

# Shelter Afrique

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## Final Issue Rating Report

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# Shelter Afrique

**Series I Bonds: Tranche A 5-Year ₦27.18 billion 13% & Tranche B 7-Year ₦18.82 billion 13.25%**

Tranche A Rating:

**A<sup>+</sup><sub>(ngr)</sub>**

*The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.*

Tranche B Rating:

**A<sup>+</sup><sub>(ngr)</sub>**

## RATING RATIONALE

Agusto & Co. hereby affirms the “A<sup>+</sup><sub>(ngr)</sub>” national scale rating assigned to Shelter Afrique’s (“SHAF” or “the Issuer”) Tranche A 5-Year ₦27.18 billion 13% and Tranche B 7-Year ₦18.82 billion 13.25% Senior Unsecured Bonds (“the Bond” or “the Issue”). The Bond forms the Series I issuance under SHAF’s ₦200 billion Domestic Bond Issuance Programme (“the Programme”). The rating assigned to the Issue mirrors the standalone national scale rating of the Issuer as the Bond represents senior unsecured obligations that rank pari passu with SHAF’s other senior unsecured debts. Agusto & Co. has affirmed the “A<sup>+</sup><sub>(ngr)</sub>” rating assigned to the Issuer in September 2023. The rating reflects SHAF’s multilateral legal ownership and relationship with 44 African Governments, the critical developmental mandate to drive affordable housing demand and supply in Africa, adequate capitalisation, low leverage and acceptable liquidity profile. The Issuer’s rating is, however, constrained by weak asset quality which has been negatively impacted by legacy delinquent loans, inconsistent capital contributions from the member countries and frequent changes in senior management.

**Outlook:** Stable

**Issue Date:** 3 Oct 2023

**Expiry Date:** 20 Apr 2024

*The rating is valid throughout the life of the instrument but will be subject to annual monitoring and review.*

**Tranche A tenor:** 5 years

**Tranche B tenor:** 7 years

**Industry:** Real Estate Finance

**Analysts:**

**Chiamaka Ozorjiri**

*chiamakaozorjiri@agusto.com*

**Adebisi Olukoya**

*biyiolukoya@agusto.com*

**Ikechukwu Iheagwam**

*ikechukwuiheagwam@agusto.com*

**Agusto & Co. Limited**

UBA House (5th Floor)

57, Marina

Lagos

[www.agusto.com](http://www.agusto.com)

The 5-year tenor Tranche A Bond has a 2-year moratorium on principal while the 7-year Tranche B Issue has a 3-year moratorium on principal. The fixed-rate coupons of 13% and 13.25% on Tranches A and B respectively are payable semi-annually in arrears starting six months from the allotment date. The principal will be repaid semi-annually commencing six months after the expiration of the moratorium for the relevant tranches. The Bond is repaid from the inflows on the loans and project financing provided to financial institutions and real estate developers in Nigeria. The performance report obtained from the Trustees to the Issue as at 31 August 2023 indicated that coupon payments were timely, with ₦3.5 billion and ₦2.5 billion paid as coupons on the Tranche A and Tranche B Bonds respectively.

The Issuer, also known as the Company for Housing and Habitat in Africa, was incorporated in Kenya under the Shelter Afrique Act in 1985. SHAF is an international body with juridical personality and full legal capacity, with a mandate to support affordable housing and urban

development in Africa. The Issuer is owned by 44 Class A shareholders comprising African governments and two Class B shareholders: the African Development Bank and African Reinsurance Corporation. As at the 2022 FYE, SHAF's capitalisation was adequate for near term business risks with a Basel II capital adequacy ratio of 25.6%, at par with the internal minimum standard of 25%. The Issuer's capitalisation was supported by shareholders' equity injection totalling \$8million in 2022. However, there were sizeable outstanding capital calls of \$280 million as at the 2022 FYE as the capacity of member countries to meet these commitments continues to dwindle due to weak finances and global headwinds. Notwithstanding, SHAF continues to benefit from moderate shareholder support, with over \$110 million in capital received from 2017 to 2021 and \$7million received as of 30 June 2023.

