

UAC of Nigeria PLC

2021 Final Corporate Rating Report



UAC of Nigeria PLC

Issuer Rating:

A-

Outlook: Stable

Issue Date: 23 August 2021

Expiry Date: 30 June 2022

Previous rating: A-

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This is a company with good financial condition and a strong capacity to repay obligations on a timely basis

RATING RATIONALE

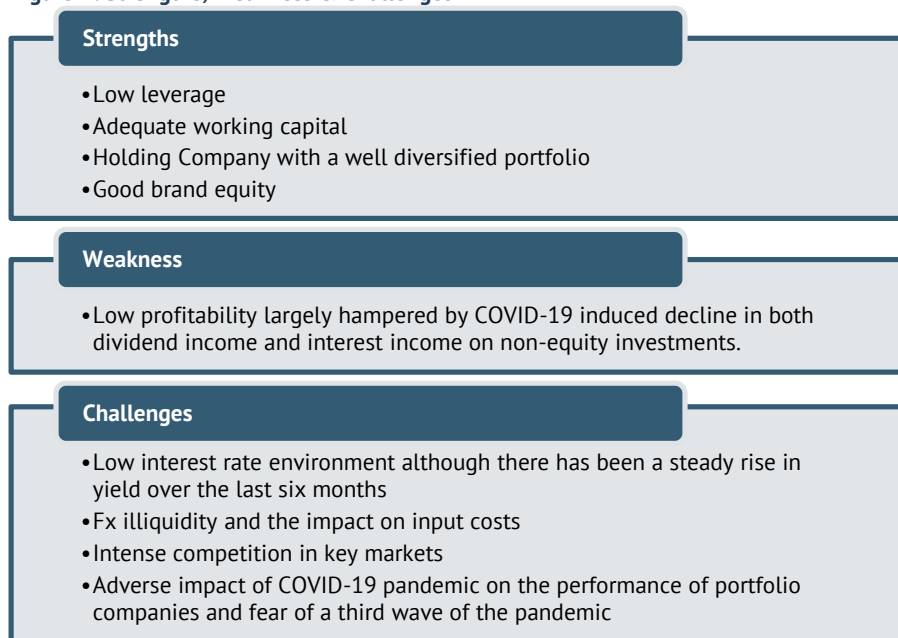
- Agusto & Co. affirms the “A-” rating assigned to UAC of Nigeria PLC (“UACN”, “the Holding Company” or “the Company”). The rating reflects the Company’s steady recovery from Coronavirus (COVID-19) shocks following a huge reduction in its dividend and interest income during the period. We believe that UACN’s ability to withstand these external shocks to its earnings was aided in part by an earlier decision to partially divest its investment in the loss-making real estate subsidiary - UACN Property Development Company PLC (UPDC). Also, the assigned rating mirrors UACN’s low leverage, adequate working capital and satisfactory operating cash flow. However, the rating is constrained by concerns over future dividend receipts from subsidiaries and associate companies amid thinning margins across key portfolio brands arising from cost escalations as well as shrinking purchasing power, which has limited these companies’ ability to pass on cost increases to consumers. This is in addition to portfolio companies’ vulnerability to potential disruptions to the global supply chain from the adverse impact of a third wave of the pandemic.
- The assigned rating is based on our appraisal of the financial performance of the Holding Company as a standalone entity. Agusto & Co. did not appraise the financial condition of UACN Group, which comprises the Holding Company and eight subsidiary and associate companies.
- UAC of Nigeria PLC is the Holding Company of the UACN Group – a leading conglomerate with business interests in the following sectors: animal feeds & other edibles, packaged foods, quick service restaurants, real estate, paint and logistics. The Company’s sources of income include dividends from equity investments in portfolio companies, interest income earned on non-equity investments, rental income on investment properties and management fees.
- UACN’s total income fell by 55% to ₦2.5 billion in the financial year ended 31 December 2020 (FYE 2020) to reflect its lowest income levels in over a decade amid COVID-induced low dividend receipts and yields on fixed-income investments. While dividend income decreased by about 85% to ₦0.3 billion in FYE 2020, interest income was nearly halved to ₦1.4 billion. Overall, UACN

posted an operating loss of ₦3.5 billion largely due to the fair value loss on investment in UPDC recognized during the year. However, the pre-tax loss was reduced to ₦2.1 billion to reflect the positive impact of other income arising majorly from profit on disposal of subsidiary and exchange gains during the period. We do not view these income sources as sustainable. Although UACN's return on assets (ROA) and return on equity (ROE) ratios were in the negative territory in FYE 2020, we recognise that these ratios averaged 8% and 10% respectively in the preceding three years (2017 - 2019). Overall, we consider the Company's profitability as low.

- However, UACN's unaudited accounts for the six months ended 30 June 2021 (H1'2021) showed total income and pre-tax profit of ₦2.1 billion and ₦0.9 billion respectively, to reflect some recovery in dividend and interest income during the period. Consequently, the Company's ROA and ROE rebounded to 4.3% and 5.4% respectively in H1'2021 but remained below our benchmarks. Barring major disruptions to business activities and operations of portfolio companies, we anticipate an even better performance in the second half of 2021 especially as economic activities continue to improve.
- The Company's operating cash flow (OCF) rebounded to ₦12.9 billion in 2020 compared to the negative OCF recorded in the previous year following the conversion of the bridge finance to UPDC to equity in readiness for the partial sale of a majority stake in the real estate segment that took place during the year. UACN's three-year (2018 – 2020) cumulative OCF as a percentage of returns to providers of finance of 221% and three-year (2018 – 2020) cumulative OCF to sales ratio of 140% reinforces our opinion on the Company's satisfactory cash flow position.
- As at 31 December 2020, the Company's total liabilities, which wholly comprised non-interest bearing liabilities, grew marginally by 3% to ₦9.5 billion. We recognise that these non-interest bearing liabilities were 1.6x the cash and equivalent balance as at year-end 2020 (after UACN's shored up its cash position with proceeds from the partial disposal of UPDC), and its total liabilities to equity ratio in the same period was 26% (2019: 23%). Also, UACN currently has no contingent liability following the cancellation of the corporate guarantee issued in favour of UPDC's bond after it was redeemed in April 2021. Pending the actualisation of the planned issuance of new long-term debt instruments to support investments across portfolio companies, we expect UACN's leverage indicators to remain low.
- As at FYE 2020, UACN recorded a short-term financing surplus (STFS) of ₦6.9 billion and working capital of ₦7.9 billion, thus resulting in an overall working capital surplus of ₦14.8 billion. With the Company not likely to extend additional funding support to UPDC, we expect the strong working capital position to be sustained in the near to medium term.

