

# PRIMERO BRT SECURITIZATION SPV PLC

*#16.5 billion 17% Series 1 Fixed Rate Bond Due 2026 (Series 1)*

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2020 Structured Finance Rating Review Report

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 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# PRIMERO BRT SECURITIZATION SPV PLC

₦16.5 billion 17% Series 1 Fixed Rate Bond Due 2026 (Series 1)

Issue Rating:  
**Bbb<sup>-sf</sup>**

Satisfactory quality debt with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.

**Outlook:** Stable

**Issue Date:** 12 March 2021

**Expiry Date:** 30 September 2021

*The Issue rating for the Series 1 Bond will be subject to annual monitoring and review*

**Previous Issue Rating:** Bbb<sup>-sf</sup>

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## RATING RATIONALE

- Agusto & Co. hereby affirms the “Bbb<sup>-sf</sup>” rating assigned to the Primero BRT Securitization SPV Plc's ₦16.5 Billion 17% Fixed Rate Bond Due 2026 (“the Bond”, “Series 1” or “the Issue”) under the ₦100 billion Medium Term Note Programme. The assigned rating is underlined by the unconditional and irrevocable guarantee provided by Sterling Bank Plc to cover coupon payment and principal redemption on the Series 1 Bond. In our view, the ultimate risk of repayment rests with Sterling Bank Plc, which we have assign a Public Information rating of “Bbb-“. Therefore, the rating is hinged on Sterling Bank Plc.
- Primero Transport Services Limited (“Primero”, “PTSL” or “the Company”) is the sole operator (under a Franchise Agreement<sup>1</sup>) of the longest Bus Rapid Transit System (BRTS) dedicated route in Nigeria covering 35.5 kilometres from Ikorodu to Race Course in Tafawa Balewa Square (TBS), Lagos. Primero has a fleet of 434 Mass Transit Buses and commutes an average of 150,000 passengers per day on its dedicated bus route. In July 2018, the Company sponsored the incorporation of a special purpose vehicle, Primero BRT Securitisation SPV Plc (“the Issuer” or “SPV”) to raise money solely in connection with the funding program for the purchase of PTSL's rights to the current and future BRT Bus Ticket receivables.
- In May 2019, the SPV raised a total of ₦16.5 billion as Series 1 Bond, which was used to purchase the rights of PTSL to the current and future receivables of the BRTS Bus Tickets under the terms of an Operating Assets and Receivables Sale and Purchase Agreement (OARSPA). In turn, the Company utilized the net proceeds to refinance existing commercial bank loans with Sterling Bank Plc, finance working capital requirements and partly fund the Cash Reserve Account. The Series 1 Bond has a fixed coupon rate of 17% payable half-yearly over seven years, while the Bond principal is being amortised semi-annually over the same period.
- Since the issuance of the Series 1 Bond in May 2019 up to 30 November 2020, total BRTS Bus Ticket sales collections transferred from the main escrow collection account to the Bond Collection Account (BCA) under the control of the Trustees amounted to ₦4.5 billion. This amount was insufficient to cover coupon and principal repayments due to the Series 1 Bondholders amounting to ₦6.1 billion. Therefore, the SPV obtained funds from the Cash Reserve Account (CRA) and Liquidity Facility (provided by Sterling Bank Plc) to cover the shortfall in the BCA to meet the Bond obligations as and when due. We note this as a rating concern giving that cash from operations cannot fully cover Series 1 Bondholders obligations as and when due.

<sup>1</sup> The terms of the Franchise Agreement (as amended) provide for the exclusive operation of the BRT buses on the “Ikorodu - Mile 12 - TBS” route for a total Franchise period of 13 years from 8 January 2016.

