

NEVEAH LIMITED

2022 Final Corporate Rating Report

 **Agusto&Co.**
Research, Credit Ratings, Credit Risk Management

NEVEAH LIMITED

Rating Assigned:

Bbb-

This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.

Outlook: Stable

Issue Date: 23 November 2022

Expiry Date: 30 November 2023

Previous Rating: N/A

Industry: Solid Minerals Trading

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RATING RATIONALE

Agusto & Co. hereby assigns a “**Bbb-**” rating to Neveah Limited (“Neveah” or “the Company”). The assigned rating reflects our opinion on the Company’s satisfactory financial condition evidenced by its good profitability metrics and moderate leverage position. The rating is also supported by the Company’s stable, qualified and experienced management team, Neveah’s minimal exposure to foreign exchange risks given that the bulk of its revenue is denominated in foreign currency as well as the strong governmental support for export-oriented businesses in Nigeria. The assigned rating also takes cognisance of the rising commodity prices at the international markets, which should support the Company’s financial performance in the near term. Nonetheless, the rating is tempered by Neveah’s inadequate working capital for the current level of operations and an operating cash flow position that requires improvement due to the increased investments in inventories. The rating is further moderated by the Company’s highly concentrated ownership profile and a corporate governance structure that needs further strengthening in line with best practices in our opinion.

Neveah Limited was established as a limited liability company in 2014 and commenced operations in 2015 as a commodity trading entity that deals in the exportation and trading of Solid Minerals including Lead, Tin and Zinc and agro-commodities such as Hibiscus Leaves, Hibiscus Siftings, Dried Orange Peels and Gum Arabic. Neveah’s major buyers are in Europe, North America and Asia.

The Company generates the bulk of its revenue from the sale of Solid Minerals particularly Tin, Columbite and Lead Ore and to a lesser extent agro-commodities. In the financial year ended (FYE) 31 May 2022, Neveah Limited’s revenue grew by 162% to ₦6.6 billion (adjusted for the impact of Export Expansion Grants and inflows from the RT 200 FX Programme) largely due to the increase in the sale of Solid Minerals, which accounted for 97% of the Company’s income. The Company’s off-takers are located in Europe (including Switzerland and Luxembourg), Singapore and Hong Kong. Neveah posted a direct cost-to-sales ratio of 117% (2021: 109.2%) translating to a gross loss margin of 17% (2021: 9.2%). However, if we adjust for the foreign exchange

Neveah Limited

(FX) gains realised from the sale of Solid Minerals, the Company would have reported a gross profit margin of 10.6% (2021: 10.3%). Over the past years, we recognise that the Company's profitability has been supported by other income largely comprising – FX gains realised from the sale of Solid Minerals, which have been supported recently by inflows from the Central Bank of Nigeria's RT 200 FX Scheme. This translated to the Company's pre-tax return on equity (ROE) improving to 56% (2021: 30%) while the pre-tax pre-interest return on assets (ROA) stood at 11% (2021: 14%) owing to the increase in Neveah's asset base. We believe that the Company's profitability is good. We expect Neveah's profitability metrics to be sustained in the near term upheld by the CBN supporting exports through the introduction of RT200, the Company's expanding export destinations and management's initiatives to reduce the cost of locally sourced products in the near term by dealing directly with the suppliers.

Due to the Company's expanding scale of operations, Neveah Limited made a strategic decision to increase investments in inventory to enable the Company to meet customer demand on a timely basis, which resulted in huge capital being tied down in closing inventory. Consequently, during the year ended 31 May 2022, Neveah Limited reported a negative operating cash flow (OCF) of ₦1.4 billion. If we adjust the 2022 closing inventory balance to reflect historical trends before the change in strategy, Neveah's operating cash flow position would have been positive ₦370 million. As a result, we have used the Company's operating cash flow before working capital changes to analyse its true OCF position. In the year under review, Neveah reported an adjusted OCF of ₦959 million, which was sufficient to cover the returns to providers of finance comprising interest and dividend payments of ₦360 million and mandatory capital expenditure of ₦32 million, which we consider satisfactory.

In the financial year ended (FYE) 31 May 2022, Neveah Limited recorded a working capital need of ₦2.3 billion due largely to the increased inventory investments, which adversely affected the length of the Company's operating cycle. Nonetheless, we note that the Company posted a working capital surplus of ₦63 million in the previous year. In FYE 2022, the Company recorded a working capital (measured as the difference between long-term funds and long-term assets) of ₦0.6 billion, which was insufficient to cover the working capital need translating to an overall working capital deficiency of ₦1.7 billion, which was funded through short-term borrowings.

In the year under review, Neveah Limited funded its operations by completing the issuance of Series 2 and 3 Commercial Papers. This resulted in a finance cost of ₦0.36 billion as the Company raised ₦5.6 billion in Commercial Papers in the review period. Hence, Neveah's finance cost-to-sales ratio increased to 4.1% compared to 0.8% in 2021, which was lower than our maximum benchmark of 5% for companies operating in the Commodities Trading Sector. The Company's IBL (net of cash) to equity ratio spiked to 177% (2021: 19%) owing to the elevated debt position, which was not in line with our expectation, although the net debt as a percentage of the average total assets

Neveah Limited

ratio of 40% was within our benchmark. Neveah posted an interest cover of 3 times in FYE 2022 while the three years (2020 – 2022) average interest cover was also 3 times.

Neveah Limited's financial condition at the end of Q1'2023 was characterised by good profitability metrics, inadequate working capital, high leverage and an OCF position that requires improvement in our view. With the Company's growing order size, improving local sourcing capacity and rising commodity prices at the international markets, we anticipate improvements in Neveah's financial performance in the near term.

Based on the foregoing, we hereby attach a **stable** outlook to Neveah Limited.