In 2022, the Issuer's profitability was weak with an \$11.8 million loss recorded due to high impairment charges. Unaudited accounts for the six months ended 30 June 2023 indicated that SHAF remained in a loss-making position, with a lower loss before tax of \$78,612. The Issuer's profitability has been greatly constrained by legacy loans which stood at \$141.8 million and translated to a very high NPL to gross loans ratio of 53%. Nevertheless, as recoveries are prioritised, we believe that asset quality will improve in the medium term. Increased disbursements driven by the outstanding proceeds of the Issue should also lead to moderate growth in gross earnings and a gradual improvement in the Issuer's profitability in the medium term. However, legacy impaired loans will continue to be a strain on profitability and asset quality given the slow resolution.

Despite the losses and constrained asset quality, the liquidity profile as at the 2022 FYE was acceptable, with a liquid assets to total assets ratio of 31%, which was in line with our expectation and above SHAF's internal benchmark of 15%. Unaudited accounts as at 30 June 2023 indicated that liquidity ratio remained stable at 31%. We also view positively that the Issuer has a US\$20 million contingent facility with a Nigerian bank that has international authorisation. In addition, SHAF had low leverage, with debt-to-equity ratios of 0.7x as at the 2022 FYE and 0.4x as at 30 June 2023.

Based on the aforementioned, Agusto & Co. hereby attaches a **stable** outlook to the Bond.

**Table 1: Financial Data for SHAF**

	31 December 2021	31 December 2022
<b>Total Assets</b>	\$167 million	\$270 million
<b>Net Earnings</b>	\$11.3 million	\$475,354
<b>Pre-tax return on average assets</b>	1.1%	-5.4%
<b>Pre-tax return on average equity</b>	1.2%	-7.4%

**Figure 1: Strengths, Weaknesses and Challenges**

#### Strengths

- Strategically important developmental mandate
- Multilateral legal ownership and relationship with 44 African Governments
- Significant tax benefits including full exemption from any taxation in Kenya
- Strong brand recognition in most countries with a SHAF presence
- Acceptable liquidity profile
- Low leverage

#### Weaknesses

- Sluggish capital receipts from member countries
- High volume of impaired legacy loans
- Weak profitability
- Frequent changes on the Board

#### Challenges

- Improving income sustainably
- Raising considerable (and inexpensive) funding
- Challenging macro environment in member countries
- Growing competition from larger DFIs in the housing space
- Weak investment climate and regulatory environment for housing in Africa

*This report should be read in conjunction with Agusto & Co.'s 2023 Shelter Afrique's credit rating report.*

## ISSUER PROFILE

Shelter Afrique (“SHAF” or “the Issuer”), also known as the Company for Housing and Habitat in Africa, is a pan-African housing finance and development institution. The Issuer was established by the Shelter Afrique Act of 1982 as an international body with a juridical personality and full legal capacity. SHAF was established by 44 African Governments, African Development Bank, African Reinsurance Corporation and CDC Company Plc to address the need for innovative and sustainable housing delivery systems in Africa. The Issuer supports social housing programmes, integrated affordable housing solutions, rental housing developments and construction of large-scale housing projects in member countries. SHAF’s principal office is located at the Shelter Afrique Centre, Logonot Road, Upper Hill, Nairobi, Kenya. The Issuer also has two regional offices, which are situated in Abuja, Nigeria and Abidjan, Cote d’Ivoire.

## THE ISSUE

### Structure

SHAF’s ₦46 billion Fixed Rate Senior Unsecured Bond (“the Bond” or “the Issue”) forms the Series I issuance under the Issuer’s ₦200 billion Domestic Bond Programme (“the Programme”). The Bond was issued on 20 April 2022 in two tranches labelled A and B, which are of differing tenors. Tranche A has a 5-year tenor while Tranche B has a longer tenor of 7 years. The Issue constitutes direct, unconditional, unsubordinated and unsecured obligations of the Issuer and ranks pari passu and without any preference to other issuances under the Programme. The coupon and principal payment obligations of SHAF under the Bond shall, except where required by legislation, rank equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

The proceeds of the Issue are earmarked for funding mass housing development projects undertaken by real estate developers and providing lines of credit to developers. Of the ₦46 billion proceeds of the Bond, 33% or ₦15 billion was disbursed to developers in 2022 while the balance of ₦31 billion which is held in low-risk placements and Federal of Government of Nigeria (FGN) securities, is expected to be disbursed in 2023.