## TRANSACTION PARTIES

### Issuer:

*Primero BRT Securitisation SPV Plc*

### Originator/Service/Seller:

*Primero Transport Services Limited*

### Purchaser:

*Primero Asset Lodging Company Limited*

### Guarantor:

*Sterling Bank Plc*

### Lead Issuing House/Book Runner:

*DLM Advisory Partners Limited*

### Co-Issuing Houses/ Book Runners:

*Greenwich Trust Limited  
 SCM Capital Limited*

### Bond Trustee:

*DLM Trust Company Limited*

### Security Trustee:

*Coronation Trustees Limited*

### Share Trustees:

*ARM Trustees Limited*

### Solicitors to the Issuer:

*F.O. Akerele & Co.*

### Transaction Counsel:

*G. Elias & Co.*

### Auditors to the Issuer:

*Crowe Dafinone Chartered Accountants*

### Stockbrokers:

*DLM Securities Limited*

### Registrar

*GTL Registrars Limited*

### Company Secretary

*Vatad Solicitors*

### Account & Receiving Bank:

*Sterling Bank Plc*

## KEY TRANSACTION STRUCTURE

### Notes Tenor:

*7 years, with semi-annual payment of coupon and principal.*

### Bond Status:

*Direct, unconditional, unsubordinated secured obligation of the Issuer.*

### Use of Bond Proceeds:

*The net proceeds will be used by the Issuer to purchase BRTS Bus Ticket Receivables from the Seller. The Seller shall, in turn, apply the net proceeds to refinance existing term loans, fund working capital and vendor payables and initial funding of the cash reserve account.*

- On 15 May 2020, the Series 1 Bondholders held an extra-ordinary general meeting to approve the modification to the terms of the Series 1 Bond Trust Deed (first supplemental Trust Deed) to include an optional early redemption clause – “these bonds shall be callable or redeemable by the Issuer at any time prior to the bonds’ final maturity date at par plus accrued interest” to enable the Issuer to redeem or refinance the bonds prior to maturity due to the cash flow challenges of PTSL in meeting the Bond obligations as and when due. Augusto & Co. notes that the Issuer is at an advanced stage of issuing a Series 2 bond (at the prevailing low-interest rate regime) to refinance the existing Series 1 bonds in issue. Should the proposed bond issuance be successful at a lower coupon rate and longer tenor, we expect the Issuer to be able to better service the bond obligations provided the BRTS bus operations continue at current levels without further disruptions.
- In October 2020, Primero Transport Services Limited suffered some set back in its operations as some buses were damaged (with an estimated repair cost of ₦2 million as disclosed by PTSL’s management) and income lost in the aftermath of the #ENDSARS protests that engulfed the Country and Lagos in particular. This was in addition to PTSL’s complete shutdown of operations in April 2020 (and the partial shutdown of operations in May 2020) due to the lockdown imposed by the Lagos State Government on account of the COVID-19 pandemic. Notwithstanding the aforementioned, the Issuer has repaired the buses while awaiting claim settlement from the Insurance company. Furthermore, we note that the Issuer met bondholders’ obligations of semi-annual payments (coupon and principal) in May and November 2020 as at when due, albeit with support from drawings from the Cash Reserve Account and liquidity facility account provided by Sterling Bank Plc.
- Going forward, the Issuer may not be able to satisfactorily service the outstanding bond obligations solely from its operating cash flow given the new modus operandi which involves a lower bus carrying capacity (on account of the Covid-19 induced transportation directives) as well as the high fixed interest cost of the existing Series 1 Bonds, without recourse to drawings from the liquidity facility account provided by Sterling Bank Plc.
- We attach a **stable** outlook to the Series 1 Bond as it continues to be fully secured by an irrevocable and unconditional 100% credit guarantee provided by Sterling Bank Plc to fully cover the principal amount outstanding on the Issue plus accrued interest upon the occurrence of an Event of Default as well as the provision of the liquidity facility account to meet shortfalls in coupon payments.

**Source of Repayment:**

BRTS Bus Ticket sale collections received by the Issuer and income from Bus advertisement.

**Credit Enhancement Structures:**

• **Third-Party Guarantee**

Full credit guarantee to be provided by Sterling Bank Plc under the terms of a Deed of Guarantee to pay the total principal outstanding and interest accrued upon the occurrence of an event of default.

• **Over-collateralisation**

The Issuer will be over-collateralised by the purchase of BRTS Bus Ticket Receivables.

• **Cash Reserve**

To be initially funded with an amount equal to 5% of the bond proceeds and the balance built-up over 36 months to cover one-time semi-annual payment obligation on the Bond.

• **Liquidity Facility**

To be provided by the liquidity facility provider (Sterling Bank Plc) initially sized up to ₦4.1 billion to cover two semi-annual payment obligations. Following the complete build-up of the Cash Reserve Account, the liquidity facility shall be reduced to ₦2 billion, thus still maintaining two semi-annual payment obligations in combination with the Cash Reserve Account.

• **Maintenance Reserve**

An amount equal to 1.56% of the Bond size will be accrued over 36 months and will be managed by the Bond Trustee to maintain the fleet of buses generating receivables.

• **Replenishment Reserve**

An amount as determined by the Bond Trustee and notified to the Servicer will be accrued over 36 months and will be managed by the Bond Trustee to ensure the availability of funds to replace the depreciating fleet of BRT buses.