- Going forward, UACN intends to scale up investment in key portfolio brands to deepen market share and ensure sustainable growth. Agusto & Co. expects a gradual turnaround in the fortunes of some of the portfolio companies as economic activities and consumption levels continue to improve. However, we do not expect UACN's dividend receipts from its subsidiaries to reach pre-COVID levels in the near to medium term. Conversely, we anticipate a quick rebound in finance income in the second half of 2021, especially as yields on fixed-income investments near pre-COVID levels. Hence, we attach a **stable** outlook to UAC of Nigeria PLC.

Figure 1: Strengths, Weakness & Challenges



COMPANY PROFILE - UAC OF NIGERIA PLC

Overview & Background

UAC of Nigeria PLC (“UACN”, “the Holding Company” or “the Company”) is a holding company that owns business interests in some of Nigeria’s strongest brands. UACN has a diversified portfolio of eight companies spanning the following sectors: Animal Feeds & Other Edibles, Paints, Packaged Food and Beverages, Quick Service Restaurants, Logistics and Real Estate. Some of the key brands within the portfolio include Gala Sausage Roll, SWAN Spring Water, Supreme Ice Cream, Dulux Paint, Sandtex Paint, Hempel Paint, Grand Soya Oil, Vital Feed, BestMate, Livestock Feeds, Mr. Bigg’s and Debonairs Pizza.

UACN’s existence dates back to the country’s colonial times when it was established as a trading company in 1879. The Company has evolved over the years, expanding its operations through acquisitions, and its business name has experienced several changes including United Africa Company (1929), Nigeria Motors Limited (1931), UAC International Limited and UAC of Nigeria Limited (1973). UACN became a public company in 1991 and its shares were listed on the Nigerian Exchange Limited (previously the Nigerian Stock Exchange).

In 2012, UACN changed its operating structure from a trading company to a conglomerate with its business activities carried out through its subsidiary and associate companies. In 2018, UACN transformed from a centrally run conglomerate to a decentralised lean investment holding company structure. Presently, UACN has five subsidiaries and three associate companies. Two of these subsidiaries (Chemical & Allied Products PLC and Livestock Feeds PLC) and an associate (UACN Property Development Company PLC) are also listed on the Nigerian Exchange Limited.

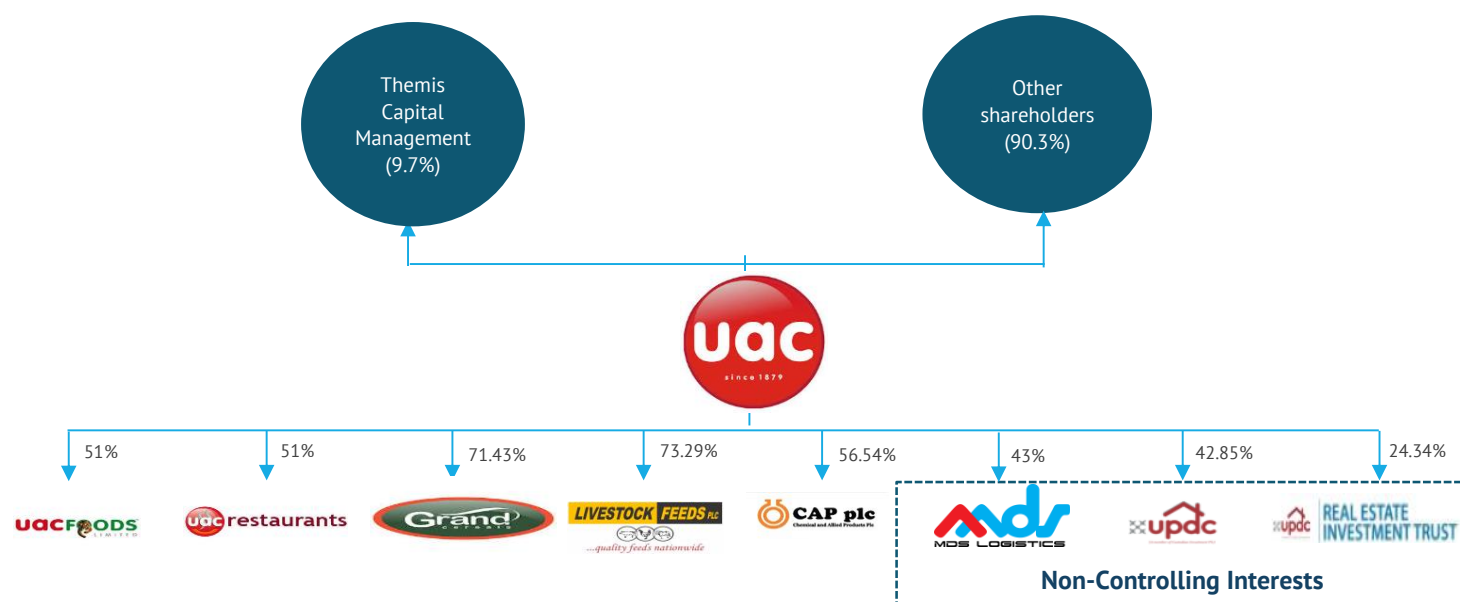
Ownership Structure

Themis Capital Management is the Company’s largest single shareholder with a 9.7% equity stake as at 30 June 2021. Other private and institutional shareholders collectively own the remaining 90.3% of the listed shares of UACN with none controlling up to 5% of the shares in the Company.

In July 2019, UACN entered into a share purchase agreement with Imperial Capital Limited (ICL), an affiliate of Imperial Logistics Limited (UACN’s logistics partner) for the sale of 8% of its 51% equity stake in its logistics subsidiaries – MDS Logistics Limited. The transaction was completed in January 2020 following the ratification of the requisite regulatory bodies, which makes MDS Logistics Limited an associate of UACN.

During the FYE 2020, UACN Property Development Company PLC issued a rights offer to shareholders, which UACN subscribed to by converting the outstanding ₦16.4 billion bridge loan to units of ordinary shares, thus increasing its equity stake in the real estate subsidiary to 93.8%. Consistent with its decision to exit the loss-making real estate segment, UACN completed the sale of a 51% stake in UPDC to Custodian Investment PLC in the last quarter of 2020. The Company received net cash proceeds of ₦6.6 billion and retained a 42.84% equity stake in UPDC. As part of the partial exit, UACN received 649 million units of ordinary shares with a market value of ₦3.6 billion in UPDC Real Estate Investment Trust (UPDC REIT), thus resulting in a 24.34% stake in UPDC REIT as at 31 December 2020. The retained interests in UPDC and UPDC REIT were classified as investments in associate in UACN’s 2020 financial statements. Nonetheless, the Board of Directors intends to follow through with their earlier proposal to unbundle the UPDC REIT units to UACN’s shareholders before year-end 2021. However, this is subject to receipt of regulatory and shareholders’ approvals.

