

Nigeria Sovereign Investment Authority

2022 Final Rating Report

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

Nigeria Sovereign Investment Authority

Rating Assigned:

Aaa (NGA)

ESG Score:

2

Outlook: Stable

Issue Date: 10 August 2022

Expiry Date: 30 June 2023

Previous Rating: N/A

Industry: Government
Backed Institution

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A government-backed institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due.

RATING RATIONALE

Agusto & Co. assigns 'Aaa (NGA)' rating to Nigeria Sovereign Investment Authority ('NSIA or the Authority') reflective of the credit rating of the Federal Republic of Nigeria (FGN) on our national rating scale. The NSIA is wholly owned by all the tiers of government in Nigeria. Given its ownership structure, we consider the Authority to be a government-backed institution. We have also assigned an ESG score of '2' denoting that environmental, social and governance issues have minimal contributions to credit risk. The assigned rating also reflects the Authority's strategic role in building a savings base for the Nigerian people, enhancing the development of Nigeria's infrastructure and providing fiscal stability in periods of economic stress. However, constraining the rating is the Authority's exposure to the Nigerian fragile macroeconomic climate though to an extent moderated by its investments in the United States treasury bills and other gilt edged securities.

NSIA was established by the Nigeria Sovereign Investment Authority Act which was signed by the former President Goodluck Jonathan in May 2011. The Authority's core mandates include building a saving base for Nigeria's future generation, enhancing the development of Nigeria's infrastructure and providing fiscal stabilisation support in period of economic stress, facilitated by funds from Nigeria's excess crude oil revenue. The Authority is jointly owned by the Federal Government of Nigeria (45.8%), the 36 State Governments (36.2%), the 774 Local Government Authorities (17.8%) and the Federal Capital Territory (0.2%). The NSIA Act incorporates best practices of the International Forum of Sovereign Wealth Funds' Santiago Principles which are a set of 24 voluntary guidelines that assign best practices for the operations of Sovereign Wealth Funds (SWFs). Nigeria's SWF was launched with a seed funding of US\$1 billion in October 2012 while an additional US\$750million (emanating from Nigeria LNG Limited (NLNG) dividends and excess crude account contribution) was injected between 2016 and 2019. However, \$150 million was withdrawn from the stabilisation fund in FY 2020 to augment the funding of the Federation's budget and to offset the impact of the fall in crude oil prices. Although contribution from the shareholders (the various tiers of governments) have been inconsistent, contrary to the specifications in the NSIA Act, nevertheless, the Authority's assets under management (AUM) have grown to

over US\$2 billion as at 31 December 2021 since the allocation of the US\$1 billion seed capital to the Authority in FY 2012.

In line with the NSIA Act 2011, governance is vested with the Governing Council and the Board of Directors. The appointment of the Board of Directors and the Chief Executive Officer is approved by the President of Federal Republic of Nigeria. During the year under review, a new Board of Directors (the third since the inception of the Authority) was inaugurated on 1 September 2021 as the tenure of the prior Board ended in May 2021. In our view, consistent changes in the Board of Directors negatively impacts seamless succession. In the near term, we anticipate further changes to the Board given the expected appointment of an Executive Director and the retirement of Mr. Uche Orji (the pioneer Chief Executive Officer) in October 2022.

Contributions from NSIA's shareholders are allocated to three ring-fenced funds, namely the Stabilisation Fund ("SF"), Future Generations Fund ("FGF") and Nigeria Infrastructure Fund (NIF). The investment philosophy for the SF and FGF (which are funds that invest in securities in multiple geographies), is to preserve value and earn decent returns. However, while the SF is invested in short term, highly liquid and good credit quality securities, the FGF is a longer tenured investor in good credit quality investments. Nevertheless, the NIF operates differently as it is entirely invested locally to drive the development of strategic domestic infrastructure and support economic diversification. In FY 2020, US\$150million of the SF was liquidated to augment the funding of the Federation's July budget and to offset the impact of the fall in crude oil prices due to the coronavirus pandemic. This was the first withdrawal by the Nigerian Government and is well within the stabilisation fund's mandate.

As at FYE 2021, the Authority's shareholders' funds stood at ₦909.3 billion, a 19% year-on-year growth on the back of accretion to reserves from the profit recorded. As a sovereign wealth fund manager, NSIA is not subjected to Basel methodologies. However, the Authority ensures that adequate capital is maintained through prudent portfolio management, stress testing and contingency planning. Our calculation of NSIA's tier 1 to risk weighted assets ratio declined to 77% (FYE 2020: 86%), albeit good in our view. The Authority's adjusted net debt to adjusted equity (computed as total liabilities - largely payables to counterparties less cash divided by shareholders' funds) remained at 2% as at FYE 2021, at par with prior year. We consider the Authority's capital to be good for the current business risks undertaken.

