



GCR affirms Dufil Prima Foods PLC's National Scale Rating at A_(NG); Outlook Stable

Lagos, 25 August, 2020 — Global Credit Ratings has affirmed the long term and short term national scale issuer ratings of A_(NG) and A2_(NG) respectively, assigned to Dufil Prima Foods PLC (“Dufil” or “the Company”), with the outlook accorded as Stable. Concurrently, the rating of A_(NG) accorded to the N10bn Series 1 bond was also affirmed, with outlook accorded as Stable.

The long and short term issuer and bond ratings are valid until June 2021.

RATING RATIONALE

Global Credit Rating Co Limited (“GCR”) has accorded the above credit ratings to Dufil Prima Foods Plc (“Dufil or “the Company”) based on the following key criteria:

Dufil’s ratings are supported by its leading position in the Nigerian noodles (and general non-discretionary FMCG) industry, underpinned by a long operational track record, continuous capacity expansion and significant assets and relationships across the value chain. Strong shareholder support provides access to leading technologies and operational processes.

The Group has sustained revenue growth over the review period, albeit that revenue significantly underperformed budget in FY19 due to competitive pressures and shortage of raw materials caused by foreign exchange unavailability. While GCR expects the economic headwinds arising from the COVID-19 pandemic to dampen short-term performance, the favourable demographics and the non-discretionary nature of Dufil’s products should continue to support long-term growth.

Significant margin pressure has been evidenced since FY18, largely due to higher cost of imported raw materials and other capital/operating expenses, a fallout of the devaluation in Naira. Tentative stability was demonstrated in the EBITDA and operating margins in 1Q FY20, but the full FY20 position is expected to remain low relative to historical levels given the heightened uncertainties in the market.

Discretionary cash flows peaked in FY19 due to substantial working capital release, reversing several years of large absorptions. Nevertheless, cash flow pressure is expected to remain due to the ongoing expansion of operations. Along with asset disposals, this allowed Dufil to reduce net debt to N64.7bn at FY19 (1Q FY20: N68.5bn). Accordingly, net debt to EBITDA moderated to 270% at FY19 and 222% at 1Q FY20, reflecting an intermediate level of gearing. Higher debt utilisation combined with the weaker earnings, translated into low net interest coverage of 1.8x at FY19 (FY18: 2.5X), but this improved to 2.5x in 1H FY20 following the reduction of debt and better interest rate management. GCR expects credit protection metrics to moderate for the rest of FY20.

Refinancing has improved Dufil’s debt maturity profile, with 78% of debt being long term at 1Q FY20, compared to 25% at FY18. Moreover, the Group evidences strong access to capital, with



unutilised overdraft facilities of c.N24bn secured from more than 8 local banks. This provides an important liquidity buffer in light of the Group's increased utilisation of Commercial Paper (CP) due to the favourable interest rates available.

Positive ratings movement could derive from the diversification of earnings base into new product lines and/or new customers and geographies, which would enhance stability of earnings. A further moderation in the debt and credit protection metrics would also be positively considered. Conversely, the persistence of margin pressure could reduce earnings and the cash flows available for debt service, particularly amid the persistently high dividend pay-outs.

NATIONAL SCALE RATINGS HISTORY

Rating Class	Rating	Outlook	Date
Initial Rating			
Issuer - Long term	A _(NG)	Stable	June 2016
Issuer - Short term	A2 _(NG)	Stable	June 2016
N10bn Series 1 Fixed Rate Bond	A _(NG)	Positive	October 2017
Last Rating			
Issuer - Long term	A _(NG)	Stable	July 2019
Issuer - Short term	A2 _(NG)	Stable	July 2019
N10bn Series 1 Fixed Rate Bond	A _(NG)	Stable	July 2019

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Master Criteria for Rating Corporate Entities, updated February 2018

Dufil Prima Foods PLC Issuer and Bond Rating Reports, 2016-18

Glossary of Terms/Ratios (February 2018)

RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.COM.NG/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.COM.NG/UNDERSTANDING-RATINGS). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.COM.NG/RATINGS-INFO/RATING-SCALES-DEFINITIONS](http://GLOBALRATINGS.COM.NG/RATINGS-INFO/RATING-SCALES-DEFINITIONS). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.COM.NG](http://GLOBALRATINGS.COM.NG).

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings are an independent evaluation of the risks and merits of the rated entity; d) the ratings are valid until June 2020.

Dufil Prima Foods PLC participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Dufil.

The information received from Dufil to accord the credit ratings included;

- 2019 audited annual financial statements (plus four years of comparative numbers),
- 1Q 2020 unaudited management account.
- industry comparative data and regulatory framework
- five year projections
- a breakdown of facilities available and related counterparties.
- information specific to the rated entity and/or industry was also received.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been



compensated for the provision of the ratings.

