Credit Rating Report | Corporate | December 2024

Africa Medical Supplier Limited

Rated Entity / Programme	Rating class	Rating scale	Rating	Outlook
Africa Medical Supplier Limited	Long Term Issuer	National	BBB-(RW)	Stable Outlook
	Short Term Issuer	National	A3(RW)	

Analytical entity

Africa Medical Supplier Limited (AMS or the company) is a non-pharmaceutical medical distribution company that specializes in the supply and installation of medical equipment as well as distribution of consumables. Incorporated in August 2009, the company is headquartered in Rwanda but engages in distribution across regional markets such as DRC and Congo Brazzaville. Outside of Rwanda, the company supplies medical equipment to projects funded by The World Bank, The Global Fund and other international development agencies. To this end, AMS has been approved as a United Nations Global Marketplace (UNGM) supplier, which allows it to submit tender for contracts across Africa and Middle East. AMS currently has two shareholders with Mr. Fabrice Shema, the CEO, as the main shareholder with 66.7% shareholding. Mr. Joel Nkusi is the second shareholder with 33.3% shareholding.

Credit profile summary

Strengths

- Strong track record in supplying non-pharmaceutical medical equipment
- Strong acceptance within the Rwandan market as evidenced by high success rate of tenders
- Social contribution as a supplier of critical healthcare equipment, with UNGM approval

Weaknesses

- Relatively small size of the company and limited global footprint as compared with international competitors
- Income has declined in recent years, with net profitability further impacted by foreign exchange fluctuations
- Likely weakening of the gearing metrics with the planned increase in funding lines

Rating summary

The ratings assigned to Africa Medical Supplier Limited factor in the strong niche position it has developed in the supply of health care products and facilities in the Rwandan and regional markets, given its ability to deliver into underdeveloped areas. However, the rating remains constrained by AMS' small size and the likely increase in gearing over the medium term required to spur business expansion and earnings growth.

Outlook statement

The Stable Outlook reflects GCR's view that AMS will be able to achieve revenue growth targets on the back of its entrenched domestic position and strong project pipeline. This should be supported by greater access to working capital funding, and a more appropriate currency mix that reduces forex volatility.

Rating triggers

Positive rating action is dependent on the entity achieving robust sustainable earnings growth, which should lead to firmer interest coverage and lower gearing. The company's ability to increase the diversity of funding sources and reduce forex related losses could also lead to an upward rating action. The continued development of management and governance structures will also be positively considered. Negative rating action could derive if debt increases without a commensurate rise in earnings, leading to weaker gearing metrics. The withdrawal of support from the two (2) main lenders (SFC Finance Ltd and Bank of Kigali), inability to secure additional funding could also negatively impact the rating. The inability to deliver positive earnings, and poor cashflow management will result in a negative credit action.

Risk score summary

Rating Components & Factors	Score
Operating environment	**6.75**
Country risk score	3.50
Sector risk score	3.25
Business profile	**0.25**
Competitive position	0.50
Sustainability	(0.25)
Financial profile	**(1.00)**
Earnings	0.00
Leverage & cash flow	(1.50)
Liquidity	0.50
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**6.00**

Analytical contacts

Primary analyst	Jill Atsango	Senior Analyst
Nairobi, KE	JillA@GCRratings.com	+254 703 041 066
Secondary analyst	Eyal Shevel	Sector Head: Corporate Ratings
Johannesburg, ZA	Shevel@GCRratings.com	+27 11 784 1771
Committee chair	Sheri Morgan	Deputy Sector Head: Corporate Ratings
Johannesburg, ZA	Morgan@GCRratings.com	+27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Corporate Entities, May 2024
GCR Rating Scales Symbols and Definitions, May 2023
GCR Nigeria Corporate Sector Risk Scores, June 2024
GCR's Country Risk Score report, August 2024

Ratings history

Africa Medical Supplier Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
N/A	Initial/Last	National	N/A)	N/A	N/A

Operating environment

Country risk

AMS's country risk is Anchored by the Rwandan country risk score. To date majority of the earnings have been derived from Rwanda, but this is projected to change going forward, with 50% of current projects expected from the DRC and 10% from Congo Brazzaville, with the balance being in Rwanda. This implies higher operational risks, given the greater challenges in delivering projects. However, this risk is mitigated by the nature of the contracts in DRC and Congo Brazzaville, where the clients are solely reputable organizations like The World Bank and other international Development Financial Institutions (DFIs). All payments are thus made directly into AMS' bank accounts in Rwanda, limiting financial risk.

