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Research Update:

South African Logistics And Transport Products Provider Super Group Ltd. 'zaAAA/zaA-1+' National Scale Ratings Affirmed

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Rating Action Overview

- We expect continuing new clients and contract renewals, moderating inflation, and falling interest rates across Super Group Ltd.'s operating regions to support revenue growth.
- We continue to think the company's financial policy and liquidity headroom support credit metrics.
- On Dec. 4, Super Group announced that it will be accommodating a scheme implementation deed entered by its 53.58% held subsidiary SG Fleet Group Ltd. and Westmann Bidco Pty Ltd., owned by Pacific Equity Partners Pty Ltd.
- Should the deed be executed, Westmann Bidco will acquire 100% of SG Fleet shares for A$3.50 per SG Fleet share. This will result in Super Group receiving cash proceeds of A$641.4 million (about South Africa rand [ZAR] 7.5 billion) and deconsolidating SG Fleet from the scope of the group .
- We affirmed our 'zaAAA/zaA-1+' South Africa national scale ratings on the group.

Rating Action Rationale

We expect improving business prospects to support revenue and EBITDA growth. Continuing client additions and contract renewals, moderating inflation, and falling interest rates across Super Group's operating regions should support strong revenue growth in fiscal 2025 (year ending June 30). However, persisting economic and European auto sector headwinds, as well as port logistics challenges in South Africa, will somewhat limit growth. Our base-case scenario nevertheless assumes annual revenue growth of 4%-10%, anchored by Super Group's diversified operations and exposure to annuity-based revenue streams and hard currency earnings. Persisting EBITDA pressure could increase uncertainty over Super Group's funds from operations-to-debt headroom. We expect the company's entrenched fuel and foreign-exchange-related cost pass-through mechanisms, and management's cost-saving

measures across its South African and European operations, to alleviate some of the EBITDA pressure leading to the group generating S&P Global Ratings-adjusted EBITDA margins near 12%-14% (or ZAR9.2 billion-ZAR9.6 billion) in fiscal 2025. Our EBITDA expectations are supported by Super Group's demonstrated earnings' resilience, which is primarily driven by business segment, market, currency, and geographical diversification. Our EBITDA expectations should allow the company to generate annual S&P Global Ratings-adjusted funds from operations (FFO) of ZAR6.4 billion-ZAR6.7 billion in 2025, compared with ZAR5.6 billion in fiscal 2024. We think this will allow the group to maintain S&P Global Ratings-adjusted FFO to debt above 20%, commensurate with the rating.

We expect Super Group to maintain a consistent and prudent financial policy in line with the stated target, continuing to support credit metrics in fiscal years 2025-2026. This target is reported net debt to equity (debt excluding warehouse and right-of-use liabilities) of below 40%. We also expect the company will generate in fiscal 2025 negative free operating cash flow (FOCF) of about ZAR1.4 billion, improved from negative FOCF of about ZAR7 billion in fiscal 2024. This should be driven by better annual operating cash flow of ZAR6 billion-ZAR7 billion (versus ZAR3 billion in fiscal 2024) and relatively lower capital expenditure (capex) intensity (about 11%, compared with 15% in fiscal 2024). We believe Super Group will also maintain an adequate liquidity cushion in fiscal 2025. Our base-case scenario assumes liquidity will be supported by unrestricted cash and cash equivalents that we estimate at about ZAR6.6 billion, undrawn bank lines with a maturity greater than 12 months of ZAR420 million, and cash FFO of about ZAR5.5 billion. This should cover upcoming debt maturities and amortization of about ZAR7.3 billion and meet maintenance capex requirements of about ZAR1 billion, working capital outflow of ZAR400 million (excluding net additions to lease portfolio assets), and shareholder distributions of about ZAR580 million, as well as pay for ongoing small acquisitions of about ZAR100 million.

We see the proposed disposal of SG Fleet as likely leading to a weakening of Super Group's business risk profile, while credit metrics could improve due to a lower group debt burden. On Dec. 4, 2024, Super Group announced that it will be supporting a scheme implementation deed by its 53.58% held subsidiary SG Fleet Group and Westmann Bidco. Should the scheme be executed as expected, Westmann Bidco will acquire 100% of SG Fleet shares for a cash consideration of A$3.50 per SG Fleet share. Following the transaction's close, which is subject to shareholder, noteholder, and regulatory approval, Super Group will fully deconsolidate SG Fleet assets and liabilities. For its 53.58% shareholding in SG Fleet, Super Group has indicated that it will receive cash proceeds amounting to A$641.4 million (about ZAR7.5 billion). In our view, the disposal of SG Fleet will lead to Super Group having lower earnings and relatively less diversified operations. This will likely weigh down our assessment of the group's business risk profile. Particularly, Super Group's concentration in South Africa will increase, resulting in about 53% (versus 43% in fiscal 2024) and 64% (from 38%) contribution to its revenue and EBITDA, respectively. SG Fleet contributed about 20% of Super Group's revenue and 53% of its EBITDA in fiscal 2024. While SG Fleet has faced a shortage of new vehicles in recent years, SG Fleet has proven resilient, providing more predictable earnings (due to annuity-based revenue streams), helping offset some of the sluggish growth in other segments of the group. While SG Fleet provides the group with exposure to business services and operating leases, Super Group will become increasingly exposed to operations (logistics and dealerships) with inherently lower profitability. This could lead to S&P Global Ratings-adjusted EBITDA margins decreasing by about 6%, which in our view could lead to lower industry cyclicality resilience. Nevertheless, given Super Group's historical South African base, the company has a demonstrated track record of operating in environments with high

inflation and currency volatility.

