

Research Update:

South African Logistics And Transport Solutions Provider Super Group 'zaAAA/zaA-1+' Ratings Affirmed

October 27, 2021

Rating Action Overview

- Super Group Ltd.'s credit metrics returned to prepandemic levels quicker than expected, owing to strong operating performance, cost-saving measures, and rightsizing initiatives.
- The group's recent acquisition of LeasePlan ANZ via SG Fleet increases its lease-portfolio-related debt, which we forecast will result in adjusted funds from operations (FFO) to debt falling to 30%-35% on average from 55% in FY2021 (financial year ended June 30, 2021).
- We consider that, after the acquisition, a weaker-than-expected earnings profile or higher debt than we currently forecast could erode credit metrics in the coming years.
- We are affirming our 'zaAAA' and 'zaA-1+' South Africa national scale long-term and short-term issuer credit ratings on Super Group.

Rating Action Rationale

Super Group delivered a solid operating performance in FY2021 which saw leverage returning to prepandemic levels. Super Group's decisive action to implement strict cost management and business unit rationalization when the pandemic began has resulted in significantly stronger FY2021 metrics than expected, with FFO to debt rising to 55% from 31% in FY2020 and debt to EBITDA declining to 1.3x from 2.0x. This was despite operational challenges, including several lockdowns across its operations at various points throughout the year, and the group's exposure to the automotive industry, which is under pressure. Super Group's solid results display the earnings resilience it has gained through business segment and geographic diversification, as well as its large proportion of contractual revenue across its operations. The group also successfully implemented a turnaround of its European supply chain segment during the year, restoring profitability at the division.

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We believe the acquisition of LeasePlan ANZ will transform Super Group's consolidated earnings profile and capital structure. Super Group's 52.3%-owned subsidiary SG Fleet recently completed its acquisition of LeasePlan ANZ (Australia-New Zealand) for a consideration of South African rand (ZAR) 4.3 billion or Australian dollar (A\$) 403 million. The acquisition follows earlier attempts by SG Fleet to consolidate its market share in the region and offers potential for operating synergies, additional scale, and diversification of the customer base. We expect the acquisition to add about ZAR8 billion (A\$750 million) in annual revenue, with the EBIT margin close to 12% before potential synergies. The acquisition will also increase the share of business services and operating leases in Super Group's earnings mix. Notably, it will diversify SG Fleet's funding sources and materially increase its proportion of on-balance-sheet securitization warehouse funding while reducing its reliance on principal and agency funding. We expect SG Fleet's lease portfolio funding mix to move from an estimated 97% principal and agency and 3% warehouse, to 65% principal and agency and 31% warehouse following the acquisition, with the total funding base estimated at ZAR40 billion (A\$3.6 billion).

We forecast that adjusted debt will reach almost ZAR22 billion in FY2022, up from ZAR5.5 billion in FY2021 after consolidating the securitization warehouse. We estimate SG Fleet's post-transaction securitization warehouse debt at ZAR13.0 billion (A\$1.2 billion), in addition to acquisition-related debt of about ZAR2.0 billion (A\$175 million), which will result in Super Group's consolidated debt reaching almost ZAR22 billion in FY2022. The warehouse funding mechanism matches each lease contract with financing for the length of the lease contract, ensuring optimal cash flow matching and minimal refinancing risks related to the operating lease activities. We also understand that there is no recourse between the securitization warehouse lenders and Super Group via SG Fleet. Nonetheless, the increase in debt is substantial, so we will monitor the group's ability to deliver commensurate earnings and cash flows to support the debt balance and maintain FFO to debt above 30% on average after integrating LeasePlan ANZ.

We believe short-term headwinds remain, which could overshadow the initiatives implemented by the group's various business segments. Super Group has implemented significant rightsizing and cost-saving initiatives across its South African operations since the pandemic started. We believe easing of COVID-19-related restrictions should allow for growth and margin improvement in the coming years. However, trading conditions in the country remain under pressure due to socioeconomic conditions, signified by recent civil unrest (see "Social Unrest In South Africa Is A Reminder Of Institutional And Structural Constraints To A Fragile Recovery," published July 26, 2021). In its Supply Chain Africa segment, this exposure is offset by Super Group's substantial scale, relationships with blue-chip corporates, and balance-sheet strength, which position it well to gain market share and retain its pricing power. Fleet Africa is supported by contractual operating lease revenue but its reliance on state-owned enterprises leaves it vulnerable to the South African government's tender processes to win new contracts and retain existing ones. In FY2021, earnings at the South African and U.K. dealership segments were supported by cost reductions, a supportive used car market, and digitalization efforts. However, the global chip shortage and resulting new vehicle supply shortage are likely to strain vehicle sales volumes over the next 12 to 18 months, which will require renewed focus on cost-savings initiatives. Although we forecast a faster economic recovery at the Australian SG Fleet operations, we believe this will slow the rebound of the lease portfolio, which contracted by about 3% during FY2021 due to the pandemic.

We foresee tighter and more sensitive credit metric headroom in our base case forecasts, following the acquisition. We forecast FFO to debt will remain close to 30%-35% on average, while the change in funding mix means the securitization warehouse will be a permanent feature of the group's capital structure. As a result, we expect the higher debt balance to make credit metrics more sensitive to changes in earnings in future. However, this is compensated by stronger contractual revenue associated with the medium-term (three to five years) lease assets, which should result in more stable earnings. Super Group is expected to generate marginally positive free operating cash flow (FOCF) after leases in FY2022, rising to ZAR500 million-ZAR1.5 billion in FY2023. The company's debt maturity profile is manageable, with ZAR1.5 billion-ZAR2.0 billion maturing on average annually over the next three years.