Figure 1: Strengths, Weaknesses, Opportunities and Threats Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Favourable government policies facilitating exports • Minimal exposure to exchange rate risk as the bulk of Neveah's earnings are in foreign currency • Stable, qualified and experienced management team • Good profitability
<p>Weaknesses</p> <ul style="list-style-type: none"> • Operating cash flow position that requires improvement • Inadequate working capital position • Concentrated ownership structure • Corporate governance structure that requires strengthening
<p>Opportunities</p> <ul style="list-style-type: none"> • Nigeria's solid mineral deposits • African Continental Free Trade Agreement (AfCFTA), which provides opportunities for the Company to export to other African countries
<p>Threats</p> <ul style="list-style-type: none"> • Policy inconsistencies from one government regime to another, which has hindered Industry growth • Political risks due to the forthcoming elections, which may disrupt Industry reform momentum • Frail macroeconomic environment evidenced by low economic growth and high inflation, which have resulted in rising cost of locally sourced materials

OVERVIEW OF THE NIGERIAN SOLID MINERALS INDUSTRY

Although mining activities in Nigeria date back to the early 1900s, the oil boom post-Nigeria's independence in 1960 elicited a change in the country's Solid Minerals Industry ("the Industry"). While Nigeria has a diverse range of Solid Mineral deposits spread across all 36 states and the Federal Capital Territory, the government's attention shifted solely toward crude oil production over the ensuing decades. This led to a neglect of the Industry and a lack of investments stalling growth. As a result, the contribution of solid minerals to the Gross Domestic Product (GDP), which was over 4% in the 1970s, regressed to a negligible level, averaging less than 1% since the turn of the century.

Table 1: Some Solid Mineral Deposits in Nigeria

Solid Minerals	Estimated Quantity
Iron Ore	3 Billion Metric Tonnes
Lead/Zinc	10 Million Metric Tonnes
Talc	40 Million Metric Tonnes
Gypsum	1 Billion Metric Tonnes
Bitumen	42 Billion Metric Tonnes
Coal	600 Million Metric Tonnes

Source: Nigerian High Commission - Ottawa

Nonetheless, we note that since the early 2000s, the Federal Government of Nigeria (FGN) has initiated several measures aimed at revitalising the Industry, due to the increasing need to diversify the nation's economy away from crude oil. Some of these reforms include – the Nigerian Minerals and Mining Act (2007), the Nigerian Minerals and Metals Policy (2008) as well as the development of the first strategy roadmap outlining long-term goals for the Industry (2012). More recently, the FGN implemented the Roadmap for the Growth and Development of the Nigerian Mining Industry, which was adopted in 2016. The Roadmap envisages a strong rebound of the Industry, evidenced by an estimated growth rate of 10% per annum from 2015-2025, which should result in a 3% GDP contribution of Solid Minerals by 2025. Similarly, with the introduction of the Central Bank of Nigeria's RT 200 FX Programme ("the Programme")¹, aimed at growing non-oil export volumes, we are cautiously optimistic about the potential of the Industry to contribute significantly to Nigeria's GDP in the medium term.

In November 2021, the Federal Ministry of Mining and Steel Development disclosed that the FGN will grant 100% ownership of products mined to investors as well providing other incentives – a three-year tax holiday and a royalty rate of 3.5%, which is low when compared to the 17% - 20% charged by other mining countries². We believe that the aforementioned incentives will drive investments in the Solid Mineral Industry in the medium term, although we do not anticipate any significant growth in GDP contribution in the near term given the lack of significant funding available to the Industry.

The Industry is relatively fragmented with artisanal and small-scale miners accounting for circa 85%³ of total output. Major operators and their estimated market share in the Tin and Lead Ore space include - Malcolm Minor Metals Limited (48.33%), Donald & Chyke Limited (24.16%), Akingems International Limited (2.01%) and Neveah Limited (1.34%)⁴. With the rising commodity prices at the international markets coupled with the

¹<https://www.cbn.gov.ng/Out/2022/CCD/Guideline%20on%20RT200%20Non-Export%20Proceeds%20Repatriation%20Rebate%20Scheme.Final.pdf>

²<https://www.premiumtimesng.com/news/top-news/493076-mining-nigeria-offers-100-ownership-generous-tax-holiday-to-investors.html>

³<https://www.pwc.com/ng/en/assets/pdf/developing-the-solid-minerals-sector-v2.pdf>

⁴Industry operators

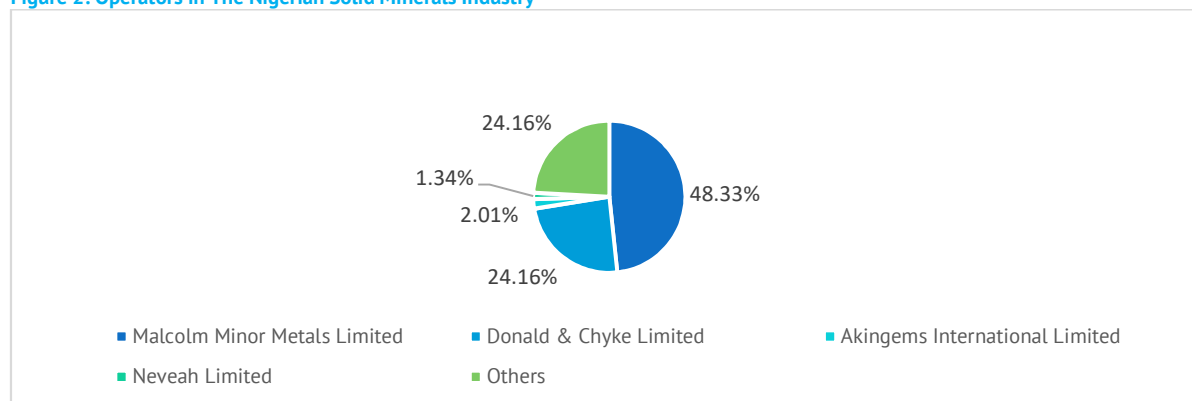
favourable government policies to increase non-oil exports, we anticipate increments in the number of Industry operators in the medium term.