**Table 2: Utilisation of the Bond’s Proceeds as at the 2022 FYE**

Financing Type	Share of Proceeds
Short-term Fixed Deposits	62.1%
Corporate Lines of Credit to Developers	33.7%
FGN Bonds	2.8%
Cost of Issuance	1.4%

Source: SHAF

## Repayment

Tranche A has a 2-year moratorium on principal while Tranche B has a three-year moratorium on principal. The fixed-rate coupons of 13% and 13.25% on Tranches A and B respectively are payable semi-annually in arrears commencing six months from the allotment date. The principal on the Bond will be repaid semi-annually commencing six months after the expiration of the moratorium for the relevant tranche. The Issue is repaid from the inflows of the lines of credit and project financing provided to financial institutions and real estate developers in Nigeria.

The performance report obtained from the Bond's Trustees – United Capital Trustees Limited, as at 31 August 2023 showed that coupon payments were timely and paid on 20 October 2022 and 20 April 2023 in line with the Trust deed. As of 31 August 2023, ₦3.5 billion has been paid as coupons on the 5-year tenor Tranche A Bond and ₦2.5 billion on the 7-year tenor Tranche B Bond. The performance report also confirmed that the Issuer had not breached any of the covenants of the Issue during the period.

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## ANALYSTS' COMMENTS

*Shelter Afrique's financial statements which are denominated in United States Dollars (USD) are used for our national scale rating of the Series I Tranche A 5-Year ₦27.18 billion 13% & Tranche B 7-Year ₦18.82 billion 13.25% Bonds.*

## ISSUER'S FINANCIAL CONDITION

### ***Asset quality to remain constrained by legacy credits but SHAF's developmental impact is expected to improve***

The Issuer focuses on providing lines of credit and project finance loans for housing finance and development in Africa. As at 31 December 2022, SHAF had total assets of \$270.4 million, with gross loans and advances of \$269.5 million accounting for the bulk at 99.7%. The Issuer's loans largely (74.4%) comprised short to medium-term lines of credit to financial institutions to on-lend for mortgage-related loans while medium-term project finance loans to developers made up a smaller share (23%). A small fraction (2.6%) of SHAF's loan book consisted of staff loans. However, we expect project finance loans to contribute more significantly in the near to medium term in line with SHAF's mandate as the balance (67%) of the Bond's proceeds is disbursed by the end of 2023 and project finance and public-private partnerships activities are ramped up. As at the 2022 FYE, the Issuer had disbursed loans of \$80.7 million, representing a 62% achievement of the \$130 million target. Despite falling short of the target, this represented the highest disbursement level since the previous high of \$104 million in 2014. In our view, the highly prudent approach to loan disbursements aimed at avoiding past lending mistakes now threatens SHAF's performance given the significant cost of the undeployed borrowings. Nevertheless, we expect notable growth in the loan book in the near term as the Issuer deploys an additional \$31 million from the proceeds of the debut bond.

As at 31 December 2022, SHAF had significant stage three or non-performing loans (NPLs) of \$141.8 million, which amounted to 53% of the loan book. Over 94% of the NPLs were project finance loans, with the bulk comprising legacy loans related to incomplete projects that had funding withdrawn because the obligors were in breach of the terms of the loan agreement. The Issuer wrote off \$6.9 million of the legacy loans in the review

year. Nevertheless, SHAF continues to drive recoveries, with collections of \$2.8 million in 2022, a marginal increase from the \$2.5 million reported in 2021. We consider the recovery sums to be low. In our view, given the Issuer's member countries' limited foreclosure laws and drawn-out court processes, the NPLs are unlikely to be recovered in the near to medium term. Thus, we expect asset quality to remain constrained by the legacy credits in the near term. Unaudited accounts as at 30 June 2023 indicate that the NPL ratio remained high at 58%, with additional credits classified under stage 3. SHAF's management plans to introduce targeted re-engagement with the obligors for amicable resolutions and solicit government support for bulk sales of collateral securing the impaired loans. Subject to the effective execution of these recovery strategies, we expect a moderate decline in the legacy credits in the medium term.

As at the 2022 FYE, the Issuer's loss provisions covered 80.8% of NPLs, with the uncovered amount equating to 17.1% of shareholders' funds, which we consider significant. SHAF's management has disclosed that the uncovered portion is fully secured by legal charges on property, which should mitigate any impact on future earnings.

