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Research Update:

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

October 27, 2022

Rating Action Overview

- Super Group Ltd.'s existing and acquired operations delivered solid results in FY2022 despite challenging operating conditions in some business units, owing to its diversified operations, entrenched cost-pass-through mechanisms, high proportion of annuity income, and cost-saving measures implemented through the pandemic.
- Super Group's credit metrics weakened following its acquisition of LeasePlan ANZ via SG Fleet, which resulted in an almost threefold increase in the group's S&P Global Ratings-adjusted debt.
- Adjusted funds from operations (FFO) to debt fell to 26% in financial year (FY) 2022 (ended June 30, 2022) from 55% in FY2021, and we now expect adjusted FFO to debt of 25%-28% on average (versus our previous expectation of 30%-35%).
- At the same time, the group's higher overall leverage reduces its ability to make further large debt-funded acquisitions without exceeding its strictly applied gearing limits, so in our view the long-term financial policy is more supportive of the financial risk and rating.
- We affirmed our 'zaAAA' and 'zaA-1+' South Africa national scale long- and short-term issuer credit ratings on Super Group.

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Rating Action Rationale

As we expected, the acquisition of LeasePlan ANZ has transformed SG Fleet, as well as Super Group's consolidated earnings and leverage profiles. Super Group's 53.2%-owned subsidiary SG Fleet completed its acquisition of LeasePlan ANZ in September 2021. The acquisition resulted in SG Fleet consolidating its market share in Australasia and offering additional scale and customer base diversification, together with some cost savings due to synergies in the three years following the acquisition's conclusion. In FY2022, Super Group consolidated 10 months of earnings and 100% of debt (mainly in the form of on-balance-sheet securitization warehouse funding of South African rand [ZAR] 12.7 billion and acquisition-related debt of about ZAR1.9 billion), resulting in consolidated adjusted debt of about ZAR20 billion in FY2022 (versus ZAR5.5 billion in FY2021). 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 fleet lease activities. There is no recourse between the securitization warehouse lenders and Super Group via SG Fleet. Furthermore, the company's corporate debt maturity profile is manageable, with ZAR1.5 billion-ZAR2.0 billion maturing on average annually over the next three years.

We now forecast Super Group's overall FFO to debt staying below 30% on average through FY2025. At the transaction's close, we expected it to add about ZAR8 billion (A$750 million) annualized. FY2022 results showed a lower revenue contribution than anticipated, while adjusted EBITDA margins in the combined SG Fleet business increased in line with our expectations, to 37% in FY2022 from 21% in FY2021. This translated into an overall adjusted EBITDA margin expansion of about 450 basis points (bps) in Super Group's consolidated business. We expect to see strong revenue growth (17%) in SG Fleet in FY2023, reflecting the first full year of consolidated LeasePlan earnings and some organic business growth. However, based on the substantial increase in debt combined with actual earnings outcomes in FY2022, we no longer see the group as able to deliver earnings and cash flows to maintain adjusted FFO to debt above 30% on average. We now see FFO to debt of 28% on average over the next three years as more realistic. Therefore, we see the financial risk post-acquisition as higher than anticipated, at significant. Notably, Super Group's free operating cash flow (FOCF) after leases in FY2022 exceeded our expectations, largely because of elevated used car prices given the paucity of new vehicle availability in the wake of the semiconductor shortage since 2020.

Changes in business mix do not affect our view on Super Group's business risk, and have raised the group's exposure to more predictable revenue streams and hard currency earnings. In addition to raising consolidated debt, the materially enlarged SG Fleet operation has also increased the share of business services and operating leases in Super Group's earnings mix (versus logistics and dealerships), while enhancing the company's EBITDA exposure to lower-risk jurisdictions (Australia and New Zealand). While these considerations do not alter our overall assessment of business risk, they do enhance funding source diversification, as well as introducing a larger base of predictable revenue and EBITDA in FY2022 after including 10 months of LeasePlan ANZ, and raise overall EBITDA margins for the group by 400-500 bps. We considered Super Group to have recovered post-pandemic by the end of FY2021; EBITDA margins have risen to 15.7% in FY2022 from 10.5% in FY2021, largely reflecting the business mix's change on margins.