Table 2: Global Average Commodity Prices for Lead & Tin in US Dollars (2020 – 2022)

Solid Minerals	2020	2021	2022
Tin	17,091	33,533	32,819
Lead	1,828	2,221	2,127

Source: Business Insider

Figure 2: Operators in The Nigerian Solid Minerals Industry



Source: Industry Operators

Despite the growth potential of the Nigerian Solid Minerals Industry, it is plagued by a myriad of challenges. These include - fluctuations in commodity prices at the international markets, slow reform implementation, which usually translates to policy failures, delays in obtaining the requisite mining permits and uncertainties surrounding the legal ownership of mining rights between the Federal and State Governments⁵. Furthermore, the absence of geoscience data to provide reliable details of the estimated quantity of Nigeria's Solid Minerals deposits also hinders potential operators' investment decisions, further curtailing Industry growth. Also, we recognise that mining activities have been limited in recent times due to the heightened insecurity in the country. With the Industry being dominated by artisanal miners, we reckon that this culminates into a myriad of issues – high levels of smuggling, loss of revenue for the government (taxes and royalties) as well as environmental degradation owing to the uncontrolled and non-systematic evacuation practices being adopted by these operators.

Overall, we believe that the fundamentals of the Nigerian Solid Minerals Industry remain attractive, given the country's significant Solid Mineral deposits, huge domestic market and, abundant labour supply. We believe that the FGN's effort to improve geoscience data gathering will positively impact the Industry, particularly in the areas of access to finance as mining licenses can be used as collateral for loans from the financial markets as done in other global mining hubs. With the right policies and significant investment across the value chain, we believe that the Nigerian Solid Minerals Industry can play an important role in driving the diversification mandate of the government, with substantial contributions to public revenues and foreign exchange earnings in the medium to long term.

Based on the aforementioned, we attach a **stable** outlook to the Nigerian Solid Minerals Industry.

⁵This is due to overlapping jurisdictions of the authorities (Federal and State) responsible for granting the necessary licenses.

PROFILE OF NEVEAH LIMITED

Background

Neveah Limited (“Neveah”, or “the Company”) was established as a limited liability company on 25 July 2014 and commenced operations in 2015. Neveah is a commodity trading company that deals in the exportation and trading of Solid Minerals such as Lead Ore, Columbite, Tin and Tantalite. The Company also exports agro-commodities like Hibiscus Flowers and Dried Split Ginger to a lesser extent. Neveah’s major off-taker for Tin Ore is the Malaysian Smelting Corporation (MSC). For Columbite, the three major off-takers are - Afrimet Resources AG (Switzerland), Traxys Europe S.A (Luxembourg) and Kalon Resources Limited (Hong Kong). For Lead Ore, the major off-takers are Red Comet Resources AG (Switzerland) and Traxys Europe SA. Neveah is duly registered with the Nigerian Export Promotion Council (NEPC) to export commodities from Nigeria.

Operating Structure

The Company sources all its products locally. Upon receipt of customer orders (which are largely on a cash basis), Neveah procures the necessary products from its suppliers. Although it has established relationships with key suppliers (mostly aggregators), Neveah still procures additional raw materials from other smaller suppliers to augment any shortfalls. The Company has an aggregation and testing facility in Jos, Plateau State to ensure that all products meet quality and quantity specifications.

After completing the required tests, the products are transported using the Company’s trucks to the Onne Seaport in Rivers State for export. However, products that do not meet export specifications are sold in the local market.

Neveah’s operating cycle in the year under review was 84 days (2021: 7 days) on account of the strategic decision to hold a high inventory of core products to enable the Company to meet customer demands on a timely basis.

Other Information

As at 31 May 2022, Neveah Limited’s total assets stood at ₦8.5 billion (2021: ₦464 million) while total shareholders’ funds were ₦1.1 billion (2021: ₦141 million). The Company generated a turnover of ₦6.1 billion (2021: ₦2.8 billion) and recorded a profit after tax of ₦552 million (2021: ₦37 million) during the financial year ended 31 May 2022. Neveah Limited had an average core staff strength of 37 employees (2021: 30 employees).

Table 3: Background Information as at 31 May 2022

Authorised Share Capital	₦500 million
Paid-Up Capital	₦160 million
Shareholders’ Funds	₦1.1 billion
Registered Office	Plot 2940, Aguiyi Ironsi Street, Maitama Abuja
Principal Business	Exportation of Solid Minerals & Agro-Commodities
Auditors	Deloitte Nigeria

Source: Neveah Limited’s 2022 Audited Financial Statement

OWNERSHIP, MANAGEMENT & STAFF

Neveah is a family-owned business with Mr Ibidapo Idris Lawal controlling 99.98% of Neveah Limited's equity capital while the balance of 0.02% was held by Mrs Idayat Abidemi Lawal.

As at the end of FYE 2022, Neveah Limited had a five-member Board of Directors, comprising three executive directors and two non-executive directors. Mr Oluwabiyi Ajibade Emmanuel leads the Board as the Chairman, while Mr Ibidapo Idris Lawal is the Managing Director. In our view, the Board composition requires a greater breadth of diversity and experience to guarantee its independence especially as the Managing Director is equally the owner of the business.

The Company's senior management team comprises eight members (including the Managing Director). The management team include professionals with diverse experience and qualifications in their respective roles. Augusto & Co. notes positively that most of the senior management staff have been with the Company since its inception. In our opinion, the Company has a stable, qualified and experienced management team.

In the year under review, Neveah Limited's total staff strength grew by 23% to 37 employees, while the net earnings per employee stood at ₦27 million (FYE 2021: ₦3.8 million) due to higher earnings. Neveah's net earnings per employee in the current year were adequate to cover the average staff cost approximately 19 times, which is better than our benchmark of 3 times and depicts a good staff productivity level in our opinion.