• **Security**

Fixed and floating charge over all of the rights, benefits, interest and assets of the Issuer and the Seller.

## BOND STRUCTURE & UTILISATION OF PROCEEDS

- In May 2019, Primero BRT Securitisation SPV Plc issued a ₦16.5 billion 17% Fixed Rate Bond Due 2026 under the ₦100 Billion Medium Term Note Programme. The Issue was an asset-backed securitisation of the Bus Rapid Transit System (BRTS) Bus Ticket Receivables. This gave rise to the purchase of the rights of the Seller, Primero Transport Services Limited, to the current and future receivables in connection with the sale of BRTS Bus Tickets under the terms of Operating Assets and Receivables Sale and Purchase Agreement (OARSPA).
- As part of the transaction structure, the Series 1 Bond benefits from a 100% credit guarantee provided by Sterling Bank Plc under the terms of a Deed of Guarantee wherein the Bond Trustees are entitled to make drawings to pay the principal amount outstanding on the Bond plus accrued interest upon the occurrence of an Event of Default or Guarantee Trigger Event. Also, a Cash Reserve Account (CRA) was created and initially funded at the point of Bond issuance with an amount equal to 5% of the Bond size and the balance is expected to be built up over 36 months to cover up to a one-time semi-annual Bond interest and principal obligations. The balance in the CRA as at 30 November 2020 stood at ₦187.97 following drawings to settle bond obligations due in the period under review.
- In line with the Pricing Supplement, the Issuer has a revolving Liquidity Facility Agreement with a Liquidity Facility Provider (Sterling Bank Plc) subject to a maximum term of 364 days, whereby the Issuer is entitled to make withdrawals to pay the principal amount outstanding on the Bonds plus accrued interest upon the occurrence of any shortfall in the Bond Collection Account. The Liquidity Facility was initially sized up to cover one full year's payment (two semi-annual coupon and principal payments) under the Bond and following the complete build-up of the CRA over 36 months, the Liquidity Facility was to be subsequently reduced, thus maintaining a full year's cover in combination with the Cash Reserve. The balance in the liquidity facility account as at 30 November 2020 was ₦272.29.
- The Bond coupon is being paid semi-annually over the tenor of the Bond, while the principal is being redeemed bi-annually over seven years. In line with the duly executed OARSPA, the Bond obligations are being paid from the portion of the weekly cash flows that accrue to the SPV from the sale of the BRTS Bus Ticket sales. As at 30 November 2020, the Bondholders had received three scheduled coupon and principal instalments amounting to ₦6.1 billion. These payments were met from Bus ticket collections as well as drawings from the CRA and the liquidity facility account.
- The Series 1 Bond proceeds were utilized by Primero Transport Services Limited as detailed in Table 1 below in line with the duly executed Pricing Supplement.

**Table 1: Schedule of Utilization of Bond Proceeds as at 30 November 2020**

Description	Amount ₦	Proceed%	Status
Refinancing of Term Loans	13,000,000,000	78.8%	Completed
Working Capital and Vendor Payables	2,338,162,500	14.2%	Completed
Initial Funding of Cash Reserve Account	825,000,000	5.0%	Completed
Issue Cost	336,837,500	2.0%	Completed
<b>Total</b>	<b>16,500,000,000</b>	<b>100%</b>	

## ADEQUACY OF BOND COLLECTION ACCOUNT

The Series 1 Bond obligation is being repaid from the portion of the cash flows that accrue to the SPV from the sale of the BRTS Bus Tickets. The rights to the portion of this cash flow have been assigned through a True Sale to the Issuer in line with the OARSPA with the Seller – Primero Transport Services Limited.

As part of the continuing operational structure, the Servicer (PTSL) shall ensure that every business day or as soon as operations allow which is not to exceed 48 hours, payments from all BRTS Bus Ticket collections due to PTSL is made into the BRTS Bus Ticket Escrow Collection Account held by the Collection Bank (Sterling Bank Plc). This fund shall be swept out by the Collection Bank weekly representing the Deduction Amount, as determined by the Bond Trustees and notified to the Servicer and paid into the Bond Collection Account (BCA) held by the Account Bank per the irrevocable standing instructions of the Bond Trustees to meet the Bond obligations as and when due. Also, the balance of funds standing to the credit of the BRTS Bus Ticket Escrow Collection Account shall be made available to the Seller after deducting the Cash Reserve Requirement, Maintenance Reserve Amount and Replenishment Reserve Amount. The BRTS Bus Ticket Escrow Collection Account and Bond Collection Account for the Series 1 Bond are administered by DLM Trust Company Limited for the benefit of the bondholders.