***Profitability to remain constrained by the high level of impaired legacy loans***

SHAF primarily generates income from the interest charged on project finance loans and lines of credit. The Issuer also generates income from interest on placements with financial institutions and write-backs following recoveries. During the financial year ended 31 December 2022, the Issuer generated interest income of \$17.4 million, a 44% growth from the prior year. However, there was a 394% spike in interest expense to \$10 million in the review period following the bond issuance in Nigeria. In addition, SHAF recorded a loan loss expense of \$8 million, which weakened performance considerably following significant write-offs in the review year. Thus, the Issuer's net interest income declined by 27% to \$7.4 million in the 2022 FY and translated to a significantly lower net interest spread (NIS) of 42.5% compared to the 82.5% recorded in the prior year. Thus, during the review period, SHAF's net earnings were a lower \$475,354, a 96% decline from 2021.

In 2022, the Issuer incurred operating expenses of \$9.5 million, which represented a 17.7% rise from 2021 due to higher consultancy fees, software costs and one-off reporting adjustments for actuarial loss valuation. SHAF also recorded foreign exchange losses of \$1.4 million and loss in joint ventures of \$1.1 million. Therefore, in 2022, the cost- to-income ratio deteriorated considerably to 129% (2021: 81.4%), significantly worse than our expectation and the Issuer's target of 70%.

Given the aforementioned, SHAF recorded a loss before tax of \$11.8 million (2021: \$1.8 million profit). Whilst we recognise that profit maximisation is secondary to the Issuer's developmental objectives, the profitability indicators were weak for DFIs. Based on unaudited accounts for the first six months of 2023, SHAF remained in a loss-making position, with a loss before tax of \$78,612. In the near term, we expect profitability to remain constrained by lingering legacy impaired loans.

***Liquidity to remain satisfactory while funding is bolstered in the near to medium term***

SHAF is a non-deposit-taking DFI that is mainly funded by long-term capital from shareholders and borrowings. As at the 2022 FYE, the Issuer was 41.4% funded by liabilities, which primarily (93.9%) comprised borrowings of \$105.2 million and other liabilities including dividend payable, benefit provisions and other payables made up a relatively small share (6.1%). Based on unaudited accounts as at 30 June 2023, SHAF's liabilities funded a lower 29.4% following the injection of \$7.5 million in equity from three countries and the effect of foreign exchange gains in the translation of the outstanding naira borrowings. However, given the Issuer's funding plans, we expect borrowings from DFI partners to fund up to 80% of total assets in the medium term, while equity, commercial bank borrowings and debt issuances finance the balance of 20%.

As at 31 December 2022, SHAF had liquid assets of \$86.8 million, representing a 175% growth from the prior year primarily due to the proceeds of the Bond, which were largely held in short-term placements with financial institutions and FGN bonds. Thus, the liquid assets to total assets ratio improved to 31% (2021: 19%), which was in line with our expectation and the Issuer's internal benchmark of 15%. Unaudited accounts as at 30 June 2023 indicated that liquidity ratio remained stable at 31%. We also view positively that SHAF has a US\$20 million contingent facility with a Nigerian bank that has international authorisation.

***Capital is expected to remain adequate while leverage stays low***

As at 31 December 2022, SHAF had shareholders' funds of \$158.4 million, which was sufficient to fund 58.6% of total assets, despite the significant accumulated losses of over \$32.6 million. The Issuer had a Basel II capital adequacy ratio of 25.6% (2021: 28.6%), which was better than our expectation and at par with the internal minimum standard of 25%. Over the years, SHAF's capital has been supported by shareholder injections from member countries and organisations. However, we note that of the capital calls of \$160 million made in 2013 and \$252 million made in 2017, 48.7% (\$78 million) and 83.3% (\$210 million) respectively remain outstanding or in arrears given the weak finances of several member countries. Nevertheless, based on unaudited accounts as at 30 June 2023, the Issuer's shareholders' funds stood at \$165.3 million, representing a 4% increase from the end of 2022 following further equity injections from shareholders. Notably, as of June 2023, SHAF had received a total of \$7.5 million in the capital called from three countries: Nigeria (\$7.1 million), Swaziland (\$317,000) and Burkina Faso (\$34,000), which we view positively. Notwithstanding, the shareholders must demonstrate greater consistency in the payment of the arrears to achieve the Issuer's developmental mandate.

As at the 2022 FYE, SHAF had a debt-to-equity (DTE) ratio of 0.7x, which was significantly below our threshold for DFIs. However, by the 2023 FYE, we expect a rise in the DTE ratio as the Issuer obtains borrowings largely from DFIs to drive developmental impact. Nevertheless, we believe that the debt-to-equity ratio will remain below our benchmark in the short to medium term as SHAF issues bonds in the capital markets of other member countries and acquires new facilities from DFIs and commercial banks.