Figure 2: UACN's shareholding structure together with its subsidiary and associate companies as at 30 June 2021



Source: UAC of Nigeria PLC's Management Presentation

As part of plans to streamline the Group structure, UACN announced its intention to merge the paint subsidiary companies – Chemical and Allied Products (CAP) PLC and Portland Paints & Products Nigeria (PPN) PLC – with CAP being the surviving entity. The respective minority shareholders of both companies approved the merger at separate court-ordered meetings in February 2021 and final regulatory approvals were received in March 2021. The Federal High Court granted an order sanctioning the merger of the two companies effective 1 July 2021.

Table 1: Profile of UACN's subsidiaries and associates as at 30 June 2021

S/N	UACN's Subsidiaries & Affiliates	Principal Activity	Managing Director/Fund Manager
1	Grand Cereals Limited	Animal Feeds, Edible Oil & Cereals	Mr. Alex Goma
2	Livestock Feeds PLC	Animal Feeds	Mr. Adegboyega Adedeji
3	UAC Foods Limited	Snacks, Dairies & Bottled Water	Dr. Oladele Ajayi
4	Chemical & Allied Products PLC	Paint Production	Mr. David Wright
5	Portland Paints and Products Nigeria PLC*	Paint Production	Mrs. Bolarin Okunowo
6	UAC Restaurants Limited	Quick Service Restaurants	Mr. Debola Badejo
7	MDS Logistics Limited	Logistics Services	Mr. Andre Bresler
8	UACN Property Development Company PLC	Property Development	Mr. Odunayo Ojo
9	UPDC Real Estate Investment Trust	Closed-Ended Property Fund	Stanbic IBTC Asset Management Limited

*The merger between Portland Paints and Products Nigeria PLC and Chemical & Allied Products PLC took effect on 1 July 2021

Board Composition and Structure

As at 30 June 2021, UAC of Nigeria PLC had a nine-member Board of Directors, which comprised seven Non-Executive Directors and two Executive Directors. Mr. Daniel Agbor leads the Board as the Chairman, while Mr. Folasope Aiyesimoju is the Group Managing Director.

Table 2: Current Directors

Name	Designation
Mr. Daniel O. Agbor	Chairman
Mr. Folasope B. Aiyesimoju	Group Managing Director
Dr. Vitus C. Ezinwa	Chief Operating Officer
Mr. Babatunde O. Kasali	Non-Executive Director
Dr. Okechukwu J. Mbonu	Non-Executive Director
Mr. Bolaji A. Odunsi	Non-Executive Director
Dr. Umaru Alka	Non-Executive Director
Mrs. Suzanne O. Iroche	Independent Non-Executive Director
Mr. Karl O. Toriola	Independent Non-Executive Director

Source: UAC of Nigeria PLC's 2020 Annual Report and Management Presentation

The Board operates through three Board Committees, namely the Risk Management Committee, the Governance and Remuneration Committee and the Statutory Audit Committee. Mr. Bolaji Odunsi, a Non-Executive Director, leads the Risk Management Committee, whose members include three Non-Executive Directors and two Executive Directors. The Governance and Remuneration Committee, whose chairperson was formerly Mr. Daniel Agbor (the Board Chairman), comprised three Non-Executive Directors. However, Mr. Daniel Agbor ceased serving on the Committee since the second half of 2020, and Mrs. Suzanne Iroche, an Independent Non-Executive Director, was appointed in his stead as the new chairperson of the Committee (effective 29 July 2020). This is in full compliance with the Nigerian Code of Corporate Governance 2018. The five-man Statutory Audit Committee, whose members include three shareholders' representatives and two Non-Executive Directors, is led by Mr. Olabisi Fayombo (a shareholder). Augusto & Co notes that the composition of the Board Committees is in line with the provisions of extant laws in Nigeria as well as the Nigerian Code of Corporate Governance.

Other Information

As at 31 December 2020, UACN's total assets stood at ₦46.7 billion, while its shareholders' fund was ₦37.2 billion. In the FYE 2020, the Company generated a total income of ₦2.5 billion and recorded an after-tax loss of ₦2.5 billion. In the same period, UACN had a contingent liability of ₦2.18 billion arising from a corporate guarantee issued in favour of UPDC, its real estate associate company. However, the guarantee was effectively cancelled in April 2021 following the redemption of the Bond. The Company's external auditors – Ernst & Young resigned in 2021 on account of a potential self-review threat owing to their capacity as the consultant handling the ongoing implementation of SAP S4 Hana (a cloud-based enterprise resource planning system). KPMG Professional Services was appointed as the new auditors at the Company's annual general meeting held on 30 June 2021.

Table 3: Background Information

Authorized Share Capital:	₦1.7 billion
Paid-up Capital:	₦1.4 billion
Shareholders' Funds:	₦37.2 billion
Registered Office:	1-5 Odunlami Street, Marina, Lagos
Principal Business:	Diversified holding company
Auditors:	KPMG Professional Services

Source: UAC of Nigeria PLC's 2020 Annual Report and Management Presentation

FINANCIAL CONDITION

ANALYSTS' COMMENTS

- We have analysed the financial condition of the Holding Company ("UACN" or "the Company") as a standalone entity.
- Agusto & Co. did not appraise the financial condition of UACN Group, which comprises UACN and its subsidiary and affiliate companies in the financial year ended 31 December 2020.
- We have treated dividend income from subsidiaries, interest income on short-term deposits, management fees and other third-party rentals as part of UACN's total income (revenue).

PROFITABILITY

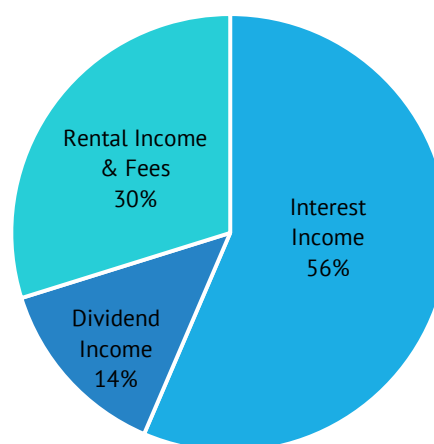
UAC of Nigeria PLC, the holding company of the UACN Group, is a non-trading entity with business interests in the following sectors of the Nigerian economy: animal feeds and other edibles, packaged foods, quick service restaurants, real estate, paint and logistics. UACN's principal source of income includes dividends¹ from equity investments in subsidiary and associate companies as well as interest income earned on non-equity investments. The Company earns additional income from rent on investment properties and from commercial service fees² charged to portfolio entities, which are usually based on a percentage of their revenues.