NSIA generates its income from treasury securities, hedge funds and dividend from investee companies such as Infracredit, Nigerian Mortgage Refinance Company (NMRC) and Family Homes Fund. In the review period, ancillary income (mainly net gains on financial assets and foreign exchange gains) accounted for 74% of operating income, while core earnings from treasury securities and fixed income products accounted for the balance of 22% and 4% respectively. Ancillary revenues dominated the operating income base in FY 2021 given

the persistent devaluation of the naira and higher closing exchange rates used in the translation of financial assets. Overall, profit before tax declined by 11% to ₦142.6 billion while pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) reduced to 13.6% (FY 2020: 21.3%) and 17.7% (FY 2020: 24.7%) respectively. Nonetheless, we consider the Authority's profitability to be good as the ROE was slightly higher than the 17% average inflation rate recorded in FY 2021. In the near term, we expect ancillary revenue to dominate the operating income base given the prevailing devaluation of the naira. However, the rising yields across the globe – particularly on US treasury notes should cause core income to account for a greater proportion of operating earnings. Nevertheless, while profitability is not NSIA's core mandate, we believe that the Authority's performance will remain acceptable in the near term engendering a satisfactory capacity to fulfil mandates.

Strengths

- Support of the government of the Federal Republic of Nigeria.
- Good capitalisation
- Sizeable and well diversified investment portfolio
- Good liquidity profile.

Weaknesses

- Irregular contribution from shareholders
- Dealing with government bureaucracies

Challenges

- Weak government finances that constrains the ability to consistently inject funds in the Authority
- Sustaining performance in a turbulent global economy fraught with inflationary pressures.
- Exposure to volatility in the market prices of securities

Table 1: Background Information

	2020	2021
Total Assets & Contingents	₦944.9 billion	₦1.22 trillion
Operating Income*	₦164.1 billion	₦147.6 billion
Pre-tax Return on Average Assets (ROA)	21.3%	13.6%
Pre-tax Return on Average Equity (ROE)	24.7%	17.7%

*Less loan loss expense, commissions paid and interest expense

FINANCIAL SUMMARY

NIGERIA SOVEREIGN INVESTMENT AUTHORITY						
STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
ASSETS						
Cash & Equivalents	264,453,918	22%	135,575,930	14%	108,556,478	18%
Placements	91,212,075	7%	80,302,102	8%	169,935,417	28%
Quoted Equity Investments (Net)	169,267,969	14%	283,751,481	30%	122,492,394	20%
CASH & MARKETABLE SECURITIES	524,933,962	43%	499,629,513	53%	400,984,289	67%
Gross Loans Disbursed	17,012,085	1%	3,243,527	0%	-	
Less: Cumulative loan loss provision	(161,543)	0%	-		-	
TOTAL LOANS & ADVANCES - NET	16,850,542	1%	3,243,527	0%	-	
Unquoted Equity Investments(Net)	3,949,437	0%	5,637,803	1%	3,679,993	1%
Hedge Funds and PE investments	276,284,494	23%	183,604,278	19%	104,507,610	17%
OTHER EARNING ASSETS	280,233,931	23%	189,242,081	20%	108,187,603	18%
TOTAL OTHER ASSETS	362,353,574	30%	218,908,170	23%	75,878,818	13%
TOTAL OTHER LONG-TERM ASSETS	12,287,115	1%	11,510,787	1%	12,368,388	2%
TOTAL FIXED ASSETS & INTANGIBLES	671,715	0%	609,958	0%	514,245	0%
TOTAL ASSETS	1,197,330,839	98%	923,144,036	98%	597,933,343	100%
Unfunded Capital Commitments with PE Managers	23,039,558	2%	21,779,966	2%	-	
TOTAL ASSETS & COMMITMENTS	1,220,370,397	100%	944,924,002	100%	597,933,343	100%
CAPITAL & LIABILITIES						
TIER 1 CAPITAL (CORE CAPITAL)	903,611,854	74%	760,999,795	81%	568,413,020	95%
SHORT TERM BORROWINGS	-		-		-	
LONG TERM BORROWINGS	-		-		-	
TOTAL INTEREST BEARING LIABILITIES	-		-		-	
TIER 2 CAPITAL	5,709,341	0%	5,368,333	1%	3,430,497	1%
TOTAL OTHER LIABILITIES	288,009,644	24%	156,775,908	17%	27,015,570	5%
TOTAL CAPITAL & LIABILITIES	1,197,330,839	98%	923,144,036	98%	598,859,087	100%
TOTAL COMMITMENTS	23,039,558	2%	21,779,966	2%	-	
TOTAL CAPITAL, LIABILITIES & COMMITMENTS	1,220,370,397	100%	944,924,002	100%	598,859,087	100%