The of Rwandan risk score of 3.50 reflects the economy's strong institutions, high projected growth, and drawbacks from increasing external and fiscal risks. Government debt levels are high and are expected to increase further due to the large current account deficit exacerbated by high dependency on wheat and fertilizer imports in a tight global commodity market due to the Russia-Ukraine war, albeit somewhat counterbalanced by improving agricultural exports. The country's economic growth is strong relative to regional peers, although viewed to be vulnerable to unpredictable weather patterns.

Sector risk

AMS' sector risk score reflects the relatively lower cyclicality in the medical sub-sector. The sector has benefitted from economic growth in Rwanda, as well as the growing demand from the region for medical equipment. Given the more stable environment, regional demand is serviced from Rwanda bolstering opportunities for medical service providers.

Business profile

Competitive position

AMS's competitive advantage lies in its niche expertise within Rwanda's medical sector, where it has established a 15-year history of providing non-pharmaceutical medical equipment. AMS distributes over five hundred (500) items in three major categories: medical equipment, medical consumables, and advanced systems such as oxygen plants, blood transfusion machines, and ambulances. Recently, AMS strengthened its market position by adding an after-sales service offering, enhancing its competitiveness and establishing a dependable source of recurring RWF- based income which will enhance the company's gross margin over the outlook horizon.

Historically, Rwanda has accounted for over 60.0% of the company's revenue. AMS has a tender success rate of about 60% which is evidence of its strong acceptance in the Rwandan market. However, over recent years, it has broadened its regional supply reach, mainly driven by the requirements of the contracts floated by The World Bank and other DFIs. Although there is operational risk in successfully completing the contracts in some of these countries, the financial risk is mitigated by having all payments routed directly to AMS' accounts in Rwanda. The financial risk is further mitigated by having a structured payment model, where payments are made based on meeting set milestones.

Over the outlook horizon, AMS projects that revenue generation will shift as it secures more regional contracts, with the Democratic Republic of Congo (DRC) expected to generate around 50.0% of total revenue, Rwanda about 40.0% and Congo Brazzaville about 10.0%. Although AMS is a small player in the international markets and the African region, its competitive position in other markets is supported by its position as an UNGM supplier, which opens potential markets across Africa and Middle East.

Recognizing the critical need for medical equipment in these underserved areas, AMS' ability to complete projects in areas considered high risk and the resultant positive impact to affected communities, GCR has factored AMS's positive social impact into its rating assessment.

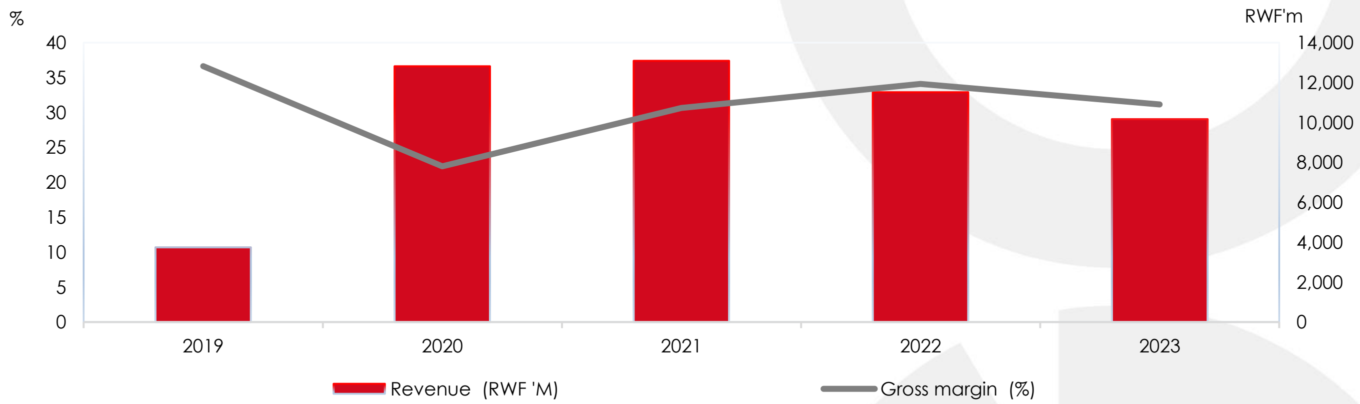
Sustainability

GCR considers the company to have a straightforward operational structure, supported by a lean permanent workforce of fewer than twenty employees. Management and governance is a slight negative factor because the board structures and committees are still at the nascent stage. The board was incorporated in June 2024 and is comprised of four board members, three who are independent. The CEO is the executive board member and the Chair of the board. The company has one board committee, the Audit and Finance committee, which was also recently constituted.