Like most businesses across the world, the Nigerian business community witnessed a year like no other in 2020 amid the health and crude oil crisis caused by the pandemic. To curb the spread of the pandemic, the Federal Government of Nigeria implemented certain social distancing measures (including border closures) that constrained domestic economic activities. Consequently, the country slipped into its second recession in five years with the gross domestic product (GDP) contracting by 6.1% and 3.6% in the second and third quarters of 2020 respectively. Overall, Nigeria's GDP growth for 2020 was -1.9%, compared to the 2.3% achieved in 2019.

As a fallout of the negative economic growth and Coronavirus-induced headwinds, UACN's operating income was hit by a double whammy of low dividend payout and low yields on fixed-income investments that characterised the operating landscape in 2020. Consequently, the Company's total income in the financial year ended 31

December 2020 (FYE2020) fell by 55% to ₦2.5 billion. Dividend income³ suffered the steepest decline during the period after it fell by nearly 85% to ₦0.3 billion following a strategic decision to adopt a cautious dividend payout as portfolio entities seek to quickly bounce back from the adverse impact of the pandemic. In the same vein, interest income was almost halved to ₦1.4 billion to reflect the unusually low-interest regime and available investment capital after the ₦16.4 billion bridge finance to UPDC was converted into equity during

Figure 3: Breakdown of UACN's Total Income in FYE 2020



¹ In line with IAS 18, UACN recognizes dividend income when the right to receive payment has been established, which is generally when shareholders approve the dividend

² These are monthly fees charged to group entities for services such as legal/company secretarial and human resources support.

³ Dividend income of ₦349.7 million received in 2020 were from Grand Cereals Limited (97%) and Central Securities Clearing System PLC – CSCS (3%). UACN's equity stake in CSCS does not qualify the latter to be treated as a separate portfolio company.

the period. However, the Company's rental income and commercial service fees were largely unchanged at ₦0.8 billion in 2020 (2019: ₦0.8 billion).

A breakdown of the Company's total income in the FYE 2020 showed that interest income from non-equity investments, notwithstanding the decline during the year, contributed the highest at 56%, followed by management fees and rental incomes with a 30% share. The rest were dividend receipts from Grand Cereals Limited. With the Company's investment capital boosted by the ₦6.6 billion cash proceeds from the partial disposal of UPDC, coupled with the improving yield and business climate, we anticipate marked improvement in UACN's aggregate interest income from non-equity investments and dividend income by year-end 2021. However, the Company's path to recovery could be impacted by a potential third wave of the pandemic.

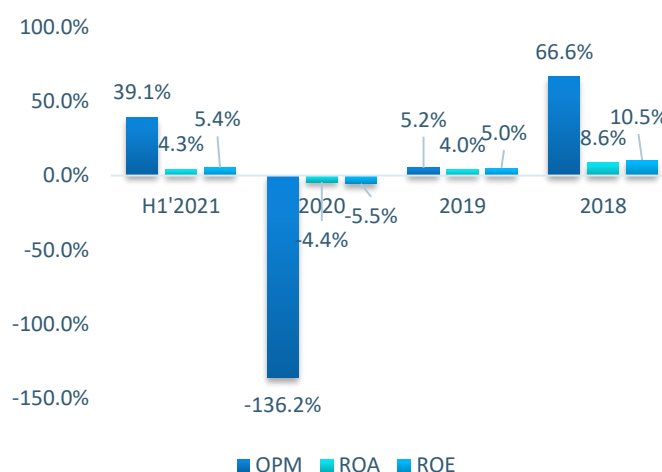
UACN's operating expense to total income ratio in FYE 2020 rose to 236.2% (2019: 94.8%) to reflect the low-income base during the period. Hence, the Company's posted an operating loss margin of 136.2% in 2020 – its first operating loss since becoming a holding company in 2018. We recognise that nearly half of the operating expenses related to non-cash fair value loss on investment in UPDC, which was recognised before the divestment. Considering that the investment in UPDC will now be treated differently (based on IAS 28), the fair value loss will no longer appear in UACN's books. Therefore, we expect the pressure on the Company's dwindling revenue to ease considerably.

In 2020, the Company's other income arising mainly from profit on disposal of subsidiary and exchange gain amounted to ₦1.4 billion, which represented a significant 55.2% of revenue. Similar to prior years, UACN had zero finance costs during the year under review. Overall, the Company recorded a pre-tax loss of ₦2.1 billion in 2020 compared to the pre-tax profit of approximately ₦2 billion in the previous year.

Although UACN's profitability metrics (ROA & ROE) in 2020 were in the negative territory on account of the huge loss incurred during the year, we note that the Company had posted average ROA and ROE ratios of 8% and 10% respectively in the last three years (2017 – 2019) preceding the pandemic.

UACN's unaudited accounts for the six months ended 30 June 2021 (H1'2021) showed operating income and pre-tax profit of ₦2.1 billion and ₦0.9 billion respectively, which indicates a fairly improved performance amid gains from some of the strategic initiatives implemented in 2020. Consequently, both ROA and ROE rebounded to 4% and 5% respectively in H1'2021 but remained below our benchmarks. We predict upswings in both ROA and ROE based on anticipated improvement in the Company's earnings but expect these metrics to remain below pre-COVID levels as the resurgence of the Delta variant could moderate the pace of recovery and the overall outlook for portfolio companies (and all businesses in general).

Figure 4: OPM, ROA & ROE (2018 – H1'2021)



The Company implemented two key strategic initiatives in 2020 – completing the sale of controlling interest in MDS Logistics Limited and executing a partnership with a new anchor shareholder (Custodian Investment PLC) as regards the partial sale of UPDC and completed the merger of its paint businesses (CAP and Portland Paints) in the first half of 2021. This is in addition to ongoing investments in the manufacturing and distribution capacities of portfolio companies towards deepening market share. Management expects these initiatives and investments to drive sustainable growth across the portfolio as well as lead to improved performance for UACN.

In our opinion, UAC of Nigeria PLC's profitability is weak and requires improvement.

