S&P Global
Ratings

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Summary:
Super Group Ltd.

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Summary:

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Rationale

Business Risk	Financial Risk
• Exposure to the cyclical, fragmented, and competitive logistics market in South Africa. • Improved geographic diversification as business operations expand in Australia, U.K., and Germany. • Stable EBITDA margin, despite some decline as a result of the challenging macroeconomic environment in South Africa and ongoing competitive pricing pressures. • Strong product and end-market diversification.	• Resilient cash flow generation in recent years. • Highly acquisitive strategy. • Good track record in driving efficiencies across its acquired businesses. • Low level of S&P Global Ratings-adjusted debt.

Our Base-Case Scenario

On an organic basis, we expect Super Group Ltd.'s top line growth to remain in line with weighted-average GDP growth expectations of the countries where it operates. We believe that Super Group will continue to expand through acquisitions and that 2017 revenue growth will come from the full-year impact from recently acquired IN tIME (supply chain in Germany), SgFleet (acquired NLC services), and nine Cape Town dealerships.

On the other hand, we expect some pressure in the African logistics solutions division (African Logistics). This is mainly due to Africa's commodity mining industry, which remains under pressure (with lower volumes transported) on the back of low commodity prices and Zimbabwe's economic crisis.

Assumptions

- Revenue growth of about 15% in the fiscal year 2017 (ending June), mainly attributable to recent acquisitions being accounted for the full year and modest organic growth expectations of about 2%, in line with a weighted average GDP growth for South Africa, Australia, Germany, and the U.K.
- Adjusted EBITDA margin of about 10%-11% in 2017, marginally down from 2016 and mostly reflecting our view that the competitive pricing pressure across most of Super Group's end markets will continue.
- Relatively high capital expenditure (capex) of about South African rand (ZAR) 1,225 million.
- Expected ZAR770 million cash outflow for the acquisition of nine dealerships in South Africa.
- No dividend payments for the next 12-18 months.

Key Metrics

	2016	2017f	2018f
EBITDA margin (%)	11.6	10-11	10-11
FFO to debt (%)	75.1	65-70	100-115

	2016	2017f	2018f
FFO cash interest coverage (x)	6.6	6-7	7-7.5

f--Forecast. FFO--Funds from operations.

Business Risk

We view Super Group's business model as more resilient to an economic downturn, based on the company's diversification into more stable countries such as Germany, Australia, and the U.K.--currently 6%, 45%, and 7% of total EBITDA respectively--which will counterbalance weak prospects in the South African economy. Moreover, we think Super Group's increase in diversity, supported by its balanced exposure to mature and emerging markets, will partly mitigate downside risks through a cycle. It will also help withstand any potential exposure to changes in regulation or specific regional downturns better than some competitors.

On the other hand, we believe that Super Group's relatively small scale--mainly in its supply chain and dealership division, where it competes with much larger players--limits the assessment. Although the company has been able to remain cost competitive, rendering stable profit margins, we believe that its ability for superior pricing and improvement is limited due to the high price competition in the logistics business. Moreover, we think Super Group's exposure to the highly fragmented cyclical and competitive logistics services market in South Africa diminishes its organic growth prospects given the current weak economic expectations in that country.

Financial Risk

Super Group's financial risk profile is supported by its track record of generating positive free cash flow as a result of its balanced approach to both capex and acquisitions. Although the company has adequate headroom under its financial profile, we remain focused on how Super Group balances its need to retain cash for acquisitions and desire to return capital to its shareholders, although we do not expect aggressive shareholder distributions.

We assume that Super Group's variable cost structure, combined with its diverse revenue streams and geographic diversity, will result in strong credit measures. We estimate adjusted funds from operations (FFO) to debt and debt to EBITDA of around 65% and 1.0x, respectively, for the next two years.

The most likely path to a higher rating would be for Super Group to show a sufficient track record of successful acquisitions that have a low impact on the credit ratios, and the ability to maintain debt to EBITDA below 1.0x and FFO to debt above 60% on a sustainable basis. This upside potential is currently counterbalanced by our current view for weak economic growth and increased inflationary pressures in South Africa--where it generates about 40% of its EBITDA.

Although we currently see limited downside risk, we could lower the rating if Super Group's acquisitive strategy leads to significant deterioration in the company's operating performance resulting in weaker credit measures, specifically debt to EBITDA above 2.0x. This could also happen if greater-than-expected capex associated with the acquired company led to negative free operating cash flow for more than 12 months.

Liquidity

We assess Super Group's liquidity to be adequate. We forecast that sources will cover uses by more than 1.2x for the 12 months ending June 30, 2017. In addition, we assume that sources will exceed uses even if EBITDA declines by more than 15%.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of ZAR3.1 billion. • ZAR565 million of availability under committed bank lines. • FFO of about ZAR1.9 billion.	• Scheduled debt amortization of about ZAR965 million. • Working capital outflows of about ZAR235 million. • Capex of about ZAR1.2 billion. • Acquisitions of about ZAR790 million, which includes the cash payment for the nine dealerships in Cape Town.

Covenant Analysis

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

Other Credit Considerations

The rating on Super Group of 'zaA+' also incorporates our view of the company's acquisitive strategy, which could lead us to expect higher leverage. We see a potential risk that Super Group could opportunistically make larger acquisitions than we currently forecast in our base case, which could lower its ratios and lead us to revise its financial risk profile assessment downwards.

Ratings Score Snapshot

Corporate Credit Rating: ZaA+/--/zaA-1

Business Risk: Fair

- Country Risk: Intermediate
- Industry Risk: Low Risk
- Competitive Position: Fair

Financial Risk: Modest

- Cash Flow/Leverage: Modest

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital Structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Negative (-1 notch)
- Management and Governance: Fair (no impact)
- Comparable Rating Analysis: Neutral (no impact)

Related Criteria And Research

Related Criteria

- Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- National And Regional Scale Credit Ratings, June. 01, 2016
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Ratios And Adjustments, Nov. 19, 2013
- Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Use Of Credit Watch And Outlooks, Sep. 14, 2009
- Rating Each Issue, Apr. 15, 2008
- Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013