Financial profile

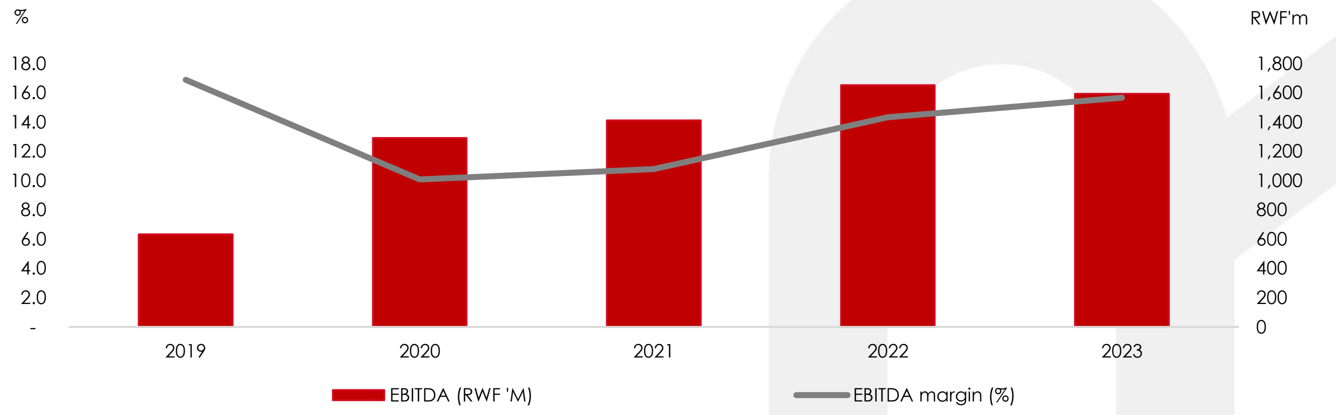
Earnings

Exhibit 1: Revenue growth versus gross margin



Earnings are considered a neutral factor for the rating. After initial strong growth, AMS' revenue has trended downwards since 2021, financial year to 31 December, from a high of RWF13.1 billion to around RWF10.2 billion in 2023. Revenue generation is largely dependent on the availability of working capital financing, which provides capacity to participate in tenders and deliver on the secured DFI based contracts. The lack of liquidity had a particularly negative impact in 2022 and 2023 as its funding limit was reduced from its main financier, SFC Finance Ltd. AMS is currently engaging in funding discussions, which are intended to secure working capital facilities from RWF5.9 billion to RWF8.3 billion, mainly through raising the RWF5.0 billion bonds. This will enhance AMS' ability to participate in more local tenders and generate revenue.

Exhibit 2: EBITDA versus EBITDA margin progression



AMS's EBITDA margin has steadily widened as it has secured contracts for higher-value equipment compared to consumables, with an EBITDA margin of 15.7% in 2023, up from 10.8%in 2021 (2023: 14.3%). However, net earnings have been heavily impacted by foreign exchange losses, particularly from interest payments on USD-denominated debt.

Over the rating horizon, GCR expects annual revenue to increase to between RWF15 billion and RWF18 billion. The revenue growth assumptions consider both the executed contracts in 1Q 2024 amounting to about RWF5.1 billion and the secured contracts of about RWF8.0 billion which are either under invoicing or have been signed. AMS is also focusing on driving renewed top line growth with increased tender participation, locally and internationally, while servicing DFIs based contracts in new markets such as Congo Brazzaville. The assumptions also balance a portion of the tenders and contracts that are part of AMS' pipeline.

The company does foresee some EBITDA margin pressures from input prices, but this should be offset by overall growth. The EBITDA margin is expected to moderate slightly from 15.7% in 2023 to around 13% in 2024 and 2025 due to increased cost of goods sold and operational expenses resulting from the greater business volumes. Although GCR expects the interest charge to remain high, net profit is expected to improve in 2024 and 2025.

Leverage and cashflow

GCR views the overall leverage position to be a negative ratings factor. AMS has historically relied on USD-based short-term debt to meet its working capital requirements for both local currency (RWF) and foreign currency (USD) denominated projects. AMS has access to funding from its main funder SFC Finance Ltd and other funders such as Bank of Kigali Plc and Business Partners under BPI Rwanda Investment Co. As of July 2024, AMS' total working capital facilities amounted to about RWF5.9 billion, of which 6% was USD denominated (34% RWF based). Despite the earnings constraints, the net debt/ EBITDA ratio was relatively moderate at 1.8x in 2023 due to lower debt (2022:2.1x, 2021: 3.5x).

The short-term nature of the funding lines has been appropriate in meeting AMS' working capital requirements. The short cycle of the debtor days, mostly below 30 days, allows for payments to be received in a timely manner. However, high reliance on USD based working capital facilities has been unsuitable in meeting the currency requirements for majority of the tenders which are RWF based, resulting in increased forex losses. Net interest coverage was impacted by the forex movements and fell to just 1.2x in 2022 and 1.3x in 2023 (2021: 2.5x).

