



TRANSCRIPT; C & I Leasing FY2017 & Q12018 Conference Call

[Start of Recording]

[beep]

Operator: Welcome to the C&I Leasing full year 2017 and Q1 2018 results conference call. Your speakers are Mr. Andrew Otike-Odibi, CEO; and Mr. Alex Mbakogu, CFO. There will be a question and answer session at the end of the call. Please go ahead.

Andrew Otike-Odibi: Good afternoon everybody. Thank you for joining the call. Just to give you an overview of C&I Leasing. C&I Leasing is 27 years old. We have our headquarters in Lagos. We have eight operational offices in Nigeria. Our primary business is in operating leases and we have two subsidiaries: one in Ghana and the second one in Dubai called Epic.

We currently have a staff strength of about 5,000 staff, as we go along, you will understand why we have that large number of staff. Now, within C&I Leasing itself, C&I has evolved from being a finance company, that's what we started with. We've evolved into being an operating lease and a finance lease company. Currently, our focus is on operating leases with strongholds in marine, fleet management, and personnel outsourcing.

For the marine business, our key clients are the international oil companies, the IOCs as they are called. For the fleet management business, we have about 1,300 vehicles working all over Nigeria and supported nationwide. For the personnel outsourcing, we have about 4,000 staff which is why we have such a large staff strength. With our year-end 2017 figures, the company has an earning of N16.3 billion and recouped 21.4 billion.

Looking at our business in detail, the marine business recorded a turnover of N6 billion for 2017, a profit before tax of 703 million and ROE of 12%. We have 20 vessels in our fleet with five vessels on charter, two vessels under construction- I'm reading from slide seven, two vessels under construction. For the personnel outsourcing, we recorded a turnover of 6.2 billion, a profit before tax of N137 million and an ROE of 19%.

The key clients we have for the marine business are the international oil companies like I said, Shell, NLNG, Chevron. Mobile, NPDC. For the personnel outsourcing business, our key clients are SMCGs, they cut across different SMCGs, telecom companies, oil and gas and the power sector.

For the street management business, we recorded a turnover of N3.9 million for year-end 2017 and this is on slide eight. Here you have a negative PBT of 615 million but that's because of some adjustments that we've made in 2017. If you back out those adjustments, the fleet management business actually recorded a PBT of 343 million and an ROE of 26%.

The adjustments made were tied to the write-off of our C&I motors company which accumulated losses over the years and we got a board approval to shut down the business within that period. Now looking on slide nine, you will find some of our key clients. I won't bore you with those details. Now as of the view of the group, we have Epic which is our subsidiary domiciled in Dubai. It's essentially an assets holding company for our marine assets. And its used to borrow money internationally to fund the marine business.

Leaseafric is a subset of C&I Leasing. It basically does the same business C&I Leasing does but it's domiciled in Ghana. We currently have about 950 vehicles in that subsidiary, and we have a branch in Accra there, hoping to open a branch soon in Kumasi.

And you ask yourself C&I Leasing? Why invest in C&I Leasing? We have technical skills based on long-term contracts and clearly laid out patterns. We have a stamped, stable and experienced management team. The average age of our management team with the company is about 10 years which shows a lot of stability. We have a good marking of cash flow to our liabilities so you can actually see the cash inflow being marked into liability repayment.

We are operating in growing and potentially driven market segment. We have a good local brand both in Nigeria and in Ghana. And we have, our staff demographic is very good because a lot of our people are still under the age of 45. We've seen Nigeria coming out of recession. So we are looking at a very good 2018 notwithstanding the issues we have with the elections going into the third quarter of this year.

Nigeria is still facing some social issues which relate to insecurity, poor infrastructure, high unemployment, but that in itself creates some opportunities for us. So we are looking at a promising year ahead and also a good 2019. On slide 14, you will see an overview of the business. If you looking at, if just look at slide 14 and 15, it gives you a summary of some numbers on the business.

