

SFS Capital Nigeria Limited

Rated Entity	Rating class	Rating scale	Rating	Outlook
SFS Capital Nigeria Limited	Long Term Issuer	National	A _(NG)	Stable
	Short Term Issuer	National	A2 _(NG)	

Analytical entity

SFS Capital Nigeria Limited (SFS Capital or the manager) is a Nigerian-based company licensed by Securities and Exchange Commission (SEC) to provide financial advisory, fund and portfolio management services to retail and corporate clients.

SFS Capital is a wholly owned subsidiary of SFS Group (the group), a non-operating parent company. SFS Group has two wholly owned subsidiaries: SFS Capital and SFS Financial Services Limited, with both entities operating independently, and their financial statements not currently consolidated. As such, GCR has adopted a standalone credit analysis in assigning the national scale issuer ratings to SFS Capital.

As of 31 December 2023, the group's major shareholders were Zigmund Investment Alliance and Mr. Patrick Ilodiana (the managing director) with 90% and 10% equity stakes respectively.

Credit profile summary

Strengths

- Strong expertise in Real Estate Investment Trust (REIT) management
- Sound earnings, with an EBITDA margin of 40% in 2023
- Good leverage and cashflow, supported by an ungeared balance sheet

Weaknesses

- Moderate competitive position due to limited scale
- Fundholder concentration, with the single largest investor accounting for 41.7% of assets under management (AUM)

Rating summary

The ratings affirmation on SFS Capital balances a moderate competitive position supported by expertise in REITs management, an unleveraged balance sheet, sound earnings and liquidity profile.

¹ The last rating announcement was in March 2024. Rating reports are updated at least once a year from the date of the last announcement.

Outlook statement

The stable outlook reflects our expectation that SFS Capital will continue to maintain a conservative financial profile, underpinned by strong earnings and adequate liquidity coverage while maintaining an ungeared balance sheet. In addition, the successful expansion of the REITs funds and the launch of the planned dollar fund are expected to enhance the manager's financial profile.

Rating triggers

A ratings upgrade could result from a significant improvement in competitive position stemming from a material growth in AUM and, fundholder diversification. In addition, an improvement in earnings profile may be positively considered. Conversely, a ratings downgrade could result from a weaker competitive positioning which adversely impacts AUM growth, earnings, and liquidity profile. Additionally, the introduction of a sizeable level of debt to the balance sheet could result in a rating downgrade.

Risk score summary

Rating components & factors	Risk Score
Operating environment	5.50
Country risk score	3.50
Sector risk score	2.00
Business profile	(2.00)
Competitive position	(2.00)
Management & governance	0.00
Financial profile	3.75
Cashflow and Leverage	2.00
Earnings and Risk	1.25
Liquidity	0.50
Comparative profile	0.00
Peer comparative	0.00
Group support	0.00
Government support	0.00
Total risk score	7.25

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022

Criteria for Rating Asset Managers, November 2019 (appendix to the Criteria for Financial Services Companies, May 2022)

GCR Rating Scale, Symbols & Definitions, May 2023

GCR Country Risk Scores, February 2024

GCR Financial Institutions Sector Risk Score, December 2023

Ratings history

SFS Capital Nigeria Limited						
Rating class	Review	Rating scale	Rating	Outlook	Date	
Long Term Issuer	Initial	National	A _(NG)	Stable	March 2021	
Short Term Issuer	Initial	National	A2 _(NG)		March 2021	
Long Term Issuer	Last	National	A _(NG)	Stable	March 2023	
Short Term Issuer	Last	National	A2 _(NG)		March 2023	