Management Team

Mr Ibidapo Idris Lawal is the Managing Director and Chief Executive Officer of Neveah Limited. Mr Lawal holds a Bachelor of Science in Economics from Lead City University in Ibadan and a Master in Business Administration from Drexel University, Pennsylvania. He leads the Neveah team in the negotiation of all export contracts for Solid Minerals and agro commodities. Under his management, Neveah has been able to develop and grow its export business over the past 6 years as well as increase the firm's sales geographically. Mr Lawal was also the Chief Executive Officer of Activo Global Investments Limited – an entity involved in export-oriented business between 2007 and 2015.

Table 4: Other members of Neveah Limited's Management Team

Names	Designations
Mrs Sandra Nwalutu	Head, Admin & Human Resources
Mr Stephen Ude Njoku	Internal Auditor
Mr Chukwuemerie Kanu	Head, Accounts
Mr Anuoluwapo Awolola	Financial Accountant
Mr Adebimpe Toyese	Procurement Manager, Solid Minerals
Mr Umar Danjuma	Procurement Manager, Agro Commodities
Mrs Edima Ekpe	Business Development Manager, Agro Commodities

Source: Neveah Limited

FINANCIAL CONDITION

ANALYSTS' COMMENTS

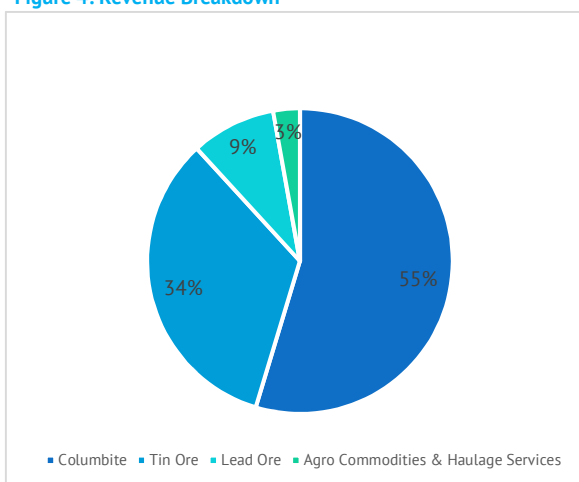
- Neveah's management team made a strategic decision to increase investments in inventory due to its expanding scale of operations. As a result, the Company's operating cash flow position in FYE 2022 was adversely impaired by the high amount of closing inventory. As a result, we used the operating cash flow before working capital changes to assess its true cash flow position in the year under review.
- We have reclassified inflows from the Export Expansion Grant and the RT 200 FX Programme to revenue. We believe that the reclassification accurately reflects the Company's revenue profile given that these inflows are dependent on its revenue.

PROFITABILITY

Neveah Limited generates revenue principally from the export of Solid Minerals (Tin, Columbite, Tantalite and Lead Ore) and to a lesser extent agro commodities (Dried Hibiscus Flower, Hibiscus Siftings, Dried Orange Peels and Gum Arabic). The Company's revenue is largely (circa 98%) denominated in United States Dollars, which minimises its exposure to foreign exchange rate risks. Solid Minerals accounted for 97% of Neveah's revenue in the year under review while inflows from the exportation of agro-commodities and haulage services accounted for the balance of 3%.

In the year under review, Neveah Limited's adjusted revenue grew by 184% year-on-year to ₦6.6 billion, supported by the marked increase in the export of Solid Minerals as international trade continues to rebound following the lull experienced during the pandemic in 2020. Due to dwindling revenue from crude oil sales over the past years, the FGN has intensified efforts to boost non-oil exports by offering certain incentives including the exemption of profits of export-oriented businesses from the Corporation Tax rate of 30%⁶ and the introduction of an Export Expansion Grant (EEG) scheme to induce companies to grow export volumes⁷. On the back of this, the Company accessed the Nigerian Money Market in November 2021 and raised circa ₦10 billion in Commercial Papers enabling Neveah to consistently grow its export volumes. The Company also recapitalized its business in the year under review with an additional 490 million shares of ₦1 each, further increasing its funding buffer. Agusto & Co. anticipates further improvements in Neveah's revenue in the near term owing to its improved funding, which should enable it to consistently grow export volumes.

Figure 4: Revenue Breakdown



In the financial year ended (FYE) 31 May 2022, the Company's direct cost grew by 204% in absolute terms to ₦7.7 billion translating to a gross loss of ₦1.1 billion (2021: ₦215 million). Although the Company's input costs are less susceptible to foreign exchange risks as its products are sourced locally (from Plateau, Kaduna,

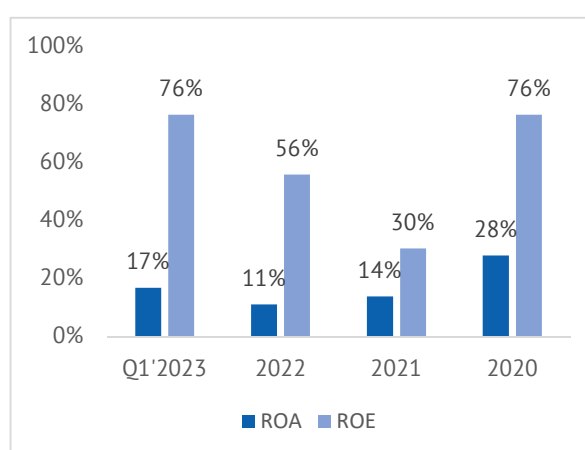
⁶<https://taxsummaries.pwc.com/nigeria/corporate/tax-credits-and-incentives#:~:text=Profits%20of%20any%20Nigerian%20company,%2C%20equipment%2C%20and%20spare%20parts>.

⁷<https://nepc.gov.ng/blog/export-incentive/export-expansion-grant>

Kano, Ebonyi and Nasarawa States), we recognise that cost increases arising from sustained inflationary pressures and heightened insecurity continue to weigh on its direct costs. If we consider the gains of ₦2.6 billion realised due to the favourable movements in the foreign exchange rates in the year under review, the Company would have reported a gross profit margin of 10.6% (2021: 10.3%).