On slide 17, we will look at the opportunities. We have high growth areas in the health sector, agricultural sector, oil, and gas sector which is primarily driven by the MCDMB and the power sector. Some challenges we have or tend to have in the business are the high cost of funds and the short nature of funding that we have in the economy which restricts long-term investments. I will hand over the rest of the presentation to the CFO Alex Mbakogu to take it from here.

Alex Mbakogu: Thank you. Good afternoon everybody, continuing from where the MD stopped, I'm taking us through the financial highlights overview for 2017 full year and Q1 2018. As was published on Journalism ended year 2017 with 21 billion turnover against 17 billion prior year. Profit Before Tax for 2017 stood at 1.3 billion against 1 billion prior year representing 23% increase and PHB of 1.1 billion against 920 prior year. That's slide 19.

For Q1 2018, the turnover was 6.5 billion against 6 billion corresponding period 2017 representing 6% growth. Profit Before Tax for Q1 2018 stood at 406 million against 306 million prior year or prior quarter representing 33% increase. While PHB stood 373 against 270. On page 20, it represents the growth in full year, the movement in full year from the 17, that's beginning of the year and 21 at the end of the year.

In between are just numbers that make up the 21, or the movement that makes up the growth. Below is also Q1 movement from 6 billion in Q1 2017 and 6.5 Q1 2018. These are what they call incremental figures. Maybe let me just highlight one. Somebody may ask why is incremental figures for lease renders income higher for the year 2017 against 2018? Because they are incrementing figures, anytime you have an additional income, the incremental income grows. It's different from what you have like a running contract.

So we have some vessels in 2017, about five of them that were deployed that made the incremental higher when compared with Q1. Somebody may ask us also why is motor on negative. Like MD said earlier, in the course of 2016 we had to shut down motor division. Of course, corresponding periods, there are no other figures. So that is why you have those numbers. I think

that is it.

On page 21, what you have there is still figures representing quarter by quarter growth. The earned sales; 6% growth in earnings and on the far right you have 26% growth in between full year 2016 and full year 2017. As can be seen, the gross earnings increased by 22% majorly driven by rise in operating lease assets and lease income, and of course, it shows there's a continuous growth and on the pattern

22, what we tried to do is to show the number by subsidiary and on the left and then by segment on the right. So you see that in 2017, on C&I Company contributed 69% while Leaseafric 18% and Epic 13%. For 2018, we have C&I 66%, Leaseafric 19% and Epic 15%. On the far right is turnover contribution by business segments. You see that in 2017, we have marine contributing 37% of the turnover, fleet 34 and outsourcing 29; and in 2018, of course, it shows similar pattern. What it shows is that the businesses are almost evenly distributed and they all have negative cash flow to compensate for any off-side in any of the subsidiary or unit.

Could you go page 23? It just shows movement in earnings as I have said before. There's nothing new there. On 24, its 2017 full year quarter by quarter movement. We have Q1, we have Q2, we have Q3, and we have Q4 on operating expense. Somebody may ask why do we have a higher number in Q4. And I will say that because we have some assets deployed in Q4. So we also have corresponding expenses to mobilize those assets. That's why you see that the income is a bit high on Q4 compared to Q2 and Q3.

On page 25, its just segmented analysis of the same operating expense, so probably, except there is questions. I can't say there is anything there. On page 26, I have analysis of the profit before tax. In Q1 2017, I have 305, Q2, I have 309, Q3, I have 542 and Q4, I have 104. Let me say that the reason why you have a depressed number in Q4 2017. Two. One, we have a vessel that was deployed in that period and then, of course, their mobilization expenses, that has to do with those deployments and because of the size of the asset in question we have those numbers very significant.

And that is one of the reasons why, and that is actually MD [fellow]. Those of us who saw media publication in those periods of those mobilizations. So I think that essentially also contributed. And also its a year-end. So you need to tidy up your numbers. On page 27, I think nothing on 27 except there are questions. You just show EBIDTA movement, EBITDA margins and earnings per share and then on page 28 is the Balance Sheet.