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## OUTLOOK

SHAF has introduced its “New Dawn” corporate plan with the goal of becoming a world-class premier pan-African housing development bank and delivering better shareholder value. Thus, through more efficient onboarding of clients and vigorous credit underwriting, the Issuer aims to restore financial sustainability while instituting Environmental, Social and Governance (ESG) standards. Notably, by the 2024 FYE, SHAF plans to prudently scale up a quality loan book to reduce the non-performing loan ratio.

Agusto & Co. anticipates an improvement in the Issuer’s asset quality supported by improved recoveries. We expect a modest increase in shareholders’ equity bolstered by capital calls from member countries. Furthermore, with plans to raise additional funding in the domestic debt capital markets of other member states in the near term, we expect the Issuer’s funding to improve and leverage to rise but remain within acceptable limits. We also believe that SHAF’s liquidity profile will remain satisfactory in the near term with continued adherence to the internal policies.

We hereby attach a “**stable**” outlook to the rating.

***This report should be read in conjunction with Agusto & Co.’s 2023 Shelter Afrique rating***

## FINANCIAL SUMMARY

SHELTER AFRIQUE						
STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-20		31-Dec-21		31-Dec-22	
	\$		\$		\$	
<b>ASSETS</b>						
Cash & equivalents	5,206,525	2.9%	5,912,851	4%	3,400,643	1.3%
Quoted investments		0.0%		0%	10,392,317	3.8%
Short-term placements	42,200,586	23.8%	25,677,981	15%	72,961,707	27.0%
<b>Liquid Assets</b>	<b>47,407,111</b>	<b>26.7%</b>	<b>31,590,832</b>	<b>19%</b>	<b>86,754,667</b>	<b>32.1%</b>
Gross Loans	228,149,132	128.6%	244,246,753	146%	269,541,177	99.7%
Less: Cumulative loan loss provision	(120,015,780)	-67.6%	(131,655,081)	-79%	(114,529,205)	-42.4%
<b>Total loans &amp; advances - net</b>	<b>108,133,352</b>	<b>60.9%</b>	<b>112,591,672</b>	<b>67%</b>	<b>155,011,972</b>	<b>57.3%</b>
Interest receivable	431,607	0.2%	294,495	0.2%	153,274	0.1%
Other prepayments	786,434	0.4%	488,235	0.3%	540,613	0.2%
Other accounts receivables	2,084,994	1.2%	2,146,621	1.3%	3,482,371	1.3%
Unconsolidated subsidiaries & associates	3,687,279	2.1%	4,086,707	2.4%	2,823,239	1.0%
Other long-term investments	5,840,000	3.3%	5,458,000	3.3%	5,445,000	2.0%
Fixed assets & intangibles	10,054,707	5.7%	11,809,420	7.1%	17,421,783	6.4%
<b>Total Assets</b>	<b>177,448,079</b>		<b>167,317,852</b>		<b>270,422,450</b>	
<b>CAPITAL &amp; LIABILITIES</b>						
Shareholders' Funds	136,245,141	77%	161,603,767	97%	158,399,320	59%
Total Borrowings	34,713,671	20%		0%	105,195,956	39%
Other Liabilities	6,489,266	4%	5,714,085	3%	6,827,264	3%
<b>Total Capital &amp; Liabilities</b>	<b>177,448,078</b>		<b>167,317,852</b>		<b>270,422,450</b>	
<b>AUDITORS</b>	<b>Deloitte</b>		<b>PWC</b>		<b>PWC</b>	
<b>Opinion</b>	<b>Clean</b>		<b>Clean</b>		<b>Clean</b>	
INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-20		31-Dec-21		31-Dec-22	
	\$		\$		\$	
Interest income	13,944,976	92.9%	12,092,354	89.8%	17,393,315	93.1%
Interest expense	(1,802,687)	-12.0%	(2,022,873)	-15.0%	(10,001,243)	-53.5%
Loan loss expense	(5,326,348)	-35.5%	(88,216)	-0.7%	(8,203,110)	-43.9%
Non-interest income	1,071,189	7.1%	1,377,322	10.2%	1,286,392	6.9%
<b>NET EARNINGS</b>	<b>7,887,130</b>	<b>52.5%</b>	<b>11,358,587</b>	<b>84.3%</b>	<b>475,354</b>	<b>2.5%</b>
Staff costs	(5,591,416)	-37.2%	(5,388,860)	-40.0%	(4,635,973)	-24.8%
Depreciation expense	(341,933)	-2.3%	(392,770)	-2.9%	(501,038)	-2.7%
Other operating expenses	(3,295,876)	-21.9%	(3,766,052)	-28.0%	(7,112,975)	-38.1%
<b>TOTAL OPERATING EXPENSES</b>	<b>(9,229,225)</b>	<b>-61.4%</b>	<b>(9,547,682)</b>	<b>-70.9%</b>	<b>(12,249,986)</b>	<b>-65.6%</b>
PROFIT (LOSS) BEFORE TAXATION	(1,342,095)	-8.9%	1,810,905	13.4%	(11,774,632)	-63.0%
<b>TAX (EXPENSE) BENEFIT</b>	<b>-</b>		<b>-</b>		<b>-</b>	
<b>PROFIT (LOSS) AFTER TAXATION</b>	<b>(1,342,095)</b>	<b>-8.9%</b>	<b>1,810,905</b>	<b>13.4%</b>	<b>(11,774,632)</b>	<b>-63.0%</b>
<b>GROSS EARNINGS</b>	<b>15,016,165</b>	<b>100%</b>	<b>13,469,676</b>	<b>100%</b>	<b>18,679,707</b>	<b>100%</b>