We understand that Group intends to use SG Fleet proceeds to repay debt of about ZAR2.0 billion and distribute a special dividend of ZAR5.5 billion after transaction-related costs of ZAR20 million. With about ZAR24.5 billion of SG Fleet debt being deconsolidated (if the transaction is completed), which includes about ZAR20 billion securitized lease portfolio borrowings and repayment of about ZAR2 billion of Super Group's debt, we believe the group's debt burden will decline to about ZAR7.3 billion post-transaction from ZAR32.2 billion at the end of fiscal 2024. Super Group has indicated that its reported net debt to EBITDA at June 30, 2024 of 2.96x would decrease to 0.77x pro forma. This would likely translate into pro forma S&P Global Ratings-adjusted debt to EBITDA of 1.0x-1.5x. Coupled with a reduction in annual capex and cash interest requirements, we think this will be positive for credit metrics. Since the transaction requires approval from certain stakeholders and regulators, for now we do not include the transaction's impact in our base-case scenario. Super Group expects the transaction to close by April 2025. We will therefore monitor the group's operating performance and capital allocation and update our analysis and base-case scenario upon the transaction's completion.

Rating pressure could build over the next 12 months. This could happen if FFO to debt approaches 20% without any remedial actions, or if financial policy deviates from stated targets due to, for example, a material debt-funded acquisition. Weak operating conditions without tangible prospects for recovery could also contribute to weakening credit metrics. A positive rating action could result if FFO to debt rose sustainably above 30%, supported by sustainable positive FOCF. We would also consider the prudence of the company's financial policy, particularly with respect to debt-funded acquisitions.

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 ZAR10.9 billion as of Dec. 6, 2024.

The company's current operating segments consist of the following:

- Supply Chain Africa and Supply Chain Europe;
- Fleet Solutions via Fleet Africa and SG Fleet Group Ltd., the latter listed in Australia and 53.58% owned by Super Group; and
- Dealerships in South Africa and the U.K.

Liquidity

We assess Super Group's liquidity as adequate because we forecast that sources will cover uses by at least 1.2x for the 12 months from July 1, 2024. Our assessment also incorporates the 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 from July 1, 2024:

- Unrestricted cash and cash equivalents of close to ZAR6.6 billion.
- Available committed bank lines of about ZAR420 million with maturities greater than 12 months.
- Annual forecast cash FFO of about ZAR5.4 billion.
- Annual proceeds from asset disposals (excluding movements in lease portfolio assets) of about ZAR400 million.

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

- Scheduled debt maturities and amortization of about ZAR7.3 billion (including warehouse debt).
- Working capital outflows of ZAR400 million excluding net additions to lease portfolio assets.
- Gross capex of about ZAR1.0 billion.
- Acquisitions and dividends (including portion of SG Fleet dividend paid to minority shareholders) totaling about ZAR680 million.

Covenants

Super Group's general banking facilities are subject to interest coverage (greater than or equal to 2.70x) and net debt-to-EBITDA (less than or equal to 2.50x) covenants, which are measured quarterly after deconsolidating SG Fleet. We expect that headroom under these covenants will remain adequate (greater than 30%) and the group will meet its cash needs from internally generated funds.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Super Group given its exposure to segments within the auto and trucking, and logistics industries. Both industries will likely face long-term pressure to reduce carbon emissions, which could raise costs or squeeze margins across the value chain. Of note, the company has solid fuel cost pass-through mechanisms across its operations, which provides margin insulation. Social factors have an overall neutral influence on our analysis, on par with sector peers, owing to Super Group's wide geographical diversification.

Ratings Score Snapshot

Issuer Credit Rating	zaAAA/zaA-1+/--
Business risk:	Fair
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Fair
Financial risk:	Significant
Cash flow/leverage	Significant

Issuer Credit Rating	zaAAA/zaA-1+/--
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook Midyear 2024, Aug. 1, 2024

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: Munya Chawana
- Rating Committee Chairperson: Andrew Stillman
- Date initial rating assigned: Aug. 20, 2013
- Date of previous review: Oct. 27, 2022

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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Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cashflows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

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Glossary

- Anchor: The starting point for assigning an issuer a long-term rating, based on its business risk profile assessment and its financial risk profile assessment.
- 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.
- Corporate Industry and Country Risk Assessment (CICRA): Derived by combining an issuer's country risk assessment and industry risk assessment.
- 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.
- CreditWatch: This highlights the potential direction of a short- or long-term rating over the short term, typically less than three months. Ratings may be placed on CreditWatch where, in our view, an event or a deviation from an expected trend has occurred or is expected and additional information is necessary to determine the rating impact.
- Creditworthiness: Ability and willingness of a company to meet its debt and debtlike 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.
- Economies of scale: This is the cost advantage that arises with increased size or output of a product.

- Efficiency gains: Cost improvements.
- ESG credit factors: Those environmental, social, and governance (ESG) factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. These credit factors can have a negative or positive impact on creditworthiness, depending on whether they represent a risk or an opportunity.
- 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: Cash flow from operations minus capital expenditure.
- Funds from operations: 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.
- Issue credit rating: This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- 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.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Scale, scope, and diversity: The concentration or diversification of business activities.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.

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