And one of the significant things I will need to say here is the growth in our Balance Sheet size. As post year 2016, we have 38 billion Balance Sheet size and as at full year 2017, we have 44 billion which is 17% increase; and at Q1 2018, we have 4.7 which is 4% increase. Our shareholders' funds remain 8 billion 2016, 9 billion 2017, and 9.6 billion 2018 Q1.

29, nothing. On 30 probably, it's just our debts profile and then you can see that most of our debts are financed using Bank borrowing on term loans especially from SO credit agencies and then commercial paper. Like MD earlier said, that is where we are and then we hope that we will try to ensure that we leverage on the best capital optimal funding mix that will maximize value for everybody.

On page 31, its just growth, nothing new except if there are questions there. So ladies and gentlemen, thank you very much and this is what I have for all of us with respect on our financial. Thank you very much. So I will hand you back to my MD, Andrew Otiike-Obi.

Andrew Otiike-Odibi: Okay. I will just take you through the strategy and the outlook business in the next three to four years. Typically, as a growing business, we are evolving daily. Our focus going forward will be, one, human capital development. So in doing this, we are having to train and retrain our people, looking at ways of improving the quality of staff who support our operations at different levels, and also the quality of staff who man our assets.

We have very expensive equipment out there in the fields and it's important that we have the right people running those assets and also supporting those assets. We will also continue to drive customer-focused improvements in our processes. Like I said, with the business evolving from a finance company, then operating lease to finance, now an operating lease strictly service driven; our focus is on delivering values to our clients so- excuse me. We continue to look at ways to improve on our processes and make them more customer focused.

Then IT, we intend to deploy a lot of IT solutions to improve on our processes, review effectively our cost of running the business and improve efficiency. We've done a bit of that currently. We've done some investments in our marine business where we brought in software to help us manage or to highlight preventive maintenance, to prompt us on preventive maintenance. We have a similar software running on our fleet managing business on the land side.

So it's doing something on the marine side now that we've actually started implementing. So we should see the value of that coming up from end of this into next year. That we expect will help us improve on our asset utilization and reduce our costs. Then our capital base. We focus also to grow our capital base. From what Alex said, getting the right mix to grow the capital base, knowing the opportunities that exist in the market, and to harness the opportunities as much as possible.

So in a nutshell, that is what the strategy of the business is for the next three to four years and we expect also that considering the kind returns- I'm talking from slide 34 now, the kind of returns that we have seen in the last two years in the business, we should be inching over those returns. Like our return on equity, we should be looking at 13-15%; asset turnover, we should be going over 50%.

Our Opex growth rate, it should actually reduce on that. So we expect the numbers and the dynamics of these numbers to improve in 18 and beyond growing that will bring in more efficiency and experience into running the business. Thank you very much. I think we will be taking questions now if there are any.

Operator: We will now open the lines for questions. To ask a question, please press "0" on your phone's keypad. That's "0" to ask a question and "7" to cancel your question request. Once again to ask a question, please press "0" and "7" to cancel your question request. Thank you. Your first question is from Obinna Uzoma. Please go ahead.

Obinna Uzoma: Yes. Good afternoon. Thank you for hosting this conference call. It will really boost investors sentiments towards service sector. I have a few questions to ask and the first questions is, among your client are there clients that accounts for up to like 50% of your revenue and if there are, how do you intend to mitigate this risk in case they should leave? That's first question.

Then the second one, I want to know how susceptible the business is to global oil prices volatility and to what extent, and looking at your marine business, I want to know whether it is sensitive to exchange rate movement and to what extent too? Then my last question will be on the Epic- your Dubai operations, I will like to get more clarifications on that, whether it's a non-operating subsidiary since you said something about them being an asset holding subsidiary, something like

that. Thank you.

Andrew Otiike-Odibi: Okay. The first question is on the concentration risks on our client. We currently have different clients cut across different places, different industry. So we don't have any client that contributes up to 50% of our turnover. Currently, I don't think we have any client that contributes up to 10% of our turnover, singularly. So that removes the concentration risk.