During FYE 2022, the Company's operating expenses rose sharply to ₦488 million (2021: ₦233 million) largely due to the increase in legal and professional fees, depreciation and directors' entitlements. Neveah Limited reported an adjusted operating profit of ₦430 million (2021: ₦61 million) and an operating profit margin (OPM) of 5% (2021: 2.1%). Neveah's finance cost increased significantly to ₦0.36 billion owing to the issuance of Series 2 and 3 Commercial Papers amounting to ₦5.6 billion in the year under review. As a result, the Company reported an interest expense to sales ratio of 4.1% (2021: 0.8%), which was slightly below our maximum benchmark of 5%. Overall, the Company's pre-tax profit margin improved to 6.8% (2021: 1.5%) while the post-tax profit margin also grew to 6.4% (FYE 2021: 1.3%).

Neveah Limited's pre-tax pre-interest return on assets (ROA) declined to 11% (2021: 14%) occasioned by the increase in asset base but was still in line with our expectations while the three years (2020 – 2022) weighted average ROA of 13% was good in our view. Neveah's pre-tax return on equity (ROE) grew markedly to 56% (2021: 30%) owing to the improvement in earnings in the review period while the three-year (2020 – 2022) weighted average ROE of 42% was also good in our opinion.



In the three months ended 31 August 2022, Neveah recorded total revenue of ₦2.9 billion, which was more than nine times the turnover achieved over a similar period in the previous year due to the increased funding buffer, which enabled the Company to grow its export volumes. In the same period, Neveah posted a cost of sales to revenue ratio of 91% resulting in a better gross profit margin of 9.1% (Q1'2022: gross loss margin of 23%). Overall, Neveah posted annualized ROA and ROE of 17% and 76% respectively, which were better than our expectations.

Going forward, we expect the Company's profitability metrics to be driven by its growing export sales and ongoing measures to rein in its costs of acquiring local products. Furthermore, with the Company's growing order size, improving local sourcing capacity and rising commodity prices at the international markets⁸, we also anticipate improvements in Neveah's overall profitability position in the near to medium term.

In our opinion, Neveah Limited's overall profitability level is good.

⁸<https://www.worldbank.org/en/news/press-release/2022/10/26/commodity-markets-outlook>

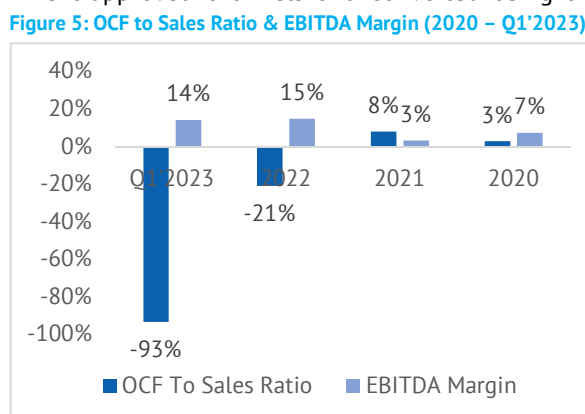
CASH FLOW

The Company predominantly generates cash from the export of Solid Minerals and agro products to its customers. Neveah Limited's cash collection policy varies on a customer-by-customer basis. We note that for some of its customers, the Company collects 100% of the order in advance before goods are shipped. For other contracts, Neveah receives between 40%-90% of invoice value either when the bill of lading is received by the customer or upon physical delivery of the goods. On the other hand, Neveah Limited settles its suppliers (mostly aggregators) in cash after extensive quality reviews are conducted on the products. In FYE 2022, the Company recorded an average trade receivable collection period of 12 days (2021: 6 days), while the average trade payables payment period grew to 9 days (2021: 3 days).

Despite the improved earnings recorded in the year under review, Neveah Limited recorded a negative operating cash flow (OCF) of ₦1.4 billion. This was largely driven by the marked increase in inventory, other debtors and prepayments and advanced deposits to suppliers. The spike in inventory levels⁹ at the end of FYE 2022 was a result of a strategic decision to stockpile core products (Tin and Columbite) to mitigate stockout risk, thus enabling the Company to execute contracts on a timely basis. This resulted in huge capital being tied up in closing inventory. In the same vein, we recognise that Neveah Limited is an export-oriented business and its proceeds are repatriated to Nigeria via government-approved channels and converted using the exchange rate at the Investors & Exporters (I&E) window rather than the parallel market rate. To cushion the effect of companies repatriating export proceeds to the country via government-approved means, the Central Bank of Nigeria (CBN) introduced the RT 200 FX Programme ("the Programme")¹⁰.

The Programme pays ₦65 for every \$1 repatriated and sold through the I&E window for other third-party use. In our view, we believe the foreign exchange policy regime in the country has distorted the Company's OCF position given that its FOREX proceeds are not converted at the market reflective hence, depressing Neveah's Naira revenue and operating cash flow. Despite the cushioning effect of the RT 200 FX Programme, we reckon that it is not enough to fully cushion the constrained cash position of most exporters in the country. Nonetheless, Neveah posted an OCF before working changes of ₦959 million, which was sufficient to cover the returns to providers of finance (RTPOF) – comprising interest payments (74%) and dividend to shareholders (26%) of ₦360 million, which was satisfactory in our opinion. Neveah's OCF before working changes in FYE 2022 was also sufficient to cover the mandatory capital expenditure of ₦32 million in the year under review. The Company's three-year (2020 – 2022) OCF before working capital changes of ₦1.1 billion was also adequate to cover the three-year RTPOF of ₦506 million and mandatory capital expenditure of ₦49 million.

Neveah's FYE 2022 OCF to sales ratio of negative 16% compared to its EBITDA margin of 11% reinforces our opinion of the adverse impact of the high inventory levels on its year-end cash position given that most of its



⁹ Inventory grew by 1660% year on year

¹⁰ <https://www.cbn.gov.ng/Out/2022/CCD/Guideline%20on%20RT200%20Non-Export%20Proceeds%20Repatriation%20Rebate%20Scheme.Final.pdf>

sales are largely on a cash basis as well as the negative effects of the government's foreign exchange policy. We consider the Company's FYE 2022 EBITDA margin of 11% to be satisfactory.

