



## GCR Affirms WSTC Financial Services Limited’s National Scale Long and Short-term Issuer Ratings of BBB<sub>(NG)</sub>/A3<sub>(NG)</sub>; Outlook Stable.

Lagos, 16 April 2021 - GCR Ratings (“GCR”) has affirmed WSTC Financial Services Limited’s national scale long-term and short-term ratings of BBB<sub>(NG)</sub> and A3<sub>(NG)</sub> respectively, with a Stable Outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
WSTC Financial Services Limited	Long Term issuer	National	BBB <sub>(NG)</sub>	Stable Outlook
	Short Term issuer	National	A3 <sub>(NG)</sub>	

### Rating Rationale

The ratings of WSTC Financial Services Limited (“WSTC” or “the company”) reflect its strong capitalisation, good risk position, and adequate liquidity but with a substantially short tenored funding base. However, these strengths are partly offset by the company’s limited competitive position and market share, as well as the elevated loan book concentration, reflective of its niche nature and the relatively small customer base.

WSTC is a non-bank financial institution, operating predominantly in Nigeria with a relatively strong franchise and proven track record spanning over three decades. The company operates as a niche player, providing secured credit facilities to high-net-worth individuals (“HNIs”), retail, and small and medium scale enterprises (“SMEs”). These loans are typically backed by tradable securities or other tangible assets, which can be sold or repledged in the event of default. In addition, the company renders investment management, treasury management and financial advisory services to meet specific needs of its clients. However, WSTC’s market share is considered moderate, with competitive position constrained by limited local geographic diversification and the fact that its business model is targeted largely at the HNIs. Management & Governance is a neutral ratings factor.

WSTC’s risk position is sound and viewed as a positive rating factor. The company has consistently reported no non-performing loans (“NPL”) over the review period and with credit losses broadly comparable with the industry average. This is mainly underpinned by WSTC’s prudent risk management, stringent and cautious lending approach exhibited over the years. Conversely, loan book concentration is assessed at an elevated level, with the single and twenty largest obligors constituting 16.9% and 92.9% of the loan portfolio respectively at 3Q FY20, although still within the regulatory single obligor limit. While loan concentration is typical of finance companies in Nigeria, we expect a somewhat diversified loan portfolio over the next 12-18 months, given the company’s

anticipated expansion strategy. Also, despite the economic impact of the COVID-19 pandemic, we expect a mild adverse effect on WSTC's asset quality (loans and advances), with NPLs and credit losses expected to be contained over the rating horizon.

WSTC's strong capitalisation is a key rating strength, with the capital adequacy ratio ("CAR") historically maintained well above the regulatory threshold. As at 3Q FY20, CAR stood at a strong 34.7% (FY19: 50.0%), comfortably exceeding the minimum requirement of 12.5%. Similarly, GCR's computed core capital ratio of 34.7% at 3Q FY20 (FY19: 49.8%) is considered robust. Over the next 12-18 months, we expect capitalisation metrics to moderate slightly (but remaining at a sound level) on the back of GCR's expectation that the company would increase lending activities in a bid to augment earnings amidst the low-yield environment. We also believe the imminent plans to issue bonds might also weigh down the CAR assessment (albeit remaining comfortably above regulatory threshold), given the unqualifying capital nature of the proposed bond and the consequential impact on risk weighted asset computation.

Funding and liquidity is assessed to be intermediate, given the highly short tenored funding structure. As a non-deposit taking institution, WSTC is financed through equity and borrowings, which constituted 24.3% and 75.7% of the funding base as at 3Q FY20. Borrowings are mainly sourced from HNIs through the issuance of short-term commercial papers with tenors largely ranging between one and three months. However, inherent liquidity risk is partially mitigated by the fact that a sizeable portion of borrowings are usually rolled over at maturity, although at the discretion of the borrowers given their pricing sensitivities. In a bid to further complement the subsisting short term funding base, the company is in the process of raising medium-term funding through the issuance of bonds. This is viewed positively given the embedded funding stability propensity.

### Outlook Statement

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The stable outlook reflects GCR's expectations that the successful issuance of the proposed bonds would further stimulate WSTC's liquidity profile, funding stability and expansion in operational scale. We expect NPL and credit losses to remain contained and comparable with peers, provided the company maintains its stringent and cautious lending approach. Also, we anticipate capitalisation to remain a rating positive and the operational expansion strategy would further support earnings accretion over the outlook horizon.

### Rating Triggers

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A positive rating movement could be triggered by improved stability in the funding structure, enhanced competitive position, maintenance of risk and capitalisation at sound levels, as well as further diversification of the loan portfolio. Conversely, a rating downgrade could follow a material deterioration in asset quality metrics (NPL and Credit Losses), capitalisation, and constrained

internal capital generation capacity.

### Analytical Contacts

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### Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Nigeria Country Risk Scores, February 2021
GCR Nigeria Financial Institutions Sector Risk Score, February 2021

### Ratings History

WSTC Financial Services Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB <sub>(NG)</sub>	Stable	June 2011
Short Term issuer	Initial	National	A3 <sub>(NG)</sub>		June 2011
Long Term issuer	Last	National	BBB <sub>(NG)</sub>	Watch	October 2020
Short Term issuer	Last	National	A3 <sub>(NG)</sub>		October 2020

### Risk Score Summary

Rating Components & Factors	Risk scores
<b>Operating environment</b>	<b>6.25</b>

Country risk score	3.75
Sector risk score	2.50
<b>Business profile</b>	<b>(2.50)</b>
Competitive position	(2.50)
Management and governance	0.00
<b>Financial profile</b>	<b>2.25</b>
Capital and Leverage	2.75
Risk	0.75
Funding and Liquidity	(1.25)
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Government support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>6.00</b>

## Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.

Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.



Short Term	Current; ordinarily less than one year.
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### **Salient Points of Accorded Ratings**

GCR affirms that a.) no part of the ratings were 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to WSTC Financial Services Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

WSTC Financial Services Limited participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from WSTC Financial Services Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2019
- Three years of comparative audited numbers
- Audited financial results as at 30 September 2020
- Other related documents.