CASH FLOW

As a non-trading holding company, UAC of Nigeria PLC generates cash essentially from dividend income received from equity investments in subsidiary and associate companies as well as interest income on other non-equity investments. In addition, UACN generates extra cash from commercial service fees charged to subsidiaries, which are typically within the range of 0.75 – 1 per cent of the revenue of these entities. However, we recognise that this income source constitutes about a tenth of the Company's operating income.

Historically, UAC of Nigeria PLC adopted a strategy of advancing proprietary surplus funds to portfolio companies (at arm's length basis) towards expanding the operations of these entities, which will in turn, ensure better returns on investment for UACN. As a result, UACN tends to have high receivables arising from intercompany loans and advances to related entities, thus impairing its operating cash flow position. In 2020, UACN increased its equity stake in UPDC by converting the intercompany loans and advances to the real estate affiliate into units of ordinary shares.

Despite the unprecedented decline in both dividend and investment incomes in FYE 2020, UACN recorded an operating cash flow (OCF) of ₦12.9 billion, which represented a rebound from the prior year's negative OCF of ₦10.2 billion. The growth in OCF was due to "non-cash" repayment of the bridge loan exposure to UPDC by way of conversion to ordinary shares in the build-up to the partial divestment from the real estate business. Over the past three years (2018 – 2020), UACN recorded a cumulative OCF of ₦7.8 billion, which was sufficient to cover cumulative dividend payments of ₦3.5 billion to providers of finance in the same period.

In the six months ended 30 June 2021 (unaudited), UACN posted a negative operating cash flow of approximately ₦2 billion compared to the positive OCF recorded in a similar period in 2020 due to the low dividend payout and interest income arising from COVID-19 uncertainties. We note that the variation in operating cash flow over the last five years (2017 – 2021) reflected the adverse impact of the centralized funding strategy previously adopted by UACN as well as the harsh realities of the pandemic. Going forward, the Company has adopted a more decentralized funding approach with portfolio entities encouraged to independently seek financing support from third-party lenders. We expect this new strategy, together with other initiatives like the consolidation of its paint businesses and other partnership (especially as regards the partial divestment from UPDC) to somewhat ease pressure on UACN's cash flow. Also, we anticipate a sharp increase in interest income from non-equity investments in tandem with the upward movement in the yields curve as market sentiment continues to improve.

In our opinion, UAC of Nigeria PLC's overall cash flow position is satisfactory.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2020, UACN's working assets fell by 85% to ₦2.6 billion on the back of a significant decrease in intragroup receivables after the bridge finance of ₦16.4 billion to UPDC was eventually converted to share capital in anticipation of the partial divestment that took place during the year. The main components of the Company's working assets as at FYE 2020 were amounts due from related entities (66%) and other debtors and prepayments (34%).

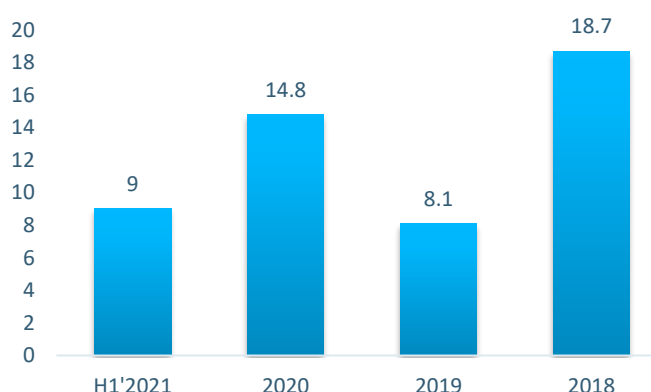
As at FYE 2020, the Company's spontaneous financing stood at ₦9.5 billion (2019: ₦9.2 billion) and comprised dividend payable (54%), taxation payable (26%), other creditors & accruals (15%) and deferred taxation (5%). UACN's spontaneous financing was more than sufficient to cover working assets, leaving a short-term financing surplus (STFS) of ₦6.9 billion as at year-end compared to the financing need recorded in the prior year. We attribute this to the spike in intracompany loans during the year under review. Given UACN's cautious stance on new loan advances to its subsidiary and associate companies, we expect the short-term financing surplus to be sustained in the near to medium term.

As at 31 December 2020, UAC of Nigeria PLC's long-term assets, which mainly comprised investment in subsidiaries, stood at ₦29.3 billion. As at the same date, the Company's long-term funds, which wholly comprised equity, amounted to ₦37.2 billion. The long-term funds were sufficient to cover long-term assets, resulting in available working capital of ₦7.9 billion. Overall, the Company recorded a working capital surplus of ₦14.8 billion as at 31 December 2020. We note that UACN has consistently recorded overall working capital surplus since its conversion to a non-operational holding company in 2012, which mirrored its lean operating structure and strong equity funding buffer despite the pre-tax loss during the period.

The unaudited accounts for the six months ended 30 June 2021 (H1'2021) showed depletion in UACN's equity base following a dividend payout to shareholders that was higher than dividend receipts from portfolio companies in the same period. However, UACN still posted an overall working capital surplus of approximately ₦9 billion as at H1'2021. Going forward, the business outlook for most of the portfolio companies over the next twelve months is slightly brighter than before. Therefore, we anticipate a moderate growth in UACN's dividend and investment income, which should in turn, enhance its equity funding buffer through higher retained earnings. Also, the ongoing strategic realignment of portfolio investments will to some extent improve UACN's working capital position.

In our view, UAC of Nigeria PLC has adequate working capital.

Figure 5: Working Capital Surplus (2018 – H1'2021)



LEVERAGE

As at 31 December 2020, UACN's total liabilities stood at ₦9.5 billion, up by 3% from the prior year. The total liabilities wholly comprised non-interest bearing liabilities (NIBL). As at the same date, the components of UACN's non-interest bearing liabilities were dividend payable (54%), taxation payable (26%) and other creditors & accruals (15%) and deferred taxation (5%). UACN's contingent liability arising from the corporate bond guarantee extended to UACN Property Development Company PLC was effectively cancelled in April 2021 after the latter redeemed the Bond together with the accrued coupon.

As at FYE 2020, the Company's total assets were funded by shareholders' equity (80%) and non-interest bearing liabilities (20%), thus depicting a strong equity cushion. Since becoming a lean Holding Company, UACN has relied wholly on internal funding sources to finance its operations whilst extending funding supports to its portfolio companies. Agosto & Co. notes positively that UACN's cash and equivalents of ₦14.8 billion together with a ₦2.1 billion investment in Eurobond assets as at 31 December 2020 were sufficient to cover total outstanding liabilities, thus depicting the Company's low leverage. Also, UACN's total liabilities to equity ratio of 26% as at year-end 2020 (2019: 23%) further underlines its low leverage position.