The second question was on how susceptible we are to the global oil prices. Now the kind of contracts we have with the oil companies are long-term in nature. We have five, seven years, and ten years. So we've actually started some of these contracts when the oil prices were higher at a N110 to a Dollar and when it fell to 47, our boats were still in service. The reason is our focus is to keep our boats working in the production aspect of the oil and gas industry.

So they are not susceptible to the changes in the prices because Nigeria had to produce oil anyway. Now, where you have that risk is when you are doing exploration and production, exploration aspect of the business where the oil prices are low, you probably have very low exploration. So we are not playing in that space. We are only playing the production space which is a continuous flow. So we are not exposed to that risks.

Now the exchange rate risks. For the marine business, 50% of our income is in USD and so the exchange rate risks does not significantly affect us because we spend- most of the borrowings is in USD and the 50% of those proceeds come in USD. That helps to take care of repaying those USD loans directly. So where we might have an effect is on [spend]. Most of the time we have some surplus from that 50% that handles, that we use to handle spend.

But all other expenses are usually in Naira like staff salaries and purchase of some consumables. Epic, our Dubai subsidiary is a non-operating subsidiary. Yes. Its actually like I said, an asset holding company and used for borrowing funds internationally. I hope I have been able to address your question?

[silence]

Andrew Otiike-Odibi: Hello?

Operator: Thank you very much. Your next question is from Ola Buari Koru from SBG securities. Please go ahead.

Ola Buari Koru: Well. Thank you very much for the presentation. I have a few questions so the first one was on the split of your business. Looking forward, what are your expectations for the contributions to the different businesses which you believe will it be able to thrive and where do you see most volatility risk? And also to follow up on the question that was just asked by Obinna. So you were speaking about foreign currency exposure.

I wanted to get a sense of what is your ideal internal policy or guide, what is your ideal mix for foreign currency versus Naira liability mix. And then also in the light of rising USD exchange rates, what do you expect for how that would impact on cost of future borrowings. These are my questions for now. Thank you.

Andrew Otiike-Odibi: Ola, thank you very much. The first question on the contribution of the different business segments to the overall business, our projection is to have a 40:30:30 mix. 40% coming from the marine business, 30% from fleet management and 30% from outsourcing. That

helps us create a balance and reduces the risk of having any of the business segment pulling down the company in the event of any adverse occurrence in the market.

Yes. The highest risks I will say comes from the marine sector because that is a very volatile area. While for the fleet management, we have a thousand, three hundred assets; in the marine business, we have about 29 assets, and those assets now carry the largest chunk of our asset value. So that in itself is risky. We are also looking at that and that's why our preferred blend is do a 40:30:30 where we don't have all the profits coming from the marine business itself. So the other business we expect it to also push up in their profitability.

For the foreign currency mix like following from Obinna's concern, our preferred mix is a 60:40 mix. That way we are not taking any foreign currency risks per say. 60% of the proceeds of those contracts come in USD so we attach that to repayment of bank facilities and taking out some foreign currency obligations like [spends] along that and then the 40% which is in Naira is used to take care of all Naira obligations.

So in the last five years of our operations, we haven't, I would say we have minimized the foreign currency risk to the greatest extent so we have very little occurrences where we have to transfer currencies across to be able to make obligations. So we try to stick to that pattern.

Then the third one you said, what do we expect the impact of the costs of future borrowings? Borrowing cost is the major cost of our operations in this company. One of the things we've done is this year, we're going to the market to raise a N7 billion bond, for repayable over five years and the key driver for this is to reduce the cost of borrowings. Because of the level of leverage the business carries, if we can get a 2% reduction in borrowing cost, it will be a significant savings for the business. So that's what our strategy is.

And remember I said that our business in Epic- sorry, our subsidiary in Dubai, Epic, is actually a borrowing company. So that was setup reduce the borrowing cost for the company because we can borrow Dollars at a lot cheaper rate that we can, where we do we are borrowing from Nigeria. So all that is designed to reduce the overall borrowing cost for the business and of course, deliver more value to the shareholders.

