



## GCR affirms North South Power Company Limited's National Scale Rating of A<sub>(NG)</sub>; Outlook Stable

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Lagos, 15 January, 2021 — Global Credit Ratings has affirmed the national scale rating assigned to North South Power Company Limited of A<sub>(NG)</sub> and A2<sub>(NG)</sub>, in the long term and short term respectively; with the outlook accorded as Stable. The ratings are valid until October 2021.

### RATING RATIONALE

Global Credit Ratings (“GCR”) has accorded the above credit rating(s) to North South Power Company Limited (“NSP” or the “Company”) based on the following key criteria:

The ratings reflect NSP’s niche market position in a highly fragmented market, underpinned by its demonstrated ability to profitably manage and operate the 600-megawatt Shiroro Hydro Electric Power Plan, under a 30-year concession agreement with the Federal Government of Nigeria.

The power sector generally displays low economic cyclicity due to the crucial nature of the services being provided. Competition is considered relatively low, as the huge gap between demand and supply implies strong potential for capacity build-out. That said, the industry faces a range of challenges, primarily weak legacy collections, which have seen power generation companies’ earnings partly being subsidised by the government. As such, base operating cash flows remain volatile, with material non-performing debtor balances. While GCR has noted the increase in NSP cash reserves, this is underpinned by balances owed to government agencies, as management awaits outcomes on offsetting discussions. Ongoing interventions by government could see sustained improvement in cash generation going forward, although this depends on enabling infrastructure being put in place to improve collections across the value chain.

The Company maintained an upward trajectory in revenue prior to 1H FY20, with sustained offtake supporting a five-year CAGR of 34% to FY19. Although NSP is rolling out revenue diversification strategies, these are likely to materialise in strong growth over the medium to long-term.

Earnings generating capacity is strong, supported by the relatively cost-effective hydro-electric power infrastructure. As such, notwithstanding observed volatility, the EBITDA margin is expected to trend well above domestic industry levels.

NSP’s leverage position is considered to be relatively conservative, with sufficient headroom to fund a sizeable capex backlog. Management plans to raise up to N5.5bn through bond issuance in the short term, and normalised EBITDA is expected to be able to cover total obligations by 75%-125%, while operating cash flow to debt coverage is expected to trend between 50%-100% over the outlook period.

A relatively quick recovery in earnings by FY21 is expected to support reasonable liquidity coverage



going forward. Risks to an otherwise sound liquidity profile could arise from sustained pressure on the cash conversion cycle, and/or high distributions during the capex upcycle.

Upward movement in the rating could follow sustained improvement in profitability and liquidity metrics on the back of timely completion of planned capacity expansion projects. Conversely, further escalation in debtors' absorptions that impair liquidity, profitability and/or debt serviceability could result in a negative rating action.

#### **NATIONAL SCALE RATINGS HISTORY**

<b>Rating Class</b>	<b>Rating</b>	<b>Outlook</b>	<b>Date</b>
<b>Initial rating</b>			
Long term	BBB+ <sub>(NG)</sub>	Stable	August 2017
Short term	A2 <sub>(NG)</sub>	Stable	August 2017
<b>Last rating</b>			
Long term	A- <sub>(NG)</sub>	Stable	December 2019
Short term	A2 <sub>(NG)</sub>	Stable	December 2019

#### **ANALYTICAL CONTACTS**

##### **Primary Analyst**

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##### **Committee Chairperson**

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#### **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Global Master Criteria for Rating Corporate Entities, updated February 2018

NSP rating reports (2017-19)

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 were an independent evaluation of the risks and merits of the rated entity; d) the ratings expire in August 2019.

NSP participated in the rating process via face-to-face management meetings 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 North South Power Limited with no contestation of the ratings

The information received from NSP to accord the credit rating included;

- 2019 audited annual financial statements (plus four years of comparative numbers),
- Unaudited management accounts as at 1H FY20
- Industry comparative data and regulatory framework
- 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.