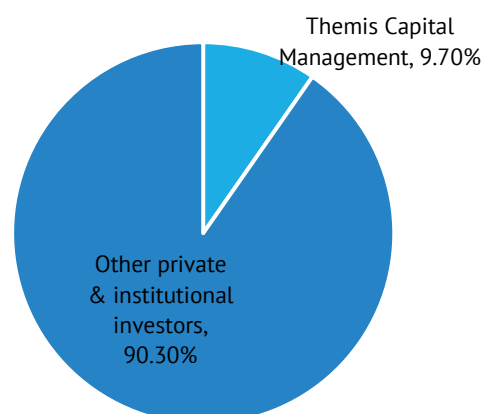
As at 30 June 2021 (H1'2021), the Company's total liabilities stood at ₦9.1 billion with the entire amount being non-interest bearing liabilities, while its other leverage indicators as at the same period remained largely unchanged. Overall, we expect UACN's leverage position to remain about the same level on the back of its healthy equity cushion.

In our view, UAC of Nigeria PLC's leverage is low.

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2020, UAC of Nigeria PLC had an authorised share capital of ₦1.7 billion split into 3 billion ordinary shares and 400 million preference shares both at 50 kobo each, while the issued and fully paid-up share capital as at the same date stood at ₦1.4 billion. Themis Capital Management, represented on the Board by the Group Managing Director, is the Company's largest single shareholder with a 9.7% equity stake, while other private and institutional shareholders collectively own the remaining 90.3% of the listed shares of UACN with none controlling up to 5% of the shares in the Company as at 30 June 2021.

Figure 6: Breakdown of UACN's Shareholding Structure as at 30 June 2021



Source: UAC of Nigeria PLC's 2021 Management Account (Unaudited)

UAC of Nigeria PLC has a nine-member Board of Directors, which comprises seven Non-Executive Directors and two Executive Directors. Mr. Daniel Agbor leads the Board as the Chairman, while Mr. Folasope Aiyesimoju is the Group Managing Director. The notable leadership changes during the FYE 2020 were the resignation of erstwhile Group Chief Finance Director, Mr. Ibikunle Oriola, the retirement of Mr. Godwin Samuel (former Company Secretary) as well as the appointment of Mrs. Funke Ijaiya-Oladipo and Mrs. Nkem Agboti as Group Chief Financial Officer and Company Secretary respectively. The Group Chief Financial Officer was later promoted to Group Finance Director.

As at 30 June 2021, UACN's senior management team consists of two Executive Directors and four senior management personnel covering various segments of the business. Agusto & Co notes that the management team possesses the requisite experience having worked with multinationals and large conglomerates both in Nigeria and internationally. In our opinion, the Company's management team is experienced and qualified.

As at 31 December 2020, UACN had 35 employees (2019: 37 employees) reflecting the Holding Company's lean structure. The Company's average cost per employee rose by 36% to ₦31.5 million in 2020 owing to new recruitments and a change in payroll structure during the year. However, UACN's net contribution per staff plunged to the negative territory to reflect the marked reduction in total income that resulted in pre-tax loss during the period. In our opinion, the Company's staff productivity level is weak and requires improvement.

Management Team

Mr. Folasope Aiyesimoju is the Group Managing Director of UAC of Nigeria PLC. He joined UACN's Board of Directors in March 2018 and was appointed the Group Managing Director on 1 April 2019. Mr. Aiyesimoju is a finance professional with experience spanning corporate finance, principal investing and private equity. He is the founder of Themis Capital Management, an investment firm focused on concentrating capital and talent on high-potential opportunities in Sub-Saharan Africa. Before founding Themis, he worked with Kohlberg Kravis Roberts, a leading global investment firm. He spent the early part of his career with Ocean and Oil Holdings Limited, a principal investment firm in Nigeria, ARM Investment Managers and Standard Bank Group, where he led mergers and acquisitions in Nigeria. He holds a Bachelor's Degree in Estate Management from

the University of Lagos and was awarded the right to use the CFA designation in 2006.

Dr. Vitus Ezinwa is the Group Chief Operating Officer of UAC of Nigeria PLC. He is a business manager and human resources professional with work experience in leading multinationals such as Tropical General Investments (TGI) Group, Promasidor, Coca-Cola and British American Tobacco. Dr. Ezinwa is a member of the Advisory Board of Afterschool Graduate Development Centre, a member of the Institute of Directors and a Fellow of the Chartered Institute of Personnel and Development (CIPD) UK. He is a co-founder and Director of HR Network Africa and was until 2014, a member of the Lagos Business School's Advisory Board. He holds a Bachelor's Degree in Sociology/Anthropology from the University of Nigeria, Nsukka, an MBA in Management from Lagos Business School, a Master's Degree in Applied Business Research and a Doctorate in Business Administration, both from Swiss Business School, Zurich, Switzerland. Dr. Ezinwa joined the Board of UACN on 1 November 2018.

Mrs. Funke Ijaiya-Oladipo is the Group Finance Director of UACN. She has over 14 years of operational finance, corporate finance and capital markets experience and has advised several local and international companies on raising equity capital as well as supervised various forms of business mergers and acquisitions, restructuring and divestments in Nigeria, South Africa and the United Kingdom. Mrs. Ijaiya-Oladipo started her career in investment banking at Goldman Sachs in London and later worked for the Standard Bank Group. She also functioned in two senior managerial positions at Stanbic IBTC and executed some local and cross-border mergers and acquisitions deals. Before she was appointed Group Finance Director, she was UACN's Group Chief Financial Officer, with overall responsibility for the Company's finance function. Her previous roles with UAC include serving as Head Investor Relations, responsible for strategic stakeholder management. Mrs. Ijaiya-Oladipo holds a Bachelor's Degree in Economics and a Master's Degree in Project and Enterprise Management, both from the University College London (UCL). She is a CFA charter holder and a member of the advisory board of the Sponsor's for Educational Opportunity Africa (SEO Africa) – a revenue-generating non-profit organisation.