Ola Buari Koru: Thank you. Just to add another question. I wanted to ask what's your interest rate outlook and what is the possible impact on the business? We are trying to understand how interest rate and asset yields could affect your business circle[?]. Thank you.

Andrew Otiike-Odibi: Interest rate outlook for 2018. Currently, we carry an average cost of funds of about 19% but our outlook for 2018 is to go down to 17%. And like I said earlier, the cost of funds is a major cost of running the business so our projection is to get a 2% savings on our borrowing costs.

Ola Buari Koru: Thank you.

Operator: Thank you. Your next question is from Onyeka from [Detiba] Capital management. Please go ahead.

Onyeka: Okay. Good afternoon and Thank you for holding this call. I have a couple of questions on the presentation. Basically following from one of the questions that was asked earlier, I will like to have a bit more background on the Dubai operations. I can see that it reports gross earnings even though it was said there on the slide that the business is mainly for tax purposes.

Also, I would like to know how exposed the company, the group as a whole, not just the marine business, it to FX volatility. In a part of the slide, you talked about some capital raises, you talked about listing on the Ghanaian stock exchange for stock, then you talked about raising capital, either debt or equity of about \$50 million. I will like to know if you have a timeline on some of those.

Also, you talked about redemption of one of Abraaj loan stock, about \$2.4 million was of the loan stock from [?] procedure of the bond capital raise. Is that separate from the \$50 million capital raise that was spoken about earlier, or is it going to be part of that? Those are my questions for now.

Andrew Otiike-Odibi: Okay. Onyeka thanks. First of all, Epic is an asset holding company and also a borrowing company, but because it holds the assets it has to then charter those assets to C&I Leasing, the Nigerian Company, and it charters those assets for a revenue. So there is a transfer pricing agreement between Epic and C&I Leasing. Now C&I Leasing charters those assets on from Epic and then does an on-charter again to the oil companies.

So the revenue you see in Epic is actually the charter rate from C&I Leasing because Epic owns the assets, C&I Leasing cannot operate those assets without paying Epic some compensations or some concentration. So what you have there is the charter rate from C&I Leasing to Epic. And the expenses you have in Epic are the costs of borrowing for those loans to the different lenders. So that's the structure in Epic. So it's a non-operating company but the income comes entirely from C&I Leasing and the expenses are borrowing costs totally.

Now you talked about FX volatility. The marine business, well I would say holds 90% of our FX income because that business is domiciled, it's basically an international business and dealing with international oil companies, all payments are split 60:40 Naira to Dollar. So you find that that is where we carry the heaviest risk in terms of foreign currency. For the fleet management business and the outsourcing, we are predominantly a Naira-based in those businesses.

We have some Dollar transactions on the outsourcing business. This is why I said the marine business is 90% Dollar based. But outsourcing, we have a few clients there who pay us in USD. But like I mentioned earlier, because of the currency splits for the proceeds and the way we have aligned the currencies to the repayment of the loans, the foreign currency risks mismatch is minimized in that business. Well, your third question concerning the capital raise. In Ghana, yes, we are planning to raise a bond to expand the capital base there.

In Nigeria, we are planning to raise a 50 million three to five years. And that is not just in equity, we are looking at equity [cumdefed] for that capital raise. So yes, the time frame there is three to five years. Of the Abraaj amount that we are looking at redeeming, the \$2.5 million. We've started that process. We hope to conclude that by end of this month when we receive some of the money from the proceed of the bonds. That is to take out the \$2.4 million for our Abraaj. Onyeka have I missed out something?

Onyeka: Yes. You answered a bunch of the questions but I still have a couple, just following up some of your explanations. You said...