The group's FY2022 performance was solid despite operational challenges that disrupted logistics and port operations; and the group's exposure to the auto industry, which is under pressure. Group revenue rose 17% in FY2022, largely reflecting the enlarged SG Fleet. Adjusted EBITDA increased about 75% from ZAR4.14 billion to ZAR7.26 billion on higher SG Fleet's earnings and strong performances in the South African logistics businesses, despite the impact of riots and port disruptions in South Africa following the July 2021 civil unrest, higher demand for bulk commodity transportation, and poor operational performance in South Africa's rail transportation infrastructure. The solid performance, together with higher debt levels due to business mix changes, resulted in debt to EBITDA rising to 2.7x in FY2022 from 1.3x in FY2021. FFO to debt fell to 26% in FY2022 from 52.9% in FY2021, largely due to higher lease-related debt in Australia. 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 implemented a turnaround of its European supply chain segment during the year, restoring profitability there. The upweighting of fleet leasing business in the corporate profile has also added stronger contractual revenue associated with the three-to-five year lease assets, which should result in more stable earnings.

While headwinds remain in the form of Russia-Ukraine hostilities, global chip shortages, and broader global economic volatility, Super Group's annuity businesses and cost pass-through mechanisms should protect earnings. The group's significant rightsizing and cost-saving initiatives implemented across its South African and European operations since the pandemic started have improved its resilience to volatility in its operating environment. Furthermore, the enlarged size of the SG Fleet operation has increased its exposure to annuity-based revenue streams and hard currency earnings. Given Super Group's South African roots, the company is comfortable operating in environments with high inflation and currency volatility, and has solid fuel and foreign-exchange-related cost pass-through mechanisms throughout its operations, protecting margins. In its Supply Chain Africa segment, Super Group has 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. New contracts of this type have seen delays since 2020. While South African and U.K. dealership segments continue to be supported by cost reductions, strong pricing in the used car market, and digitalization efforts, the global chip shortage and resulting new vehicle supply shortage are expected to strain vehicle sales volumes over the next 12-18 months. Consumer stresses and their impact on dealership volumes also cannot be ignored, given the deterioration in overall global economic conditions.

Following the acquisition and new capital structure, we now see financial policy as neutral to the rating. We had viewed the risk of a sizable debt-funded acquisition, which would have a material negative impact on leverage, as relatively likely given Super Group's track record of acquisitive growth and relatively low corporate debt levels. We therefore saw financial policy as not supporting the leverage level then. The acquisition of LeasePlan ANZ and its impact on leverage illustrate the materialization of this financial policy risk. The permanent increase in Super Group's gross debt now also results in its financial policy having tightened relatively. At higher debt levels, financial policy now largely constrains the risk of a debt-funded acquisition of such size that adjusted FFO to debt would fall sustainably below 20%. Consequently, we now see financial policy as supporting the current leverage category.

We see financial policy as containing two key elements relevant to the control of corporate debt and SG Fleet (lease funding) debt within tolerable limits. Super Group's leverage policy for corporate debt is linked to a reported net debt to equity (gearing) ratio maximum of 40%. The company has maintained this policy threshold for over 10 years, and after the acquisition of LeasePlan, excludes securitized warehouse lease-related debt from its calculations. Super Group has indicated it will raise additional equity should its gearing ratio approach 40%, to reduce the ratio to 20%-30%. It has done so several times following previous acquisitions. Given the group's current capital structure and financial policy framework, it is unlikely to raise more than ZAR3 billion in corporate debt (up to its 40% limit) to fund additional acquisitions. Such a debt increase (even assuming no additional EBITDA from the theoretical debt-funded acquisition) would support our assessment of Super Group's financial risk and rating at the current level. Lease operations in

SG Fleet are mainly funded through warehouse facilities, which totaled ZAR17.2 billion on June 30, 2022, and of which ZAR12.7 billion was used. The facility headroom (ZAR4.5 billion) contains the growth in lease funding, and the requirement to finance lease portfolio asset growth depends largely on business growth, which would generate EBITDA at an estimated 35% margin. Management sees the current facilities as providing ample headroom to fund the expected lease portfolio growth over the next three years.