Table 4: Other Members of UACN's Management Team

Name	Position
Mrs. Bolarin Okunowo	Investment Executive
Mr. Peter Mombaur	Investment Executive
Mrs. Nkem Agboti	General Counsel/Company Secretary

Source: UAC of Nigeria PLC's Management Presentation

OUTLOOK

UACN's total income dipped by 55% to ₦2.5 billion in FYE 2020 on account of COVID-induced weak performances, which constrained dividend payout by portfolio companies, and the unprecedented low-interest environment that significantly moderated non-equity investment income in the same period. However, the Company's total income somewhat rebounded in the first half of 2021 (unaudited) to ₦2.1 billion, which is nearly at par with last year's income levels, to reflect some recovery in both dividend and interest incomes. Although some of the portfolio companies have continued to face thinning margins across core products arising from foreign exchange volatility/illiquidity and inflation-induced cost escalations, which they have struggled to pass on to consumers, we anticipate an improved dividend payout ratio from the portfolio companies in 2021. Also, we foresee an increase in the Company's non-equity investment income as yields on fixed-income investments nears pre-COVID levels. Overall, we expect an immediate return to profit for UACN in 2021 although we expect it to remain below pre-COVID levels. Despite our optimism, we recognise that the performance of UACN's equity and non-equity investment portfolio remains vulnerable to the risk of another production and supply chain disruptions and constrained demand amid fears of a third wave of the pandemic.

UACN implemented some key strategic initiatives towards repositioning the Company on an accelerated growth path. The Company completed the sale of a majority stake in UPDC to Custodian Investment PLC. We expect this divestment to ease pressure on UACN's near-term profitability arising from the elimination of huge losses accruing from the real estate segment, whilst improving the prospects of its retained interest in UPDC, which is poised to benefit from a new anchor shareholder. In a bid to streamline its group structure, UACN merged its paints business. Management expects this merger to create one of the most diversified product range and retail distribution channels owing to the combined brand portfolio of the two entities as well as improve efficiency.

Furthermore, the Company plans to scale up investments in key brands across the portfolio. In the animal feeds and other edibles segment, UACN intends to bolster the production and distribution capacities towards improving coverage, route to market and product availability. This is in addition to the ongoing investments in company-owned restaurants towards reviving the QSR segment and expanding corporate stores. The near-term focus for the packaged food and beverages segment is to continue to invest in the Gala Sausage Roll brand towards sustaining its leadership position, grow market share and expand the current output and distribution capacities of SWAN Spring Water. When fully actualised, we expect these investments to have a positive bearing on the performance of these entities, which will in turn, improve future dividend payout and UACN's dividend receipts.

Furthermore, we expect some stability in the Company's working capital and cash flow positions over the near to medium term especially with the significant reduction in exposure to the real estate affiliate. Buoyed by the cancellation of the corporate guarantee issued in favour of UPDC's bond, which was liquidated in April 2021, we expect the Company's low debt profile to be sustained over the near term. We hereby attach a **stable** outlook to UAC of Nigeria PLC.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	30-Jun-21 (unaudited)		31-Dec-20		31-Dec-19	
	N'000		N'000		N'000	
ASSETS						
IDLE CASH	496,475	1.1%	94,042	0.2%	35,297	0.1%
MARKETABLE SECURITIES & TIME DEPOSITS	8,481,162	19.4%	14,709,723	31.5%	8,090,867	16.5%
CASH & EQUIVALENTS	8,977,637	20.5%	14,803,765	31.7%	8,126,164	16.6%
FX PURCHASED FOR IMPORTS	-		-		-	
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	-		-		-	
STOCKS	3,602	0.0%	3,602	0.0%	3,602	0.0%
TRADE DEBTORS	-		-		-	
DUE FROM RELATED PARTIES	4,217,243	9.6%	1,727,387	3.7%	16,676,771	34.0%
OTHER DEBTORS & PREPAYMENTS	980,926	2.2%	872,509	1.9%	1,000,667	2.0%
TOTAL TRADING ASSETS	5,201,771	11.9%	2,603,498	5.6%	17,681,040	36.1%
INVESTMENT PROPERTIES	2,331,287	5.3%	2,331,287	5.0%	2,096,624	4.3%
OTHER NON-CURRENT INVESTMENTS	26,079,223	59.6%	25,994,547	55.7%	20,242,865	41.3%
PROPERTY, PLANT & EQUIPMENT	925,580	2.1%	888,144	1.9%	699,102	1.4%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-		-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	228,169	0.5%	58,160	0.1%	141,394	0.3%
TOTAL LONG TERM ASSETS	29,564,259	67.6%	29,272,138	62.7%	23,179,985	47.3%
TOTAL ASSETS	43,743,667	100.0%	46,679,401	100.0%	48,987,189	100.0%
Growth	-6.3%		-4.7%		-0.1%	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	-		-		-	
CURRENT PORTION OF LONG TERM BORROWINGS	-		-		-	
LONG-TERM BORROWINGS	-		-		-	
TOTAL INTEREST BEARING LIABILITIES (TIBL)	-		-		-	
TRADE CREDITORS	-		-		-	
DUE TO RELATED PARTIES	-		-		-	
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-		-		-	
OTHER CREDITORS AND ACCRUALS	1,055,368	2.4%	1,468,643	3.1%	1,363,023	2.8%
TAXATION PAYABLE	2,478,919	5.7%	2,480,618	5.3%	2,984,185	6.1%
DIVIDEND PAYABLE	5,080,821	11.6%	5,127,079	11.0%	4,843,925	9.9%
DEFERRED TAXATION	435,991	1.0%	435,991	0.9%	24,625	0.1%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	-		-		-	
MINORITY INTEREST	-		-		-	
REDEEMABLE PREFERENCE SHARES	-		-		-	
TOTAL NON-INTEREST BEARING LIABILITIES	9,051,099	20.7%	9,512,331	20.4%	9,215,758	18.8%
TOTAL LIABILITIES	9,051,099	20.7%	9,512,331	20.4%	9,215,758	18.8%
SHARE CAPITAL	1,440,648	3.3%	1,440,648	3.1%	1,440,648	2.9%
SHARE PREMIUM	18,509,120	42.3%	18,509,120	39.7%	18,509,120	37.8%
IRREDEEMABLE DEBENTURES	-		-		-	
REVALUATION SURPLUS	-		-		-	
OTHER NON-DISTRIBUTABLE RESERVES	230,249	0.5%	187,124	0.4%	27,770	0.1%
REVENUE RESERVE	14,512,551	33.2%	17,030,178	36.5%	19,793,893	40.4%
SHAREHOLDERS' EQUITY	34,692,568	79.3%	37,167,070	79.6%	39,771,431	81.2%
TOTAL LIABILITIES & EQUITY	43,743,667	100.0%	46,679,401	100.0%	48,987,189	100.0%