Operating environment

Country risk

The revised Nigeria country risk score of '3.50' reflects the deterioration in its fiscal position amid rising debt levels and a narrow revenue base. Although the economy is fairly diversified, Nigeria remains vulnerable to commodity price shocks being that crude oil exports remain the dominant source of foreign currency inflows. Crude oil output was significantly depressed in 2022 due to oil theft and vandalism and as such, the nation's external reserves tanked to \$37.08 billion in December 2022, from \$40.52 billion in December 2021, despite the rallying of oil prices. Inflationary pressures will be sustained in 2023 and are principally stoked by external factors (high energy and import prices) and knock-on effects from supply shocks emanating from the Russian/Ukraine crisis. The lingering fuel crisis, local currency shortage (post the Naira redesign), foreign exchange scarcity, multiple exchange rates, erratic power supply, high inflation, rising interest rates and security challenges could significantly hamper short to medium term economic growth prospects. These challenges notwithstanding, the country has abundant natural resources (including the recently discovered high-grade lithium) and a wide consumption base due to its large population of approximately 220 million people. Nigeria is Africa's largest economy and contributes around 17% of continental GDP, however, like many of the continental peer group, wealth levels are low. For full details, please see GCR's Country Risk Score report. The Country Risk Scores are available for download at <https://gcratings.com/risk-scores/>

Sector risk

The Nigerian Financial Institutions Risk Score of '3.50' is supported by strong local currency liquidity within the sector and stability in the funding (which is largely deposit-based). Also, the banking sector appears well capitalised on average. In addition, consideration was given to regulatory compliance, which is considered adequate and in line with the regional average. However, the concentration of the loan book by sector (oil and gas) heightens credit risk, though with modest levels of non-performing loans. We note that the Nigerian banking sector is highly fragmented, with the top tier of the sector controlled by a few players and increasing competition amongst players within the sector. The relatively low private sector debt is expected to continually increase going forward given the regulatory-backed position of increased lending to the private sector, which would enable diversification. The standard negative 1.5 adjustment for NBFIs was applied for SEC-regulated entities. For full details, please see GCR's Financial Institutions Sector Risk Score report. The Sector Risk Scores are available for download at <https://gcratings.com/risk-scores/>

Business profile

Competitive position

SFS Capital has a track record of over 13 years, ranking among the top ten asset managers in Nigeria by AUM and maintaining strong expertise in REITs management. SFS Capital manages two (SFS REIT and UH REIT) of the three publicly listed REITs, with a combined net asset value of NGN13.5 billion (USD 15.0 million) as of 31 December 2023 (31 December 2022: NGN12.4 billion) and has consistently displayed strong performance over the years. SFS Capital's total AUM

increased by 13.5% to register at NGN92.6 billion (USD 103.0 million) at the same date, translating to a moderate market share of c.3.0%. The manager's AUM is fairly diversified, comprising four private and public mutual funds and two REITs, all managed on discretionary and non-discretionary basis. While the AUM remains concentrated by fundholder, with the largest investor-Asset Management Corporation of Nigeria (AMCON Fund), accounting for 41.7% of AUM as of 31 December 2023 (December 2022: 47.3%), other managed funds are subscribed to by a spectrum of investors including retail investors, high-net-worth individuals, and institutional investors.

Exhibit 1: SFS Capital Nigeria Limited's AUM (NGN'million)

	31 December 2023	31 December 2022
AMCON Fund	38,652	38,652
<u>Fixed Income Clients</u>		
Individuals	16,912	12,308
Corporates	14,166	8,796
Staff Scheme/ Cooperatives/ Reserve Funds	1,856	2,358
VIP/ Back up cash	458	557
<u>Publicly traded funds</u>		
SFS Fixed Income Fund	7,127	6,586
SFS REIT	2,594	2,445
UH REIT	10,860	9,973
Total	92,625	81,675

Source: SFS Capital Nigeria Limited

SFS Capital's distribution network is moderate, given that its operation is wholly domiciled in Nigeria. SFS capital distributes its products through in-person interactions, deployment of USSD platform and a mobile app as well as an accessible website, to drive its business. Looking ahead, the manager's plans to expand existing REITs funds and launch a dollar-denominated fund should support AUM growth and diversification over the rating horizon.

Management and governance

Management and governance are assessed to be neutral to the ratings. As of 31 December 2023, the manager's Board composition was in line with the required corporate governance standards comprising three executive (including the Managing Director), and two non-executive directors. The management team has considerable years of combined experience in investment and portfolio management. For the financial year 2022, SFS Capital received an unqualified audit opinion from Sterling Partners & Co. While the 2023 financial statements were being audited at the time of this report, we consider the level of transparency and disclosure in the prior year's financial statements and related documents to be adequate.