With the Company's expanding export destinations coupled with the increasing commodity prices at the international markets, we anticipate that Neveah Limited will be able to generate sufficient operating cash flow in the near term to meet future interest and dividend payments to lenders and shareholders respectively.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 May 2022, Neveah Limited's working assets grew markedly to ₦3.8 billion (2021: ₦0.2 billion). The increase was on account of the sharp rise in the Company's inventory levels. Given the Company's decision to continue holding high inventory levels owing to the increasing scale of operations, we believe the investments in working assets will be sustained in the near to medium term.

As at 31 May 2022, Neveah Limited's spontaneous financing (non-interest-bearing liabilities) grew by 428% to ₦1.5 billion due to the rise in other accruals and trade creditors. The Company's spontaneous financing as at FYE 2022 comprised largely FX forwards, trade creditors, taxation payable and deferred taxation. As at 31 May 2022, the spontaneous financing was insufficient to cover working assets leaving a working capital need of ₦2.3 billion. We expect the working capital need to persist in the near to medium term owing to the sustained investments in inventory.

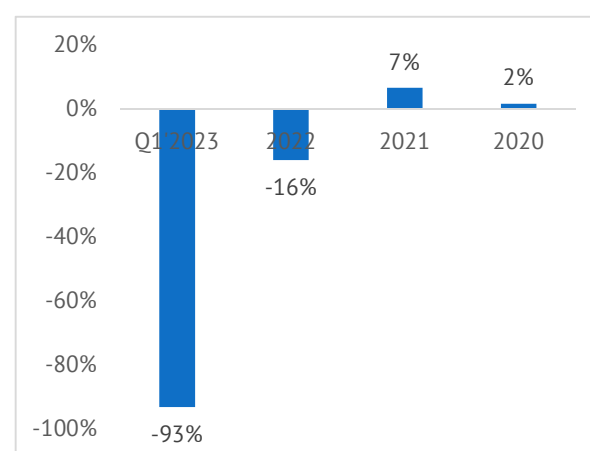
As at the end of FYE 2022, Neveah Limited's long-term assets grew by 185% to ₦0.7 billion as the Company increased its truck fleet to facilitate the haulage business segment. Neveah's long-term assets comprised property, plants and equipment at the end of the review period. As at the same date, the Company's long-term funds, comprising equity (82%) and long-term borrowings (18%) amounted to ₦1.3 billion (2021: ₦0.5 billion). The Company's long-term funds were sufficient to cover the long-term assets leaving a working capital available of ₦0.6 billion, though insufficient to meet the working capital need.

Hence, Neveah Limited posted an overall working capital deficiency of ₦1.7 billion, which was covered by short-term borrowings.

As at the three months ended 31 August 2022 (unaudited), Neveah Limited posted a working capital need of ₦5.8 billion and working capital available of ₦0.3 billion, which resulted in an overall working capital deficiency of ₦5.5 billion. Barring the introduction of long-term funding into the Company's financing mix, we do not anticipate any significant changes in Neveah Limited's overall working capital position in the near term.

In our opinion, Neveah Limited's overall working capital requires improvement.

Figure 6: Overall Working Capital (N'Billion) – (2020 – Q1 2023)



LEVERAGE

In the year under review, Neveah Limited's total liabilities grew sharply to ₦7.4 billion (FYE 2021: ₦0.3 billion) owing to the impact of the Series 2 and 3 Commercial Paper issuances of ₦5.6 billion and the increase in other creditors and accruals. As at 31 May 2022, the Company's total liabilities comprised interest-bearing liabilities (80%) and non-interest-bearing liabilities (20%). Subsequent to FYE 2022, the Company completed the issuance of Series 4 and 5 Commercial Papers of ₦2.14 billion and ₦3.99 billion at interest rates of 13.53% and 17.42% respectively, which are due for repayment in November 2022 and April 2023.

In the year under review, Neveah Limited's finance cost grew more than ten-fold to ₦0.36 billion largely due to the impact of the Commercial Paper issuances. On the back of this, the Company's interest expense to sales ratio grew by 500 basis points to 4.1%, which was slightly below our maximum benchmark of 5%. Agusto & Co. expects the Company's interest expense to sales ratio to continue trending upward in the near term on the back of the Series 4 and 5 Commercial Paper issuances completed subsequent to year-end although we reckon that the anticipated growth in revenue profile should provide a cushioning effect.

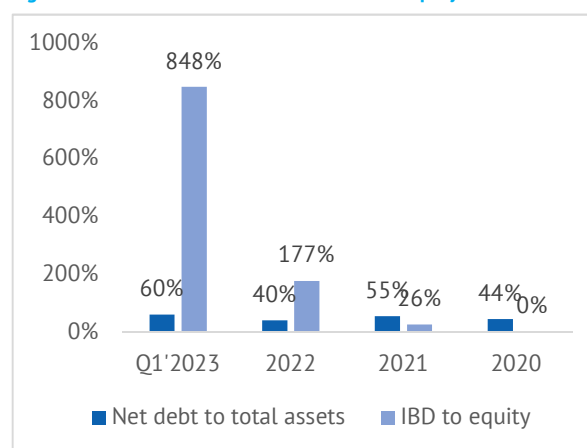
In the year under review, Neveah posted an interest cover (operating cash flow before working capital changes) of approximately 3 times, which was in line with our benchmark. Over the past three years (2020 – 2022), the Company also posted an average interest coverage ratio of 3 times, which we consider satisfactory.

In the year under review, the Company's total assets of ₦8.5 billion were funded by total liabilities (82%) and equity (18%), thus depicting a low equity cushion. On the back of the escalation in the Company's interest-bearing liabilities, its IBL (net of cash) to equity ratio increased to 177% (2021: 19%), which we consider to be high. Nonetheless, we note that the net debt as a percentage of average total assets ratio of 40% (2021: 67%) was in line with our expectations.