UAC of Nigeria PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	30-Jun-21 (unaudited)		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
OPERATING INCOME/REVENUE	2,137,292	100.0%	2,543,935	100.0%	5,696,254	100.0%
OPERATING EXPENSES	(1,301,080)	-60.9%	(6,009,907)	-	(5,398,598)	-94.8%
				236.2%		
OPERATING PROFIT	836,212	39.1%	(3,465,972)	-	297,656	5.2%
				136.2%		
OTHER INCOME/(EXPENSES)	105,892	5.0%	1,404,295	55.2%	1,676,090	29.4%
PROFIT BEFORE INTEREST & TAXATION	942,104	44.1%	(2,061,677)	-81.0%	1,973,746	34.6%
INTEREST EXPENSE	-		-		-	
PROFIT BEFORE TAXATION	942,104	44.1%	(2,061,677)	-81.0%	1,973,746	34.6%
TAX (EXPENSE) BENEFIT	(2,175)	-0.1%	(413,909)	-16.3%	(489,599)	-8.6%
PROFIT AFTER TAXATION	939,929	44.0%	(2,475,586)	-97.3%	1,484,147	26.1%
NON-RECURRING ITEMS	-		-		-	
MINORITY INTEREST IN GROUP PAT	-		-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	939,929	44.0%	(2,475,586)	-97.3%	1,484,147	26.1%
DIVIDEND	(3,457,556)	161.8%	(288,130)	-11.3%	(1,844,029)	-32.4%
PROFIT RETAINED FOR THE YEAR	(2,517,627)	117.8%	(2,763,716)	108.6%	(359,882)	-6.3%
SCRIP ISSUES	-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		-	
PROFIT RETAINED B/FWD	17,030,178		19,793,894		20,153,775	
PROFIT RETAINED C/FWD	14,512,551		17,030,178		19,793,893	
ADDITIONAL INFORMATION	30-Jun-21		31-Dec-20		31-Dec-19	
Staff costs (₦'000)	652,156		1,165,090		858,000	
Average number of staff	35		37		37	
Staff costs per employee (₦'000)	18,633		31,489		23,189	
Staff costs/Turnover	30.5%		45.8%		15.1%	
Capital expenditure (₦'000)	101,909		360,504		176,883	
Depreciation expense - current year (₦'000)	63,897		138,466		145,568	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	2,881,296		2,881,296		2,881,296	
Market value per share of 50 kobo (year end)	975		725		860	
Market capitalisation (₦'000)	28,092,636		20,889,396		24,779,146	
Market/Book value multiple	1		1		1	
Non-operating assets at balance sheet date (₦'000)	-		-		-	
Market value of tradeable assets (₦'000)	-		-		-	
Revaluation date - Investment properties	-		-		-	
Revaluation date - Other properties	-		-		-	
Average age of depreciable assets (years)	5		5		5	
Sales at constant prices - base year 1985 (₦'000)	5,056		6,019		15,598	
Auditors	N/A		Ernst & Young		Ernst & Young	
Opinion	N/A		CLEAN		CLEAN	

UAC of Nigeria PLC

CASH FLOW STATEMENT FOR YEAR ENDED	30-Jun-21 (unaudited)	31-Dec-20	31-Dec-19
	₦'000	₦'000	₦'000
OPERATING ACTIVITIES			
Profit after tax	939,929	(2,475,586)	1,484,147
ADJUSTMENTS			
Interest expense	-	-	-
Minority interests in Group PAT	-	-	-
Depreciation	63,897	138,466	145,568
(Profit)/Loss on sale of assets	-	-	-
Other non-cash items	43,125	159,354	(1,229)
Potential operating cash flow	1,046,951	(2,177,766)	1,628,486
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	-	-	-
Due to related parties	-	-	-
Advance payments and deposits from customers	-	-	-
Other creditors & accruals	(413,275)	105,620	82,550
Taxation payable	(1,699)	(503,567)	328,916
Deferred taxation	-	411,366	(49,023)
Obligations under unfunded pension schemes	-	-	-
Minority interest	-	-	-
Cash from (used by) spontaneous financing	(414,974)	13,419	362,443
(INCREASE)/DECREASE IN WORKING ASSETS:			
FX purchased for imports	-	-	-
Advance payments and deposits to suppliers	-	-	-
Stocks	-	-	(479)
Trade debtors	-	-	-
Due from related parties	(2,489,856)	14,949,384	(11,993,174)
Other debtors & prepayments	(108,417)	128,158	(220,394)
Cash from (used by) working assets	(2,598,273)	15,077,542	(12,214,047)
CASH FROM (USED IN) OPERATING ACTIVITIES	(1,966,296)	12,913,195	(10,223,118)
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	-	-	-
Dividend paid	(3,503,814)	(4,976)	(1,900,066)
CASH USED IN PROVIDING RETURNS ON FINANCING	(3,503,814)	(4,976)	(1,900,066)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	(5,470,110)	12,908,219	(12,123,184)
NON-RECURRING ACTIVITIES			
Non-recurring items (net of tax)	-	-	-
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	-	-	-
INVESTING ACTIVITIES			
Capital expenditure	(101,909)	(360,504)	(176,883)
Sale of assets	576	32,997	46,325
Purchase of other long term assets (net)	(254,685)	(5,903,111)	-
Sale of other long term assets (net)	-	-	1,603,026
CASH FROM (USED IN) INVESTING ACTIVITIES	(356,018)	(6,230,618)	1,472,468
FINANCING ACTIVITIES			
Increase/(Decrease) in short term borrowings	-	-	-
Increase/(Decrease) in long term borrowings	-	-	-
Proceeds of shares issued	-	-	-
CASH FROM (USED IN) FINANCING ACTIVITIES	-	-	-
CHANGE IN CASH INC/(DEC)	(5,826,128)	6,677,601	(10,650,716)
OPENING CASH & MARKETABLE SECURITIES	14,803,765	8,126,164	18,776,880
CLOSING CASH & MARKETABLE SECURITIES	8,977,637	14,803,765	8,126,164

	30-Jun-21 (unaudited)	31-Dec-20	31-Dec-19
	₦'000	₦'000	₦'000
<u>PROFITABILITY</u>			
PBT as % of turnover	44%	-81%	35%
Return on equity	5.4%	-5.5%	5.0%
Sales growth	20%	-55.3%	0.9%
Return on asset (pre-tax)	4.3%	-4.4%	4.0%
<u>CASH FLOW</u>			
Interest cover (times)	-	-	-
Principal payback (years)	-	-	-
<u>WORKING CAPITAL</u>			
Working capital need (days)	-	-	542
Working capital deficiency (days)	-	-	-
<u>LEVERAGE</u>			
Interest-bearing debt to Equity	-	-	-
Total debt to Equity	3%	0%	0%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
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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