Rating pressure could build over the next 12 months, if it becomes apparent that FFO to debt will remain lower than 30% following the acquisition. Weak operating conditions or additional acquisitions could also contribute to weaker credit metrics without tangible prospects for recovery. However, visibility on the evolution of the group's business profile and capital structure after LeasePlan ANZ is integrated, alongside FFO to debt sustainably above 30%, would support the current rating.

Company Description

Super Group is a provider of supply chain logistics, commodity transport, fleet management, and lease solutions, and auto dealerships. It is headquartered in South Africa and listed on the Johannesburg Stock Exchange with a market capitalization close to ZAR12.5 billion (US\$850 million).

The company's operating segments consist of

- Supply Chain Africa and Supply Chain Europe;
- Fleet solutions via Fleet Africa and SG Fleet Ltd., the latter listed in Australia and 52.3% owned by Super Group; and
- Dealerships based in South Africa and the U.K.

Our Base-Case Scenario

Assumptions

- Revenue to increase by about 30% in FY2022 and by mid-single digits in FY2023.
- Adjusted EBITDA margins to rise to 15%-16% on average following the acquisition, from 10.8% in FY2021.
- Capital expenditure (capex) of ZAR2.5 billion-ZAR3.0 billion annually in FY2022 and FY2023.
- Net reinvestment in SG Fleet's lease asset portfolio of close to ZAR3.0 billion per year.
- Proceeds from fleet asset disposals of around ZAR800 million in FY2022 and FY2023.
- Working capital outflows of around ZAR350 million annually in FY2022 and FY2023.
- Dividends to common shareholders at about 16.7% of net income (6x dividend cover ratio).

Key metrics

Super Group Ltd.--Key Metrics*

Mil. ZAR	--Fiscal year ended June 30--				
	2020a	2021a	2022e	2023f	2024f
Revenue	34,578	39,518	52,000	54,000	56,000
EBITDA margin (%)	9.8	10.8	14.5-15.5	14.0-15.0	14.0-16.0
Funds from operations (FFO)	2,088	3,050	6,000-6,500	6,500-7,000	6,500-7,000
Debt	6,782	5,517	21,000-22,000	21,000-22,000	21,000-22,000
Debt to EBITDA (x)	2.0	1.3	2.7	2.6	2.4
FFO to debt (%)	31	55	29	30	33

*All figures adjusted by S&P Global Ratings. ZAR--South African rand. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Super Group's liquidity as adequate because we forecast that sources will cover uses by around 1.5x for the 12 months started July 1, 2021. Our assessment also incorporates Super Group's variable cost structure, substantial cash balances, and manageable debt maturity profile, which support its ability to absorb low-probability high-impact market or operating shocks with limited need for refinancing.

We estimate the following principal liquidity sources for the 12 months started July 1, 2021, after incorporating the acquisition:

- Cash and cash equivalents close to ZAR5.0 billion.
- Available committed bank lines of about ZAR1.5 billion with maturities greater than 12 months.
- Annual forecast cash FFO, net of all lease-related payments, of about ZAR5.5 billion.
- Annual proceeds from fleet asset disposals of about ZAR800 million.

For the same period, we calculate the following principal liquidity uses:

- Scheduled debt maturities and amortization of about ZAR2.0 billion.
- Working capital outflows of ZAR350 million.
- Net reinvestment in SG Fleet's lease asset portfolio of close to ZAR3.0 billion.
- Gross capex of about ZAR3.0 billion.
- Dividends of at least ZAR250 million.

Covenants

Super Group's general banking facilities are subject to certain interest coverage and net debt-to-EBITDA covenants, which are measured quarterly after deconsolidating SG Fleet. We expect that headroom under these covenants will remain adequate (>30%) and that the group will

be able to meet its cash needs from internally generated funds.

Ratings Score Snapshot

South Africa National Scale Rating: zaAAA/--/zaA-1+

Business risk: Fair

- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Negative (-1 notch)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Social Unrest In South Africa Is A Reminder Of Institutional And Structural Constraints To A Fragile Recovery, July 26, 2021

Ratings List

Ratings Affirmed

Super Group Ltd.

Issuer Credit Rating

South Africa National Scale zaAAA/--/zaA-1+

Regulatory Disclosures

Super Group Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G.Andrew Stillman
- Date initial rating assigned: Aug. 20, 2013
- Date of previous review: May 12, 2020

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

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Glossary

- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).
- Comparable rating analysis: This involves taking a holistic review of a company's stand-alone credit risk profile (SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the midpoint, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- Competitive advantage: The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- Creditworthiness: Ability and willingness of a company to meet its debt and debt-like obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Diversification/portfolio effect: Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Efficiency gains: Cost improvements.
- Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a predesignated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage) or set for the respective rating level. Significant headroom would allow for larger deviations.
- Financial risk profile: This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- Free operating cash flow (FOCF): Cash flow from operations minus capital expenditure.
- Funds from operations (FFO): EBITDA minus interest expense minus current tax.
- Group rating methodology: The assessment of the likelihood of extraordinary group support (or

conversely, negative group intervention) that is factored into the rating on an entity that is a member of a group.

- Industry risk: This addresses the major factors that affect the risks that companies face in their respective industries.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness (A national scale rating is also an issuer credit rating).
- Leverage: The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Management and governance: This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Profitability ratio: Commonly measured using return on capital and EBITDA margins, but can be measured using sector-specific ratios.
- Scale, scope, and diversity: The concentration or diversification of business activities.

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