardova" or "the Company") reflects its strong competitive position in the Nigerian oil and gas downstream sector, solid earnings performance through the cycle and moderately strong credit protection metrics and capital structure. These are balanced against the inherently high liquidity requirements in the sector, and GCR's concerns on the shareholding structure.

Ardova's strong business profile is underpinned by its integration along the value chain. Thus, while the Company's core operations consist of a network of over 450 retail outlets well spread across key cities in Nigeria, it benefits from backward integration through its parent, Prudent Energy and Services Limited ("Prudent" or "the Group"), which is able to import and store fuel, as well as managing the full logistics operation through in-house subsidiaries. The successful acquisition of Enyo Retail and Supply Limited ("Enyo"), with additional 93 retail outlets, should help capture stronger market share. Other key competitive advantages relate to the ongoing expansion of non-PMS product lines, including liquified petroleum gas, bitumen, and lubricants (through upgrade of lubes blending plant and exclusive distribution rights to Chevron and Shell lubes).

Although GCR has adopted a standalone credit analysis, we recognise Ardova's position as an important component of the Group (48% and 44% of consolidated revenue and EBITDA respectively in FY20). Accordingly, a slight negative adjustment has been applied to group support to account for the perceived higher risks within the Group's operations, compared to Ardova.

GCR takes cognisance of the well constituted Board of directors (separate from the parent) with credible strategic goals, an experienced senior management team, and the public listing status of Ardova, albeit the weaker governance structure at the ultimate group level does constrain the ratings somewhat. Positive adjustment to this assessment is dependent on demonstrable stronger governance structure at the group level.

The robust earnings growth has been supportive to the ratings, underpinned by the strong revenue progression in PMS (due to higher volumes and price increase), which accounted for around 80% of FY20 revenue. While the other product lines are expected to expand over the medium term, earnings concentration to PMS will remain. As PMS pricing is closely regulated, the profit margin is narrow, with little headroom to manage earnings variability. Accordingly, earnings margins have been reported slightly below the peer average of 3.3%, due to the lesser contribution from lubes

(compared to Total Nigeria Plc and Eterna Plc). While GCR expects some marginal enhancement, underpinned by the anticipated growth in other product lines, this margin will likely remain below 5% over the rating horizon, in line with industry norm.

Leverage and capital structure are deemed neutral to the ratings primarily due to the reduction in gross debt from N34.8bn at FY17 to N9bn at FY20. This has supported the substantial improvement in net debt to EBITDA to around 1.24x in FY20 (period average 3.66x). Although debt is expected to more than double to around N20bn in FY21-22, GCR anticipates that the metric would remain at the 1.8x-2.2x range on the back of an increase in absolute EBITDA. This is offset against the historically low interest coverage, albeit expected to widen slightly to the intermediate range of 5.5x-7.5x over the rating horizon due to the supportive interest rate environment. Operating cash flow coverage of debt is expected to contract slightly (but remain moderate) due to working capital pressures. GCR takes cognisance of Ardova's access to diverse funding sources and the low currency risks, but this weighs against the short maturity on all debt. The imminent bond issuance should help spread the maturity profile over the longer term.

The ratings are somewhat constrained by the liquidity assessment, with sources versus uses of cash calculated to register around 1.34x over the next 12 to 18 months. Liquidity is underpinned by cash holdings of around N2.4bn at FY20 and N6.8bn committed facilities, as well as anticipated strong cash flows. This will be augmented by the anticipated bond issue which will be utilised to settle the Enyo acquisition cost and other capex requirements.

Outlook Statement

The Stable Outlook reflects GCR's expectation that sound earnings will be sustained over the rating horizon, which should cushion the impact of the anticipated increase in debt on leverage metrics. We also envisage that the intermediate liquidity assessment will continue to be supported by good operating cash flows and the Company's strong relationships with lenders.

Rating Triggers

Positive rating action is only likely over the medium term, contingent upon achieving consistently stronger earnings and cash flows above the industry average. This should allow Ardova the resources to fund a larger portion of its operations internally, thus reducing reliance on debt.

The ratings could be downgraded if 1) there is material and sustained earnings shock which impacts on profitability and substantially impacts the debt service metrics 2) Ardova is unable to raise sufficient funding to meet short term maturities and capex commitments 3) liquidity coverage falls below 1.25x due to higher recourse to short term debt or cost overrun on expansion projects.

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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
Ardova Plc's Rating Reports, 2016-20

Ratings History

Ardova Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	A _{-(NG)}	Stable	June 2016
Short Term Issuer	Initial	National	A1 _{-(NG)}		
Long Term Issue	Initial	National	A _{-(NG)}	Stable	December 2016
Long Term Issuer	Last	National	A _{-(NG)}	Stable	December 2020
Short Term Issuer	Last	National	A2 _(NG)		
Long Term Issue	Last	National	A _{-(NG)}	Stable	December 2020

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	6.50
Country risk score	3.75
Sector risk score	2.75
Business profile	0.75
Competitive position	1.00
Management and governance	(0.25)
Financial profile	0.00
Earnings performance	0.50
Leverage and Cash flow	0.00
Liquidity	(0.50)
Comparative profile	(0.25)
Group support	(0.25)
Peer analysis	0.00
Total Score	7.00

Glossary

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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with because of holding the security or asset. For a company, its exposure may relate to a product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	Regarding corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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 rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Ardova Plc. 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.

Ardova Plc 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 Ardova Plc and other reliable third parties to accord the credit ratings included:

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

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