As at the end of 31 August 2022, Neveah's total liabilities stood at ₦10 billion due to the impact of the Series 4 and 5 Commercial Papers completed in the quarter. As a result, the interest expense to sales ratio inched up to 10% although the net debt to average total assets ratio of 60% was still within our benchmark.

We consider the leverage profile of Neveah to be moderate.

Figure 7: Net Debt to Total Assets & IBD To Equity



OUTLOOK

Due to subdued access to capital, the potential of the Nigerian Solid Minerals Industry is still largely underexploited despite the vast deposits of identified mineral resources prevalent in the country. Nevertheless, we anticipate improvements in the performance of the Industry in the medium term on the back of the sustained efforts by the FGN to diversify the country's economy away from crude oil. In the near term, we believe that the government's reform momentum particularly the export-promotion programmes should stimulate tangible growth in the Solid Minerals space. In the same vein, we believe that the FGN can encourage both local and foreign private investments through the provision of requisite infrastructure and human capital development as well as tackling insecurity in the mineral-rich Northern region of the country.

Neveah Limited intends to deepen its presence in the Industry through a market penetration strategy that involves dealing directly with its suppliers, thus eliminating middlemen. Management believes that eliminating middlemen from its value chain will reduce the Company's cost profile hence improving profitability. Furthermore, to diversify the Company's revenue profile, Neveah is currently constructing an Aluminium recycling plant in Ogun State. Based on management representation, the recycling plant, which is scheduled to come on stream in April 2023 will have the capacity to produce 3,000 metric tonnes (MT) of Aluminium and 500 MT of Copper monthly. We anticipate that the completion of the recycling plant will positively impact the Company's financial performance and cash flows in the medium term.

On the agro-commodities export side, Management intends to expand its product portfolio to include high-quality Ginger. To achieve this, the Company has partnered with farmers to cultivate 840 acres of arable land in Kaduna for the cultivation of Ginger under an Offtake Agreement. The Company is also collaborating with over 1,200 farmers under an offtake agreement for the provision of Ginger. We expect the aforementioned to spur revenue contribution from the sale of agro commodities in the medium term.

In the near term, we do not expect a significant improvement in Neveah's working capital position barring the introduction of long-term funding into the financing mix, while the leverage position will remain moderate in our opinion. Nonetheless, Agusto & Co. expects Neveah Limited's overall profitability to be sustainable in the near to medium term on account of the increasing scale of its operations. We anticipate improvements in the Company's operating cash flow position despite the sustained investments in inventory on the back of its increasing scale of operations and rising commodity prices at the international markets.

Based on the aforementioned, we have attached a **stable** outlook to Neveah Limited.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-May-22		31-May-21		31-May-20	
	₦'million		₦'million		₦'million	
ASSETS						
CASH IN HAND AND BANK	1	0.0%	10	2.2%	22	8.2%
MARKETABLE SECURITIES & TIME DEPOSITS	4,059	47.7%			-	
CASH & CASH EQUIVALENTS	4,060	47.8%	10	2.2%	22	8.2%
FX PURCHASED FOR IMPORTS			-		-	
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	286	3.4%	25	5.4%	15	5.4%
STOCKS	1,798	21.2%	102	22.0%	144	52.8%
TRADE DEBTORS	194	2.3%	38	8.3%	65	24.0%
DUE FROM RELATED PARTIES	149	1.8%	53	11.4%		
OTHER DEBTORS & PREPAYMENTS	1,357	16.0%	5	1.0%	4	1.3%
TOTAL TRADING ASSETS	3,785	44.5%	223	48.1%	228	83.5%
INVESTMENT PROPERTIES					-	
OTHER NON-CURRENT INVESTMENTS					-	
PROPERTY, PLANT & EQUIPMENT	656	7.7%	231	49.7%	23	8.3%
SPARE PARTS, RETURNABLE CONTAINERS, ETC			-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	-					
TOTAL LONG-TERM ASSETS	656	7.7%	231	49.7%	23	8.3%
TOTAL ASSETS	8,501	100.0%	464	100.0%	273	100.0%
	1732%		70%		-4%	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	5,701	67.1%	37	7.9%		
CURRENT PORTION OF LONG-TERM BORROWINGS	-		-			
LONG-TERM BORROWINGS	231	2.7%				
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	5,932	69.8%	37	7.9%		
TRADE CREDITORS	188	2.2%	18	3.9%	30	11.1%
DUE TO RELATED PARTIES					32	11.7%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS			90	19.4%	102	37.3%
OTHER CREDITORS AND ACCRUALS	1,283	15.1%	169	36.4%	2	0.6%
TAXATION PAYABLE	35	0.4%	8	1.8%	7	2.7%
DIVIDEND PAYABLE					-	
DEFERRED TAXATION	4	0.0%	0	0.1%	-	
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES					-	
MINORITY INTEREST						
TOTAL NON-INTEREST-BEARING LIABILITIES	1,510	17.8%	286	61.6%	173	63.4%
TOTAL LIABILITIES	7,442	87.5%	322	69.5%	173	63.4%
SHARE CAPITAL	500	5.9%	10	2.2%	5	1.9%
SHARE PREMIUM	-		-		-	
IRREDEEMABLE DEBENTURES	-		-		-	
REVALUATION SURPLUS	-		-		-	
OTHER NON-DISTRIBUTABLE RESERVES	-		-		-	
REVENUE RESERVE	559	6.6%	131	28.3%	95	34.7%
SHAREHOLDERS' EQUITY	1,059	12.5%	141	30.5%	100	36.6%
TOTAL LIABILITIES & EQUITY	8,501	100.0%	464	100.0%	273	100.0%