We expect relative stability in Super Group's credit metrics and financial policy, resulting in FFO to debt of 25%-27% in the next 12 months, supporting our rating. We see limited circumstances in which adjusted FFO to debt would fall outside the 20%-30% range in the next 12 months, either as a result of operational challenges or financial policy choices. If FFO to debt were to rise above 30%, we would also consider whether this translates into material and sustainable improvement in FOCF. Our expectation of relatively stable credit metrics considers the company's higher debt burden and challenging operating conditions, partly offset by the revenue base's recurring nature, solid margin underpinning, and management's track record of remedial actions in times of cash flow weakness. Of note, we see the impact of additional acquisitions of such size that they would contribute to weaker credit metrics without tangible prospects for recovery as remote. Furthermore, visibility on the group's business risk profile and capital structure has improved since the integration of LeasePlan ANZ into SG Fleet, further supporting the 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 ZAR9.1 billion ($500 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.

Our Base-Case Scenario

Assumptions

- Revenue to increase 11.7% FY2023 and 3%-4% FY2024.
- Adjusted EBITDA margins to stabilize at 14%-15% on average from FY2023 onward, from 15.7% in FY2022.
- Capital expenditure (capex) excluding movements in lease portfolio assets of ZAR1.9 billion in FY2023 and ZAR1.5 billion in FY2024.
- Working capital outflows of ZAR2.0 billion-ZAR 3.0 billion annually. This includes typical working capital movements of about ZAR350 million plus our expectations of cash outflows related to net reinvestment in the fleet lease asset portfolio.

- Proceeds from nonfleet related asset disposals of about ZAR300 million in FY2023 and thereafter.
- Dividends to common shareholders at about 16.7% of net income (6x dividend coverage ratio) and share repurchases of ZAR519 million in FY2023 and ZAR200 million annually thereafter.

Key metrics

Super Group Ltd.--Key Metrics*

	--Fiscal year ended June 30--				
Mil. ZAR	**2021a**	**2022a**	**2023e**	**2024f**	**2025f**
Revenue	39,518	46,238	51,641	53,466	55,335
Revenue growth (%)	14.3	17	11.7	3.5	3.5
EBITDA	4,135	7,261	7,265	7,582	7,935
EBITDA margin (%)	10.5	15.7	14.1	14.2	14.3
Funds from operations (FFO)	2,921	5,193	5,175	5,423	5,687
Debt	5,517	19,964	19,641	19,402	19,199
Debt to EBITDA (x)	1.3	2.7	2.7	2.6	2.4
FFO to debt (%)	52.9	26	26.3	28	29.6
FOCF to debt (%)	2.9	5.8	6.9	7.4	8.3

*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 at least 1.2x for the 12 months from July 1, 2022. 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, 2022:

- Unrestricted cash and cash equivalents of close to ZAR5.6 billion.
- Available committed bank lines of about ZAR1.6 billion (including ZAR220 million available in the SG Fleet warehouse) with maturities greater than 12 months.
- Annual forecast cash FFO of about ZAR4.8 billion.
- Annual proceeds from asset disposals (excluding movements in lease portfolio assets) of about ZAR300 million.
- Proceeds of ZAR500 million from corporate bonds raised in July 2022.

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

- Scheduled debt maturities and amortization of about ZAR5.4 billion (including warehouse debt).

- Working capital outflows of ZAR350 million excluding net additions to lease portfolio assets
- Gross capex of about ZAR1.9 billion.
- Acquisitions, share repurchases and dividends (including portion of SG Fleet dividend paid to minority shareholders) totaling about ZAR1 billion.

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 (greater than 30%) and that the group will meet its cash needs from internally generated funds.

Environmental, Social, And Governance

ESG credit indicators: E-3, S-2, G-2

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 geographic diversification.

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:	Significant
Cash flow/leverage	Significant
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	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bb

South Africa National Scale Rating	zaAAA/--/zaA-1+
Rating above the sovereign	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

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: Omega Collocott, Director
- Rating Committee Chairperson: Paulina Grabowiec
- Date initial rating assigned: Aug. 20, 2013
- Date of previous review: Oct. 27, 2021

Disclaimers

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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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