NIGERIA SOVEREIGN INVESTMENT AUTHORITY						
INCOME STATEMENT FOR THE YEAR ENDED						
	31-Dec-21		31-Dec-20		31-Dec-19	
	N'000		N'000		N'000	
Interest income	39,300,126	38.0%	49,021,344	42%	33,448,332	87%
Interest expense	(3,058)	0.0%	(2,491)	0%	(7,526)	0%
NET INTEREST REVENUE	39,297,068	38.0%	49,018,853	42%	33,440,806	87%
Investment income	3,352,806	3.2%	4,455,184	4%	464,505	1%
Fees and other income	105,280,656	101.8%	111,716,664	97%	4,889,185	13%
Loan loss expense	(342,008)	-0.3%	(1,106,280)	-1%	(965,076)	-3%
OPERATING INCOME	147,588,522	142.8%	164,084,421	142%	37,829,420	98%
STAFF COSTS	(2,653,626)	-2.6%	(2,183,427)	-2%	(1,816,928)	-5%
DEPRECIATION EXPENSE	(303,857)	-0.3%	(244,289)	0%	(161,501)	0%
OTHER OPERATING EXPENSES	(2,018,980)	-2.0%	(2,219,930)	-2%	(1,790,967)	-5%
OPERATING EXPENSES	(4,976,463)	-4.8%	(4,647,646)	-4%	(3,769,396)	-10%
PROFIT BEFORE TAX	142,612,059	138.0%	159,436,775	138%	34,060,024	89%

NIGERIA SOVEREIGN INVESTMENT AUTHORITY			
KEY RATIOS			
	31-Dec-21	31-Dec-20	31-Dec-19
PROFITABILITY RATIOS			
Return on earning assets (average)*	33.2%	60.1%	10.5%
Return on average assets	13.6%	21.3%	6.6%
Return on average equity	17.7%	24.7%	6.9%
Loan loss expense/Interest income	0.9%	2.3%	2.9%
Operating expenses/Net earnings	3.4%	2.8%	10.0%
LIQUIDITY RATIOS			
Liquid assets/Future commitments	1544%	991%	100%
Liquid assets/total debt	100%	100%	100%
Liquid assets/Long term debts	100%	100%	100%
Liquid assets/total liabilities	123%	138%	1034%
Liquid assets/total assets	29%	0	0
CAPITAL ADEQUACY			
Core Capital	903,527,034	760,878,511	568,312,785
Tier 2	5,709,341	5,368,333	3,430,497
Equity Cushion	77%	86%	96%
Outstanding loans + Net equity investments + Net Guarantees/Realizable Capital	76%	57%	32%
LEVERAGE RATIOS			
Debt/Equity	32%	21%	
Gross debt (net of liquid assets)/core capital	39%	28%	49%
Gross debt (net of liquid assets)/Realizable capital	39%	28%	49%
STAFF INFORMATION			
Average number of employees	57	47	57
Staff cost per employee (N'000)	46,555	46,456	31,876
Operating Income per staff (N'000)	2,589,272	3,491,158	663,674
Staff cost/Operating income	1.8%	1.3%	4.8%
Staff costs/Operating expenses	53.3%	47.0%	48.2%

RATING DEFINITIONS

Aaa	A Government backed institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due.
Aa	A Government backed institution of very good financial condition and strong capacity to meet its obligations as and when they fall due.
A	A Government backed institution of good financial condition and strong capacity to meet its obligations.
Bbb	A Government backed institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due.
Bb	Financial condition is satisfactory and ability to meet obligations as and when they fall due exists.
B	Financial condition is weak but obligations are still being met as and when they fall due.
C	Financial condition is very weak.
D	In default.

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

ESG CREDIT RATING CONTRIBUTION SCORE GUIDE

1	Environmental, Social and Governance issues do not contribute to credit risk
2	Environmental, Social and Governance issues have minimal contribution to credit risk
3	Environmental, Social and Governance issues have a material contribution to credit risk
4	Environmental, Social and Governance issues contribute significantly to credit risk
5	Environmental, Social and Governance issues are major contributor to credit risk



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