Since the issuance of the Series 1 Bond in May 2019 up to 30 November 2020, total collections from the sale of BRTS Bus Ticket into the BRTS Bus Ticket Escrow Collection Account held with Sterling Bank Plc amounted to ₦6.6 billion. Out of which, ₦4.6 billion was transferred into the Bond Collection Account (BCA) which was insufficient to cover coupon and principal payments due to the Bondholders totalling ₦6.1 billion (comprising coupon payments of ₦4 billion and principal repayment of ₦2.1 billion) and the balance paid to the Primero operations account to meet operational requirements. Thus, the Issuer relied on drawings from the Cash Reserve Account and Liquidity Facility provided by Sterling Bank Plc to meet the shortfall in the BCA to cover the Bond obligations as and when due. As at 30 November 2020, the balance in the Bond Collection Account stood at ₦11,447.29

**Table 2: Bond Collection Account Schedule as at 30 November 2020**

Description	₦'000
Total BRTS Bus Tickets sales into Escrow Account since Bond issuance	6,618,357
Allocated to the Bond Collection Account based on Trustees Instruction	4,551,747
Total coupon payment	(4,035,113)
Total principal repayment	(2,144,587)
Net Balance funded with drawings from Cash Reserve Account and Liquidity Facility Account	(1,627,953)
<b>Bond Collection Account Balance as at 30 November 2020</b>	<b>11</b>

Agusto & Co. notes that the Issuer has had difficulty with meeting the Series 1 bond obligations from its operating cash flows and thus relied on drawings from the cash reserve account and liquidity facility provided by Sterling Bank Plc to meet the bond obligations as and when due. In our view, the primary risk of the Series 1 bond repayment resides with Sterling Bank Plc based on the unconditional and irrevocable guarantee provided to meet the coupon and principal obligations.

## OUTLOOK ON THE SERIES 1 BOND

On the back of the wanton destruction of properties and loss of lives that occurred in Nigeria (with Lagos as the epicentre) in October 2020, Primero Transport Services Limited noted that the repair cost for damages to the 16 buses affected was estimated at ₦2 million, although estimated income losses in the period is expected to be higher due to the temporary shutdown of operations in October (and complete shutdown in April 2020). Furthermore, the buses have since been repaired and PTSL is awaiting settlement of claims from the insurance company. Going forward, the Company has put measures in place as part of its business continuity plan to secure parks, depots and pick-up zones and also to comply with government directives on carrying capacity for mass transit buses to curb the spread of the COVID-19 pandemic in Lagos State. Augusto & Co. notes that these initiatives if successfully implemented will ensure that the Company continues to operate in tandem with extant regulations though at a reduced scale.

Agusto & Co. notes that PTSL may not be able to satisfactorily service the outstanding bond obligations solely from its operating cash flow given the new transportation modus operandi which involves a lower bus carrying capacity as well as the prohibitive fixed interest cost of the Series 1 Bond. Consequently, the Issuer plans to refinance the existing bonds in issue in Q1'2021 with a Series 2 issuance over a longer tenor and at a lower fixed interest cost. Thus, the Issuer has obtained the Series 1 Bondholders approval for the modification of the Series 1 Trust Deed to include an early redemption option for the existing bonds. In our view, the success of the proposed Series 2 issuance is a critical milestone in the overall transaction process, barring any unforeseen force majeure, political or counterparty risk that could result in extended shut down of the Company's operations in the near term.

Agusto & Co. hereby attaches a **stable** outlook to the Primero BRT Securitization SPV Plc's ₦16.5 Billion 17% Fixed Rate Bond Due 2026, premised on the 100% irrevocable and unconditional guarantee provided by Sterling Bank Plc.

## RATING DEFINITIONS

<b>Aaa<sup>sf</sup></b>	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on local currency debt in a timely manner.
<b>Aa<sup>sf</sup></b>	High quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.
<b>A<sup>sf</sup></b>	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.
<b>Bbb<sup>sf</sup></b>	Satisfactory quality debt with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.
<b>Bb<sup>sf</sup></b>	Below average quality debt with moderate to high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
<b>B<sup>sf</sup></b>	Weak quality debt with high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
<b>C<sup>sf</sup></b>	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
<b>D<sup>sf</sup></b>	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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