

Tear Sheet:

Super Group Ltd.

November 24, 2023

We expect Super Group Ltd. (Super Group)'s S&P Global Ratings-adjusted EBITDA margin to remain resilient at 13%-14% in fiscals 2024-2026 (ended June 30). Super Group had a strong fiscal 2023, with a 30.6% increase in revenue driven by robust sales growth in Supply Chain Africa, Dealerships SA and UK, and the inclusion of the full-year performance (relative to 10 months in fiscal 2022) of LeasePlan in SG Fleet. In turn, S&P Global Ratings-adjusted EBITDA increased to South African rand (ZAR) 8.6 billion from ZAR7.3 billion. While we expect prolonged inflationary pressure, elevated interest rates, and muted real consumer spending to persist, we assume stable annual revenue growth of 5%-7% and resilient S&P Global Ratings-adjusted EBITDA margins of 13%-14% in fiscals 2024-2026. Our revenue expectations are anchored by Super Group's diversified operations and exposure to annuity-based revenue streams and hard currency earnings. We also expect an enhanced revenue contribution from SG Fleet as further integration and synergy extraction from LeasePlan are realized. We expect Super Group's entrenched fuel and foreign-exchange-related cost pass-through mechanisms, and management's cost-saving measures, to maintain EBITDA margins in fiscals 2024-2026. We note Super Group's earnings resilience via business segment, market, currency, and geographical diversification, which allows the group to manage macroeconomic volatility. That said, we expect supply chain normalization, availability of new and used vehicles, and geopolitical developments to continue to constrain its operating environment.

We anticipate that Super Group will maintain S&P Global Ratings-adjusted funds from operations (FFO) to debt of 20%-30%. This range reflects our expectation that stable EBITDA margins will lead Super Group to comfortably generate annual FFO of ZAR6.5 billion-ZAR7.3 billion in fiscals 2024-2026, relative to ZAR6.6 billion in fiscal 2023. We expect consistent and prudent application of the group's financial policy, in line with the stated target of reported net debt to equity (debt excluding warehouse and right-of-use liabilities) of below 40%, to remain supportive of stable leverage in fiscals 2024-2026. This will prevent further large debt-funded acquisitions, given current leverage, meaning the long-term financial policy is more supportive of the financial risk and rating.

We expect Super Group to maintain an adequate liquidity cushion in fiscal 2024. For fiscal 2023, the company reported cash on the balance sheet of about ZAR9.1 billion. In our base-case scenario, we expect Super Group's liquidity to be supported by unrestricted cash and cash equivalents that we estimate at about ZAR6.8 billion, undrawn bank lines with a maturity greater than 12 months of ZAR3.6 billion (including ZAR1.7 billion of SG Fleet warehouse funding facility), and cash FFO of about ZAR6.3 billion. This should be sufficient to cover upcoming debt maturities and amortization of about ZAR10.3 billion (including warehouse debt), and meet maintenance capital expenditure requirements of about ZAR874 million, working capital outflows of ZAR400 million (excluding net additions to lease portfolio assets), and shareholder distributions of about ZAR400 million, as well as pay for acquisitions of about ZAR172 million. Dividend and share buyback flexibility should also support liquidity.

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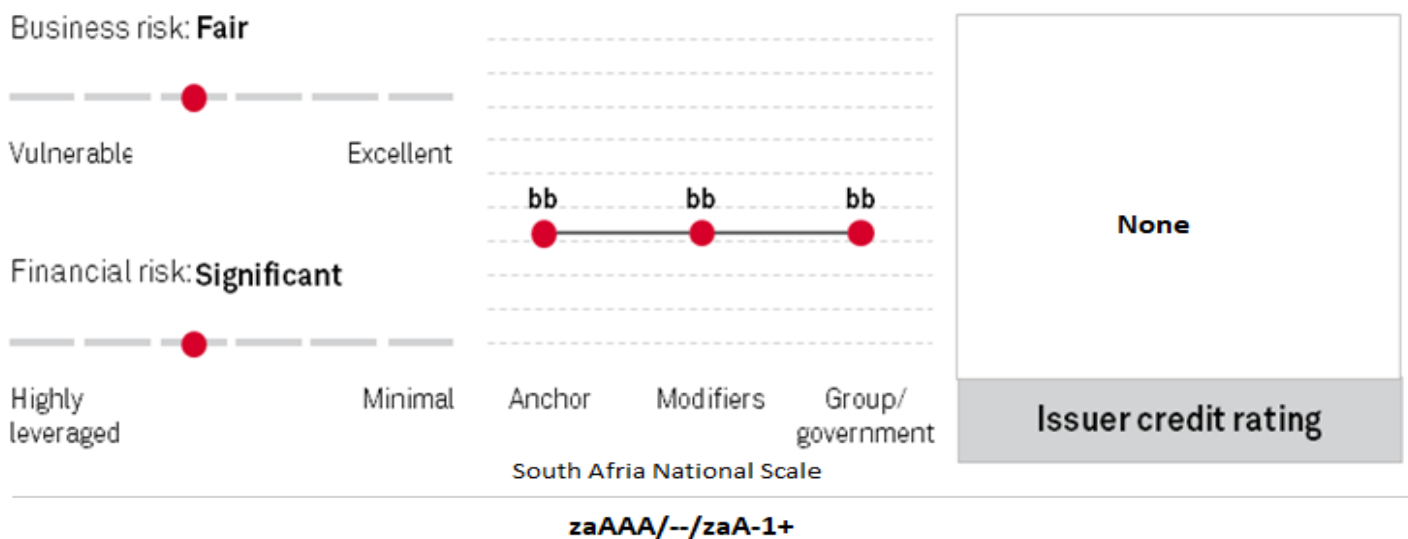
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Rating pressure could build over the next 12 months, if FFO to debt approaches 20%, without any remedial actions, or financial policy deviates from stated targets, resulting in a material debt-funded acquisition. Weak operating conditions without tangible prospects for recovery could also contribute to the weakening of credit metrics. A positive rating action could result from FFO to debt rising sustainably above 30% followed by a corresponding material and sustainable improvement in free operating cash flow (FOCF). We would also consider the prudence of the company's financial policy, particularly with respect to debt-funded acquisitions.

