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Research Update:

South African Transportation Firm Super Group Assigned 'zaA' South Africa National Scale Rating

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Table Of Contents

Overview

Rating Action

Rationale

Related Criteria And Research

Ratings List

Research Update:

South African Transportation Firm Super Group Assigned 'zaA' South Africa National Scale Rating

Overview

- We assess South Africa-based transportation firm Super Group Ltd. as having a "fair" business risk profile and an "intermediate" financial risk profile.
- Super Group benefits from strong growth opportunities in the South African logistics services market and resilient operating margins. At the same time, Super Group has weak geographic diversification, being largely dependent on South Africa for revenue and profit generation.
- We are assigning our 'zaA' long-term South Africa national scale rating to Super Group.

Rating Action

On Aug. 20, 2013, Standard and Poor's Rating Services assigned its 'zaA' long-term South Africa national scale credit rating to South Africa-based transportation firm Super Group Ltd.

Rationale

The rating on Super Group reflects our assessment of the group's "fair" business risk profile and "intermediate" financial risk profile, as our criteria define these terms.

Super Group's "fair" business risk profile reflects the group's exposure to the logistics services markets, which we view as highly cyclical, fragmented, and competitive. Despite some consolidation, logistics services markets in South Africa remain characterized by a large number of small to midsize companies and several global companies with greater financial resources than Super Group. Barriers to entry in this market arise from the need for both an extensive network and information technology solutions, and the complexity of services provided. Nevertheless, customers can switch contracts relatively easily. Bidding for contracts is therefore competitive, which can hurt logistics services providers' prices and margins, in our view.

These constraints are partly mitigated by the relatively strong underlying growth fundamentals of the logistics services industry in South Africa, driven by globalization and the trend for governments and corporates to outsource their logistics and fleet management needs. In our opinion, Super Group's supply chain business is still relatively small, but has the potential to expand further into new end markets.

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We see Super Group's relative lack of geographic diversity as a weakness compared to larger, global players. Super Group generated about 14% of revenues outside South Africa in 2012, which only slightly mitigates home market cyclicality. Nevertheless, we consider that Super Group's service mix provides some degree of diversification. In 2012, the fleet solutions business generated about 58% of Super Group's operating profit, the supply chain division about 32%, and the dealership division about 10%. In our opinion, Super Group has demonstrated resilient operating margins in tough market conditions, which is a key supporting factor for its business risk profile. Super Group's average EBITDA margin over the past three years has been about 15%, which compares favorably with its rated peers in the transportation industry. We believe that this is in part due to Super Group's ability to pass on inflation to its customers.

We consider that country risk is one of the principal constraints on Super Group's business risk profile. At present, the group primarily operates in South Africa (foreign currency rating: BBB/Negative/A-2) where we consider that a weak business and investment climate may drag on economic growth, while social pressures could have negative implications for the country's medium-term political, economic, and fiscal landscape.

Super Group's "intermediate" financial risk profile reflects our estimate that the group's Standard & Poor's-adjusted debt to EBITDA will be about 1.9x in 2013, before gradually declining over the next couple of years. This ratio is based on our estimation of adjusted debt of about South African rand (ZAR) 2.9 billion at year-end June 30, 2013. We add to Super Group's balance sheet debt the present value of operating lease commitments of about ZAR680 million. We anticipate that funds from operations (FFO) to fully adjusted debt will be about 40% in 2013, a level we consider commensurate with the 'zaA' rating. Our analysis does not take into account any aggressive shareholder distributions.

Under our base-case operating scenario, we anticipate about 14% revenue growth in 2013, mainly attributable to recent acquisitions boosting revenues in the group's supply chain division. Super Group is currently in the latter stages of a turnaround strategy following its restructuring in 2009, and we believe that acquisitions will form an integral part of the group's expansion over the next couple of years. We forecast that Super Group's adjusted EBITDA margin will remain resilient, at about 13%-14% in 2013, and that the group will remain free operating cash flow positive over the next couple of years.

We could raise the rating on Super Group if its revenues and profitability grow significantly, thanks to potential acquisitions and/or new contract wins. We consider adjusted FFO to debt of more than 45%, on a sustainable basis, to be commensurate with a 'zaA+' rating, all other things being equal.

We could lower the rating if Super Group's liquidity position deteriorates significantly as a result of weaker operating performance and/or cash flow generation than we anticipate, sizable debt-funded acquisitions, or aggressive shareholder distributions. We consider adjusted FFO to debt of less than 35%,

on a sustainable basis, to be commensurate with a 'zaA-' rating, all other things being equal.

Liquidity

We assess Super Group's liquidity as "adequate" under our criteria. We calculate that liquidity sources should cover liquidity uses by about 1.4x over the next 12 months.

For the next 12 months, we expect total sources of liquidity to amount to about ZAR3 billion, comprising:

- ZAR1.5 million of cash and cash equivalents. We deduct about ZAR420 million from the ZAR1.9 million of cash on the balance sheet on June 30, 2013, to account for cash tied up in operations.
- ZAR100 million of availability under a committed revolving credit facility and full availability under a ZAR60 million general banking facility. In line with our criteria, we exclude credit facilities expiring within a 12-month period.
- Our forecast of about ZAR1.4 billion of reported FFO in the next 12 months.

We expect liquidity uses over the next 12 months of approximately ZAR2.1 billion, comprising:

- ZAR565 million of scheduled debt repayments.
- ZAR617 million of capital expenditure.
- Acquisitions and share repurchases of up to ZAR500 million and ZAR100 million, respectively, although we believe these amounts are discretionary.
- Working capital outflows of about ZAR335 million.

We understand that the general banking facility documentation includes minimum capital adequacy and net interest coverage ratios, to be tested quarterly. We anticipate that headroom under these covenants will remain adequate and that the group will be able to meet its cash needs with internally generated funds.

Related Criteria And Research

- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

New Rating

Super Group Ltd.
Corporate Credit Rating
South Africa National Scale   zaA

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