Andrew Otiike-Odibi: Okay

Onyeka: The Ghana bond raise is going to be this year. How much are you planning to raise and I understand that for the marine business, you plan to set up a marine business in Ghana? Also,

there was a question I forgot to ask initially. You talked about the fleet management business saying that the loss was driven by the write-off of the C&I Motors company and some other part of the business that was not really doing well.

I'm assuming that was like- was that in 2017? Did that write-off happen in 2017 or in Q1 '18? And if it happened in 2017, how did that business performed? How did the fleet management business performed in the Q1 '18? I will also like to know, on a normal basis like taking out all the run-off, all the extraordinary items, what part of your business do you see the strongest, you lease your strongest margin in? Thanks.

Andrew Otike-Odibi: Okay. For Ghana, we are looking at raising 20 million Ghana Cedis for the business in Ghana which is roughly about N2 million, right?

User: Sorry. About \$6 million

Andrew Otike-Odibi: \$6 million. That's what it comes to. That is basically for expansion of the operations there and to also help redeem the loan from a private equity investor in that company. The issue with the fleet management business is. In 2017, that write-off took place. In 2018 we have no trace of that so. The performance in 2018 is as is for the business. So we took off the write-off both for the motors and the finance lease and even the obsolete tracking equipment. All that was done in 2017.

If you listened earlier, we said that the actual return on that business for 2017 was 343 million if you back out those write-offs. So that business in itself is a very profitable business. Among the three businesses, to ask which is most profitable, I will tell you marine. right? But it does not remove the strength of the other two businesses. So the other two businesses are very strong that's why we delivered ROE of over 10%. And the fleet management business, the potential is very very high in that business.

Onyeka: Okay. Thank you very much. I noted all the explanations.

Andrew Otike-Odibi: Thank you.

Operator: Thank you. Your next question is from Frank from WSTC financial services. Please go ahead.

[silence]

Operator: Frank your line is unmuted. Please ask your question. Thank you.

Frank: Hello. Thank you for having me on this call. My name is Frank, WSTC financial services. Okay, my question is on your convertible debt. Okay, from the notes to accounts, I saw here that on your shares, you have 1.5 billion and for the convertible shares, you have 2.3 billion. So I want to know what is the ratio? Okay. What's the ratio if being converted and what's the dilutive effect? Thank you.

Andrew Otike-Odibi: Handle it

Alex Mbakogu: Frank, we have convertible debts arising from Abraaj notes which we intend to convert 10 million of that. If it is done. So when that is done probably you will have significant dilution of existing loan towards that. And in terms of earnings per share, while where you will be

able to understand the effect. For the current quarter, if we do a dilution effect on earnings, we will have 7.5% earnings per share against an undiluted 23.7%. I think that is how I would probably would reframe the question.

So the measure of the dilution effect is actually on earnings per share diluted and undiluted. So if I take the first quarter on earnings per share diluted, probably it will be 7.51 kobo against 23.07 undiluted. I think that is the measure that will show us what the first observation will be should the conversion take place.

Frank: So the 10 million you want to convert is it in US Dollar or in Naira, please?

Alex Mbakogu: Well, the note, the investment is in USD but we've agreed that conversion parameters and metrics is fixed. The exchange rate is already fixed and that is why you have it in Naira. So it's in [capped] and then the conversion in terms of numbers is already fixed. So also, so there is no other exchange procession or whatever. So its capped, everything is capped. But the initial note is in USD but the conversion rate is already capped and agreed at N197 per USD. [?] answer me?

Frank: Yes. Thank you.

Alex Mbakogu: Okay. You are welcome.

Operator: Once again, to ask a question, please press "0" on your phone's keypad or "7" on to cancel your question request thank you.

[silence]

Operator: There are currently no questions at this time, please go ahead.

Andrew Oti-Odibi: If there are no more questions, I will like to thank everybody for dialing in and hope that we have been able to provide you with enough information to making any decisions or any analysis that you require. But you have our details so if you need any further clarification on anything, please do send us emails or do give us a call.

Thank you very much for your time and do have a good day.

Operator: Thank you very much, that concludes today's call.

[beep]

[End of recording]