Financial profile

Leverage and cashflow

We assessed leverage and cash flow to be positive to the ratings, given an ungeared balance sheet and a good capital base. As of 31 December 2023, SFS Capital's shareholders' funds of NGN1.34 billion (USD 1.50 million) was well above the minimum regulatory requirement of NGN150 million for asset managers. Although the manager has privately managed funds on its on-balance sheet, these are sufficiently matched against liquid assets (largely bank placements). Moreso, the manager does not guarantee returns on these on-balance sheet funds, and downside risks are borne solely by fund holders. Looking ahead, we expect the manager's cashflow to remain sufficient for its operations and the unleveraged position to be sustained over the rating horizon.

Earnings and Risk

GCR's assessment of SFS Capital's earnings and risk is a positive ratings factor. According to the unaudited financials for the financial year ended 31 December 2023, gross revenue rose by 28.8% to NGN532.3 million (USD0.6 million) supported by a growing AUM. In line with historical trends, earnings are largely from stable sources, notably, management fees and commissions, which accounted for 85.1% of gross revenue in the same period. Operating costs inched up by 34.0% to NGN318.7 million, due to high inflationary operating environment. As a result, the EBITDA margin moderated to 40.1% in 2023 (2022: 42.4%), although well above the GCR benchmark. Conversely, the manager's return on assets and return on equity improved to 14.8% and 13.8% respectively in 2023 (2022: 12.5% and 11.45% respectively).

SFS Capital maintained a good risk profile in the period under review. Although the manager has privately managed funds on the balance sheet, these funds are directly matched with corresponding financial assets and there are no guaranteed returns on these on-balance sheet funds. Additionally, the manager currently has no foreign currency exposure. Although SFS Capital plans to launch a foreign currency denominated fund within the short to medium term, we expect these funds to be managed off balance sheet, with no risk to the manager. Over the next 12-18 months, we expect earnings to remain strong underpinned by the projected growth in AUM and diversification initiatives.

Exhibit 2: Profitability metrics

	2025(f)	2024(e)	2023	2022	2021
EBITDA margin (%)	45.1	42.7	40.1	42.4	37.2
ROE (%)	15.9	15.3	14.8	12.5	12.5
ROA (%)	14.6	14.1	13.8	11.4	11.0

e: Based on GCR estimates f: Based on GCR forecasts
Source: SFS Capital's financial statements and GCR financial tool

Liquidity

SFS Capital's liquidity position is sound and a positive to the ratings, evidenced by liquidity sources consistently covering the anticipated uses. As such, the liquidity coverage was sustained well above 2x after adjusting for on-balance sheet managed funds that are matched against assets. Also, there are no refinancing and covenants risk that could impact liquidity, given an ungeared balance sheet position in 2023. We expect the liquidity coverage to be sustained above 2x over the next 12-18 months, underpinned by good operating cash flow and conservative dividend payments.

Exhibit 3: Liquidity

	2025(f)	2024(e)	2023	2022	2021
Liquidity Sources vs Uses (X)	3.0	2.8	2.4	3.8	1.9

e: Based on GCR estimates f: Based on GCR forecasts
Source: SFS Capital's financial statements and GCR financial tool

Comparative profile

Peer analysis

The peer analysis is neutral to the ratings.

Group support

Group support is neutral to the ratings.

Rating adjustment factors

Structural adjustments

No structural adjustments have been made to the Anchor Credit Evaluation in arriving at the final ratings.

Instrument ratings

No instrument rating adjustments.



Glossary

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Income	Money received, especially on a regular basis, for work or through investments.
Institutional Investors	Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Real Estate Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Total Risk	Both systematic and unsystematic risks.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Upgrade	The rating has been raised on its specific scale.



Salient points of accorded ratings

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

The credit ratings have been disclosed to SFS Capital Nigeria Limited. The ratings above were solicited by, or on behalf of SFS Capital Nigeria Limited.

SFS Capital Nigeria Limited participated in the rating process via online virtual interaction, electronic, verbal communication, and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from SFS Capital Nigeria Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results as of 31 December 2022
- Unaudited accounts as of 31 December 2023
- Other relevant information
- Exchange rate source: Central Bank of Nigeria USD1.00 = NGN899.393 (30 December 2023), NGN448.55(30 December 2022)

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