

PRIVATE CREDIT RATING NOTIFICATION

GCR assigns an indicative issue rating of AA-(NG)(IR) to Lagos State Infrastructure Sukuk SPV Plc's up to N20bn Series II Fixed Return Forward-Ijarah Sukuk; Outlook Stable

Rating Action

Lagos, 19 January 2023 - GCR Ratings ("GCR") has assigned an indicative long term Issue credit rating of AA-(NG)(IR) to Lagos State Infrastructure Sukuk SPV Plc's up to N20bn Series II Fixed Return Forward-Ijarah Sukuk, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Up to N20bn Series II Fixed Return Forward-Ijarah Sukuk	Long Term Issue	National	AA-(NG)(IR)*	Stable Outlook

*An Indicative Rating is denoted by an 'IR' suffix to indicate that a credit rating has been accorded based on review of final draft documentation and expectations regarding final documentation. The Indicative Rating is expected to convert to a final credit rating subject to the receipt of final documentation in line with GCR's expectations. Typically, this suffix will be used when awaiting the finalization of notes for a debt or program issuance. In this case, once the final documents are available the IR suffix may be removed. We expect the rating to convert upon regulatory approval, within the next 180 days.

Rating Rationale

Lagos State Infrastructure Sukuk SPV Plc is a special purpose vehicle incorporated as a funding vehicle, sponsored and owned by Lagos State Government of Nigeria ("Lagos State" or "the Sponsor"), solely for the purpose of raising funds for the development of selected assets belonging to Lagos State. GCR recently upgraded the Sponsor's national scale long-term senior unsecured rating to AA-(NG), from A+(NG) previously, underpinned by the State's strong revenue generation, with a diversified internal economy which has supported robust growth in internally generated revenue. These rating strengths are, however, counterbalanced by the State's weak leverage metrics due to the persistent rise in debt.

The Sponsor has filed an application with the Securities and Exchange Commission to register a N1trn Debt and Hybrid Instruments Issuance Programme ("the Programme") and subsequently raise up to N20bn from the debt capital market in Series II Sukuk Issue under the Programme through Lagos State Infrastructure Sukuk SPV Plc ("the Issuer"). According to the Draft Series II Trust Deed, the Sukuk's net proceeds will be utilised to fund the construction of the Awoyaya section of Eti-Osa/Lekki/Epe Expressway. The Sukuk has a tenor of seven (7) years, maturing in 2030, and shall constitute direct, unconditional, senior, and unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. However, pursuant to a Purchase Undertaking Deed to be executed between the Issuer and the Sponsor, the payment obligations of the Issuer shall be backed by an irrevocable and unconditional undertaking of the Sponsor. The proposed Ijarah Sukuk Issue has been certified by Central Bank of Nigeria's Financial Regulation Advisory Council of Experts (FRACE) to be in conformity with the principles of Shari'ah. Notwithstanding the amount to be raised, GCR expects the Sponsor to continue to demonstrate relatively stable financial flexibility

Payment obligations (rental payment and purchase price) of the Issuer will be serviced through monthly transfers from the Sponsor's Consolidated Debt Service Account ("CDSA") and Irrevocable Standing Payment Order ("ISPO") into a Sinking Fund to be managed by the Trustees. Purchase price shall be payable semi-annually in arrears after a two-year

moratorium, while rental payment shall accrue from the issue date and payable semi-annually in arrears on each rental payment date till the maturity date. The ISPO was approved by the Federal Ministry of Finance, authorising a monthly deduction of a sum of N200m (for 84 months) as a first line charge upon and payable out of the statutory allocations of Lagos State. In addition, about N55.64m shall be deducted from the CDSA within the first 24 months (the principal moratorium period), and then increase to N293.03m for the remaining 60 months to the Sukuk maturity date.

Based on GCR's analysis of the expected inflows into the Sinking Fund, the CDSA and ISPO remittances will only provide 1.04x coverage of semi-annual rental payments during the moratorium period and 1.02x cumulative debt service when the 24-month moratorium lapses. As such, there is no additional credit enhancement offered by the contemplated inflows by the Sponsor to service the Issuer's obligations in respect of the Sukuk Issue. Accordingly, the long-term rating for the Series II Ijarah Sukuk Issue is equivalent to the long term senior unsecured rating of the Sponsor.

The final rating is contingent on the proper execution of the transaction documents in favour of the Sukukholders.

Outlook Statement

The Stable Outlook reflects GCR's expectation that Lagos State will continue to report robust revenue growth and sound expenditure management, supporting relatively stable leverage metrics despite the expected rise in debt level.

Rating Triggers

Given that the indicative rating is intrinsically linked to the Sponsor's long-term national scale rating, any change in the rating assigned to the Sponsor will directly affect the Sukuk rating.

Private rating usage

Recipients of this rating notification are to note that the rating accorded is private. A private rating is by nature confidential, but GCR may agree that the Rated Entity distributes the rating confirmation letter to (prospective) investors and other relevant counterparties, but only to the extent that such parties agree to confidentiality with the Rated Entity and agree that the credit rating action is private and only intended to be used in a closed circle of known parties. GCR requires Rated Entities to disclose the counterparties to whom it intends to distribute the letter prior to such distribution.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Local and Regional Governments, June 2019
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, December 2022
Lagos State Government Credit Rating Announcement, August 2022

Ratings History

Lagos State Infrastructure Sukuk SPV Plc's up to N20bn Series II Fixed Return Forward-Ijarah Sukuk

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issue	Initial/Last	National	AA-(NG)(IR)	Stable	January 2023

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for return and a commitment to repay the principal in full on a specified date or over a specified period.
Issuer	The party indebted or the person making repayments for its borrowings.
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 Sukuk or other security and the date on which it becomes payable in full.
Principal	The total amount borrowed or lent, e.g. the face value of a Sukuk, excluding return.
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.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Sukuk	A Sharia-compliant bond-like instruments used in Islamic finance.
Sukukholder	Investor of Shari'ah compliant capital market securities
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; 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 Lagos State Infrastructure Sukuk SPV Plc and Lagos State Government. The rating above were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the rating.

Lagos State Government participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Lagos State Government and other reliable third parties to accord the credit rating included:

- Draft Shelf Prospectus
- Draft Programme Trust Deed
- Draft Series II Sukuk Pricing Supplements
- Draft Series II Trust Deed/Declaration of Trust
- Draft Purchase Undertaking Deed
- Draft Forward Lease (Ijarah) Agreement
- Lagos State Executive Council Resolution
- Lagos State House of Assembly Resolution
- Letter of ISPO Approval
- Solicitors' Opinion on Claims and Litigation
- Draft Legal Opinion from the Joint Solicitors to the Sukuk Issue

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