STATEMENT OF COMPREHENSIVE INCOME	31-May-22		31-May-21		31-May-20	
	₦'million		₦'million		₦'million	
TURNOVER	6,131	100.0%	2,340	100.0%	1,246	100.0%
COST OF SALES	(7,771)	-126.7%	(2,555)	-109.2%	(1,134)	-91.0%
GROSS PROFIT	(1,639)	-26.7%	(215)	-9.2%	112	9.0%
OTHER OPERATING EXPENSES	(488)	-8.0%	(233)	-9.9%	(115)	-9.2%
OPERATING PROFIT	(2,127)	-34.7%	(448)	-19.1%	(3)	-0.3%
OTHER INCOME/(EXPENSES)	3,079	50.2%	512	21.9%	80	6.4%
PROFIT BEFORE INTEREST & TAXATION	952	11.0%	64	2.3%	77	5.8%
INTEREST EXPENSE	(360)	-4.1%	(21)	-0.8%	-	-
PROFIT BEFORE TAXATION	592	6.8%	43	1.5%	77	5.8%
TAX (EXPENSE) BENEFIT	(40)	-0.5%	(6)	-0.2%	(7)	-0.5%
PROFIT AFTER TAXATION	552	6.4%	37	1.3%	69	5.2%
NON-RECURRING ITEMS (NET OF TAX)						
MINORITY INTERESTS IN GROUP PAT						
PROFIT AFTER TAX & MINORITY INTERESTS	552	6.4%	37	1.3%	69	5.2%
DIVIDEND	(124)	-1.4%	-	-	-	-
PROFIT RETAINED FOR THE YEAR	428	4.9%	37	1.3%	69	5.2%
SCRIP ISSUES	-	-	-	-	-	-
OTHER APPROPRIATIONS/ ADJUSTMENTS					-	-
PROFIT RETAINED B/FWD	131		95		25	
PROFIT RETAINED C/FWD	559		131		95	
ADDITIONAL INFORMATION						
Staff costs (₦'000)	53		49		13	
The average number of staff	37		30		17	
Staff costs per employee (₦'000)	1		2		1	
Staff costs/Turnover	0.6%		1.7%		1.0%	
Capital expenditure (₦'000)	479		222		25	
Depreciation expense - current year (₦'000)	47		14		3	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year-end ('000)	1,000		20		10	
The average age of depreciable assets (years)	1		1			
Sales at constant prices – the base year 1985 (₦'000)	22		8		4	
Auditors	DELOITTE		DELOITTE		YEMI ODEBUNMI	
Opinion	CLEAN		CLEAN		CLEAN	

CASH FLOW STATEMENT FOR Y/E	31-May-22	31-May-21	31-May-20
	₦'million	₦'million	₦'million
OPERATING ACTIVITIES			
Profit after tax	552	37	69
ADJUSTMENTS			
Interest expense	360	21	-
Minority interests in Group PAT	-	-	-
Depreciation	47	14	3
(Profit)/Loss on sale of assets	-	-	-
Other non-cash items			15
Potential operating cash flow	959	72	87
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	170	(12)	30
Due to related parties	-	(32)	(151)
Advance payments and deposits from customers	(90)	(12)	102
Other creditors & accruals	1,114	167	2
Taxation payable	26	1	6
Deferred taxation	3	0	-
Obligations under unfunded pension schemes	-	-	-
Minority interest	-	-	-
Cash from (used by) spontaneous financing	1,224	113	(11)
(INCREASE)/DECREASE IN WORKING ASSETS:			
FX purchased for imports	-	-	-
Advance payments and deposits to suppliers	(261)	-	(15)
Stocks	(1,696)	(10)	26
Trade debtors	(156)	42	(59)
Due from related parties	(97)	27	-
Other debtors & prepayments	(1,352)	(53)	(4)
Cash from (used by) working assets	(3,562)	5	(51)
CASH FROM (USED IN) OPERATING ACTIVITIES	(1,379)	190	25
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	(360)	(21)	-
Dividend paid	(1240)		
CASH USED IN PROVIDING RETURNS ON FINANCING	(484)	(21)	-
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	(1,863)	169	25
NON-RECURRING ACTIVITIES			
Non-recurring items (net of tax)			
CASH FROM (USED IN) NON-RECURRING ACTIVITIES			
INVESTING ACTIVITIES			
Capital expenditure	(479)	(222)	(25)
Sale of assets	6	-	-
Purchase of other long-term assets (net)			
Sale of other long-term assets (net)	-	-	-
CASH FROM (USED IN) INVESTING ACTIVITIES	(472)	(222)	(25)
FINANCING ACTIVITIES			
Increase/(Decrease) in short-term borrowings	5,664	37	-
Increase/(Decrease) in long-term borrowings	231	-	-
Proceeds of shares issued	490	5	4
CASH FROM (USED IN) FINANCING ACTIVITIES	6,385	41	4
CHANGE IN CASH INC/(DEC)	4,050	(12)	4
OPENING CASH & MARKETABLE SECURITIES	10	22	20
CLOSING CASH & MARKETABLE SECURITIES	4,060	10	23

	31-May-22	31-May-21	31-May-20
<u>PROFITABILITY</u>			
PBT as % of turnover	6.8%	1.5%	5.8%
Operating income to turnover	5%	2.1%	5.6%
Return on equity	56%	30%	76%
Real sales growth	176.3%	92.2%	-
Sales growth	205%	115.2%	-35.1%
ROA (pre-tax)	11%	14%	28%
<u>CASH FLOW</u>			
Interest cover (times)	-3.83	8.89	-
Principal payback (years)	-	0.2	-
<u>WORKING CAPITAL</u>			
Working capital need (days)	96	-	15
Working capital deficiency (days)			-
<u>LEVERAGE</u>			
Interest-bearing debt to Equity	560%	26%	-
Total debt to Equity	702%	228%	173%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with an impeccable financial condition and an overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses a very strong financial condition and a very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with a good financial condition and a strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with a satisfactory financial condition but the capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weaknesses (es).
B	This refers to a company that has a weak financial condition and the capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with a very weak financial condition and a weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect a comparative position within the rating category. Therefore, a rating with a + (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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