Ratings Score Snapshot



Recent Research

- Industry Top Trends 2023: Transportation, Jan. 23, 2023
- South African Logistics And Transport Solutions Provider Super Group Ltd. 'zaAAA/zaA-1+' Ratings Affirmed, Oct. 27, 2022

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 billion (\$656 million).

The company's operating segments consist of the following:

- Supply Chain Africa and Supply Chain Europe;
- Fleet Solutions via Fleet Africa and SG Fleet Ltd., the latter listed in Australia and 53.2% owned by Super Group; and
- Dealerships based in South Africa and the U.K.

Key Metrics

Super Group Ltd.--Forecast summary

Period ending	June-30-2020	June-30-2021	June-30-2022	June-30-2023	June-30-2024	June-30-2025	June-30-2026
(Mil. ZAR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	34,578	39,518	46,238	61,877	66,380	68,717	72,149
EBITDA	3,402	4,135	7,261	8,628	9,104	9,359	10,028
Funds from operations (FFO)	2,088	2,921	5,193	6,614	6,549	6,798	7,331
Debt	6,782	5,517	19,964	23,586	25,005	28,198	31,714
Adjusted ratios							
Debt/EBITDA (x)	2.0	1.3	2.7	2.7	2.7	3.0	3.2
FFO/debt (%)	30.8	52.9	26.0	28.0	26.2	24.1	23.1
FOCF/debt (%)	14.2	14.6	5.8	1.3	(5.4)	(7.2)	(7.4)
EBITDA margin (%)	9.8	10.5	15.7	13.9	13.7	13.6	13.9

Financial Summary

Super Group Ltd.--Financial Summary

Period ending	June-30-2018	June-29-2019	June-30-2020	June-30-2021	June-30-2022	June-30-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
Revenues	35,663	37,862	34,578	39,518	46,238	61,877
EBITDA	3,889	4,124	3,402	4,135	7,261	8,628
Funds from operations (FFO)	2,710	2,802	2,088	2,921	5,193	6,614
Free operating cash flow (FOCF)	1,190	8	963	805	1,154	314
Debt	5,118	5,257	6,782	5,517	19,964	23,586
Adjusted ratios						
EBITDA margin (%)	10.9	10.9	9.8	10.5	15.7	13.9
Debt/EBITDA (x)	1.3	1.3	2.0	1.3	2.7	2.7
FFO/debt (%)	53.0	53.3	30.8	52.9	26.0	28.0
FOCF/debt (%)	23.3	0.2	14.2	14.6	5.8	1.3

Peer Comparison

Super Group Ltd.--Peer Comparisons

	Super Group Ltd.	Logwin AG	AutoCanada Inc.	Transnet SOC Ltd.
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Super Group Ltd.--Peer Comparisons

Foreign currency issuer credit rating	--	BB+/Stable/--	B+/Stable/--	BB-/Negative/--
Local currency issuer credit rating	--	BB+/Stable/--	B+/Stable/--	BB-/Negative/--
Period	Annual	Annual	Annual	Annual
Period ending	2023-06-30	2022-12-31	2022-12-31	2023-03-31
Mil.	ZAR	ZAR	ZAR	ZAR
Revenue	61,877	41,046	75,881	68,877
EBITDA	8,628	3,074	3,396	24,284
Funds from operations (FFO)	6,614	2,252	2,182	10,645
Interest	1,775	91	854	13,515
Cash interest paid	1,761	95	798	13,639
Operating cash flow (OCF)	7,944	3,078	1,859	19,020
Capital expenditure	7,631	120	662	11,892
Free operating cash flow (FOCF)	314	2,958	1,197	7,128
Discretionary cash flow (DCF)	(808)	2,631	(591)	7,128
Cash and short-term investments	8,569	6,599	1,360	13,597
Gross available cash	8,569	6,599	1,360	13,597
Debt	23,586	1,893	13,064	129,235
Equity	19,516	6,294	6,115	147,721
EBITDA margin (%)	13.9	7.5	4.5	35.3
Return on capital (%)	11.8	31.0	16.2	3.1
EBITDA interest coverage (x)	4.9	33.9	4.0	1.8
FFO cash interest coverage (x)	4.8	24.7	3.7	1.8
Debt/EBITDA (x)	2.7	0.6	3.8	5.3
FFO/debt (%)	28.0	119.0	16.7	8.2
OCF/debt (%)	33.7	162.6	14.2	14.7
FOCF/debt (%)	1.3	156.3	9.2	5.5
DCF/debt (%)	(3.4)	139.0	(4.5)	5.5

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Super Group given its exposure to various 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 at present. Social factors have an overall neutral influence on our credit rating analysis, on par with sector peers, owing to Super Group's wide geographical diversification.

Regulatory Disclosure

Regulatory disclosures applicable to the most recent credit rating action can be found in "South African Logistics And Transport Solutions Provider Super Group Ltd. 'zaAAA/zaA-1+' Ratings Affirmed," published Oct. 27, 2022, on RatingsDirect.

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.
- **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.

Super Group Ltd.

- 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.

Rating Component Scores

South Africa National Scale Rating	zaAAA/--/zaA-1+
Business risk	Fair
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Fair
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb

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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

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