2023 Shelter Afrique Series I Tranche A 5-Year ₦27.18 billion 13% & Tranche B 7-Year ₦18.82 billion 13.25% Bonds

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)			
KEY RATIOS	31-Dec-20	31-Dec-21	31-Dec-22
<b>PROFITABILITY &amp; EARNINGS</b>			
Net interest spread	87.1%	83.3%	42.5%
Loan loss expense/Interest income	-295.5%	-4.4%	-82.0%
Operating expenses/Net earnings (excluding loan loss expense)	101%	81.4%	129.6%
Return on average assets (pre-tax)	-0.7%	1.1%	-5.4%
Return on average equity (pre-tax)	-1.0%	1.2%	-7.4%
Net interest income/average earning assets	2.9%	5.1%	-0.3%
<b>LIQUIDITY &amp; FUNDING</b>			
Loans/Total Assets	60.9%	67.3%	57.3%
Liquid assets/Total borrowings (times)	1.4	N/A	0.8
Liquid Assets/Total Assets	26.7%	18.9%	32.1%
<b>ASSET QUALITY RATIOS</b>			
Performing Loans (\$'Million)	76.2	63.7	127.8
Non-Performing Loans (\$'Million)	88.2	144.5	141.8
Non-performing loans /Total loans - Gross	38.6%	59.2%	52.6%
Loan loss provision/Total loans - Gross	52.6%	53.9%	42.5%
Loan loss provision/non-performing loans & mortgages	136.1%	91.1%	80.8%
<b>CAPITAL ADEQUACY &amp; LEVERAGE RATIOS</b>			
Risk-weighted assets/Total assets & contingents	12.1%	9.2%	22.7%
Debt/Equity (Gearing Ratio)	0.3	0.0	0.7
Net non-performing loans/shareholders' funds	-0.1	-0.2	0.1
Core capital/ Total Assets - Leverage	75.2%	94.6%	57.8%
Interest Cover	0.26	1.9	-0.2
<b>STAFF INFORMATION</b>			
Average number of employees	47	46	48
Staff cost per employee (\$)	118,966	117,149	96,583
Net earnings per staff (\$)	167,811	246,926	9,903
Staff costs/Operating expenses	60.6%	56.4%	37.8%

## RATING DEFINITIONS

<b>Aaa</b>	This is the highest rating category. The Bond is adjudged to offer highest safety of timely payment of interest and principal.
<b>Aa</b>	The Bond is adjudged to offer high safety of timely payment of interest and principal.
<b>A</b>	The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
<b>Bbb</b>	The Bond is adjudged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.
<b>Bb</b>	The Bond is adjudged to carry inadequate safety of timely payment of interest and principal; while it is less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
<b>B</b>	The Bond is adjudged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
<b>C</b>	The Bond is adjudged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.
<b>D</b>	The Bond is in default and in arrears of interest or principal payments or are expected to default on maturity.

### 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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© Agosto&Co.  
UBA House (5th Floor)  
57 Marina Lagos  
Nigeria.  
P.O Box 56136 Ikoyi  
+234 (1) 2707222-4  
+234 (1) 2713808  
Fax: 234 (1) 2643576  
Email: [info@agusto.com](mailto:info@agusto.com)