GCR downgrades Mixta Real Estate Plc's Rating to BB+$_{(NG)}$; Outlook: Stable

Lagos, 4 December 2020 — Global Credit Rating Co. Limited ("GCR") has downgraded the national scale ratings assigned to Mixta Real Estate Plc ("Mixta Nigeria" or "the Group") of BB+$_{(NG)}$ and B$_{(NG)}$ in the long term and short term respectively, with the outlook accorded as Stable. Concurrently, the national scale ratings accorded to Mixta Nigeria's Bond Issuances were also downgraded as follows:

N4.5bn Series 1 Guaranteed Bonds: AA-$_{(NG)(EL)}$, Stable Outlook
N2.961bn Series 2 Tranche A Guaranteed Bonds: AA-$_{(NG)(EL)}$, Stable Outlook
N2.32bn Series 2 Tranche B Secured Bonds: BBB$_{(NG)(EL)}$, Stable Outlook

The national scale Issuer and Bond ratings are valid until July 2021.

RATING RATIONALE OF THE ISSUER

GCR has accorded the above credit ratings to Mixta Nigeria based on the following key criteria:

The issuer rating downgrade reflects Mixta Nigeria's limited financial flexibility as well as inability to scale-up project delivery despite its large land bank (worth N64.9bn at 1H FY20), shareholder support and technical alliances with major industry players. As such, while strong double-digit revenue growth has been achieved in some years, operations are yet to achieve critical mass. This continues to translate to a volatile earnings trajectory, with the Group either registering operating losses or failing to generate enough cash to service debt.

The Group is projecting revenue of N22.5bn in FY20 (1H FY20: N5bn), due to planned completion of large projects worth N56.5bn. In view of severe liquidity constraints resulting from years of negative operating cash flows (FY19: N17.4bn; 1H FY20: N5.1bn), GCR considers the FY20 projection to be unattainable in the next 12-18 months, as Mixta Nigeria has no ostensible sources of capital to finance this rollout.

Compounding earnings and liquidity pressure is the domestic real estate sector's vulnerability to significant cash flow volatility, due to low per capita income levels, imported cost inflation, the high cost of funding, and limited funding support from the financial sector. The adverse effect of the COVID-19 crisis, especially expected shocks to the Federal Government's fiscal position and the large informal economy, are expected to constrain demand for housing significantly over the rating horizon.

Barring the 10%-20% deposit paid upfront, Mixta Nigeria can only fully realise the cash flows from each housing unit when it hands over completed projects. As such, its project cycle averages at least five years, making the Group increasingly reliant on debt to fund operations. In this regard, external debt had risen to N63.6bn at 1H FY20, or 2.5x the level reported at FY16 (FY19: N55.6bn).

Current debt (of which 56% was drawn from the debt capital market at 1H FY20) funds at least 65%

of the Group's trading assets. While this represents improvement from prior years when 70%-100% of the working capital cycle was debt-funded, there is still a significant mismatch between the funding profile and the project cycle. Some comfort is taken from the limited hard currency exposure and some pick up in deposits, albeit Mixta Nigeria is still expected to improve its debt maturity profile, reverse the negative cash flow trend, and raise new equity as planned to achieve a sustainable financial profile. While Mixta Nigeria recently secured a N1.5bn access facility from FBNQuest Merchant Bank Ltd, this (together with unrestricted cash), represents limited coverage of Commercial Paper ("CP") and other short-term liquidity requirements.

Positive rating action is dependent on an equity injection that materially reduces reliance on debt for large scale project delivery as well as strong internal cash generation with earnings based gearing improving to sustainable levels. Conversely, the ratings remain sensitive to further delays in project delivery, which materially curtail the group's cash generative capacity, and further constrain its ability to service its debt obligations.

RATING RATIONALE OF THE ISSUE

The Series 1 and Series 2 Tranche A Bonds are senior secured guaranteed fixed rate bonds secured by guarantee of GuarantCo, rated 'AA-' by Fitch Ratings and 'A1' by Moody's with a Stable outlook. GCR is of the view that the credit quality of GuarantCo is commensurate with a '$AAA_{(NG)}$' long-term national scale rating. The guarantee provides 100% of aggregate principal and one semi-annual coupon payment (excluding penalty charges). As such, the rating of the Series 1 and Series 2 Tranche A Bonds is derived by notching against the Guarantor's long term national scale rating of $AAA_{(NG)}$ while cognisance is taken of the Issuer's moderated credit risk profile.

The Series 2 Tranche B Bonds are senior secured fixed rate bonds secured by a mortgage on the secured assets for the benefit of the bondholders. The rating of Series 2 Tranche B Bonds is derived by applying a notching up approach, starting from the long term corporate credit rating of the Issuer. While estimated recovery calculations show that Series 2 Tranche B bondholders can expect full recovery, GCR takes a negative view of the recent downgrade of the Issuer. As such, a two notch uplift is considered appropriate for the Series 2 Tranche B Bonds.

The Series 1 and Series 2 Tranches A and B Bonds constitute direct, senior, unconditional and unsubordinated obligations of the Issuer. There has been no change to the structure of the transaction. A downgrade in the rating of the Issuer and/or Guarantor; and an adverse change in recovery prospects could trigger a negative rating action. The rating accorded to each Series relates to ultimate (as opposed to timely) payment of principal and interest, and is akin to an expected loss rating, which is a function of probability of default and loss severity.

NATIONAL SCALE RATINGS HISTORY

Rating class	Rating	Date	Outlook

Initial ratings			
Issuer- Long term	$BBB_{(NG)}$	June 2016	Stable
Issuer- Short term	$A3_{(NG)}$	June 2016	Stable
Series 1 Bonds	$AA+_{(NG)}$	December 2017	Stable
Series 2 Tranche A Bonds	$AA+_{(NG)}$	February 2019	Stable
Series 2 Tranche B Bonds	$A-_{(NG)}$	February 2019	Stable
Last ratings			
Issuer- Long term	$BBB-_{(NG)}$	August 2019	Stable
Issuer- Short term	$A3_{(NG)}$	August 2019	Stable
Series 1 Bonds	$AA+_{(NG)}$	October 2019	Stable
Series 2 Tranche A Bonds	$AA+_{(NG)}$	October 2019	Stable
Series 2 Tranche B Bonds	$A-_{(NG)}$	October 2019	Stable

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