Exhibit 3: Net Debt

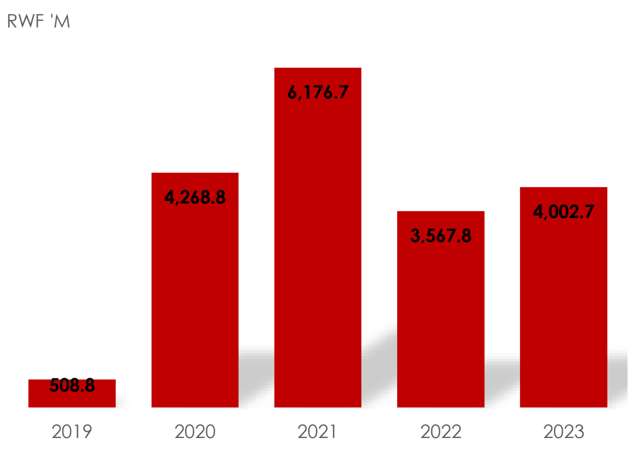
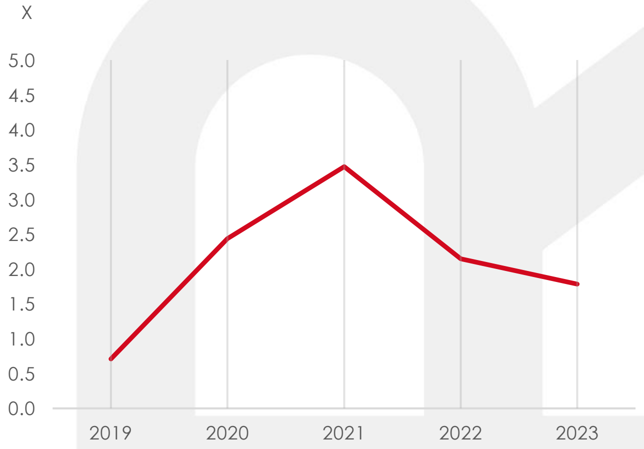


Exhibit 4: Net debt: EBITDA



Looking ahead, the company is proposing a more appropriate balance of currency risk by aligning funding currencies with the base currencies for the contracts and tenders. To this end, AMS plans to raise around RWF5 billion in the domestic market, which will be used to finance its local currency-based tenders and refinance part of the foreign currency facilities. A smaller portion of the existing USD-based debt will be maintained to support the cross-border DFI funded business, which is all priced in USD. We expect interest coverage to remain relatively weak because of the additional debt and higher interest rates on RWF-based funding, whilst cash flow coverage is likely to be negative as the company invests significantly into working capital.

Whilst we do anticipate gross debt to increase to levels above RWF8.3 billion in 2024 and 2025 considering the ongoing debt discussions, this could see projected net debt/EBITDA ratio increase to between 2.6x and 3.0x over the period.

Liquidity

Liquidity is viewed as a credit strength. GCR has estimated solid liquidity coverage of approximately 4.0x for 2024, assuming the planned RWF5.0 billion bond is fully issued. Sources of cash are underpinned by about RWF1.2 billion in cash, asset sales of RWF14.6 million, unutilized bank facilities of RWF287.8 million, and the expected bonds of RWF5.0 billion. This compares to around RWF938.3 million required to refinance debt and around RWF5.5 billion for working capital, although no significant capital expenditure is expected in the short term.

GCR also tested a scenario where the bond issuance does not proceed. Under such a scenario liquidity coverage would remain stable between 1.5x and 2.0x because tender participation would be less, constrained by the reduced working capital requirements. GCR's liquidity forecasts assume that working capital outflows will be converted into cash in a timely manner, supported by a high-quality debtor base that includes the Government of Rwanda and international development agencies.

Comparative profile

Peer analysis

The peer analysis is neutral to the ratings.

Group support

The group support is neutral to the ratings. AMS is not part of any group.

Rating adjustment factors

Structural adjustments

No structural adjustments have been made to the Anchor Credit Evaluator (‘ACE’) in arriving at the final ratings.

Instrument Ratings

No adjustments for instrument ratings are applicable.

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
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 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.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
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.

Salient points of accorded ratings

GCR affirms that a.) no part of the ratings 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

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entities.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited Accounts for the year ending 31 December 2023 and prior four years comparative accounts.
- Accounts as of 31st March 2024
- Letters of offer for existing facilities
- A breakdown of existing facility limits, outstanding balances and tenors
- Other relevant documents
- Exchange Rate Source: BNR-National Bank of Rwanda: Exchange Rate RWF1,299.595667: 1 USD and RWF1,396.155625: 1 EURO as of 04 July 2024

CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS (ASSESSMENTS) AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.