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Research Update:

South African Transport Firm Super Group National Scale Rating Raised To 'zaA+'; Assigned 'zaA-1' Short-Term Rating

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Overview

- The financial ratios of South Africa-based transportation firm Super Group have become stronger, thanks to better-than-anticipated operating performance. In our opinion, the company should be able to sustain this.
- As a result, we are raising our long-term national scale rating on Super Group to 'zaA+' from 'zaA'.
- At the same time, we are assigning our 'zaA-1' short-term national scale rating to the company.
- The rating incorporates our view that Super Group will maintain financial ratios consistent with its "modest" financial risk profile, despite its acquisitive financial policy and the difficult trading conditions it faces in the South African market.

Rating Action

On Dec. 17, 2014, Standard & Poor's raised its long-term national scale rating on South African-based transportation firm Super Group Limited to 'zaA+' from 'zaA'.

At the same time, we assigned our short-term national scale rating of 'zaA-1' to the company.

Rationale

The upgrade reflects the better-than-anticipated performance of Super Group in financial year 2014 and so far in financial year 2015. This has meant that the company's financial ratios are now stronger than we previously forecast. We have revised our assessment of the financial risk profile to "modest" from "intermediate".

Revenue increased by 22% to South African rand (ZAR) 14,296 million in the year ending June 30, 2014. This was mainly a result of new contract wins in the supply chain division in South Africa, strong performance in its African logistics business, and better-than-expected sales in its vehicle dealership business unit. At the same time, the company's Standard & Poor's-adjusted

EBITDA margin was better than expected at around 15%, compared with 14.4% the year before. Super Group's profitability measures are somewhat stronger than its rated European logistics services peers.

Under our base-case scenario, we expect Super Group's adjusted funds from operations (FFO) to debt and debt to EBITDA to be around 55% and 1.5x in 2015, respectively. In our opinion, Super Group has adequate headroom under the "modest" financial risk profile category to make moderate acquisitions without its FFO to debt declining to less than 40%, the level we consider commensurate with our 'zaA+' rating. Our analysis does not take aggressive shareholder distributions into account.

We have revised our calculation of Super Group's surplus cash to 50% of total cash and cash equivalents and deducted it from total gross debt. We have not previously deducted any surplus cash from gross debt for the purpose of calculating Super Group's credit measures. Our calculation suggests that the majority of Super Group's cash and cash equivalents are not restricted, and the company's high cash balance provides a fairly good buffer against contingent cash requirements.

Our base-case scenario for Super Group assumes:

- Revenue growth of between 30%-35%, mainly attributable to recent acquisitions boosting revenues in the group's supply chain and dealership divisions;
- Some deterioration in Super Group's adjusted EBITDA margin in the short term, due to new acquisitions operating at lower margins and increased pricing pressure across most end-markets. That said, in our opinion, Super Group has a good track record in driving cost efficiencies across its business divisions; and
- Sizable capital expenditure of around ZAR1 billion.

Based on these assumptions, we arrive at the following credit measures:

- FFO to debt of around 55% in 2015, and improving thereafter; and
- Adjusted debt to EBITDA of 1.4x-1.5x.

Super Group's "fair" business risk profile reflects the group's exposure to the logistics services markets, which we view as highly cyclical, fragmented, and competitive. Despite some consolidation, logistics services markets in South Africa remain characterized by a large number of small-to-midsize companies and several global companies with greater financial resources than Super Group. Barriers to entry in this market arise from the need for both an extensive network and information technology solutions, and the complexity of services provided. Nevertheless, customers can switch contracts relatively easily. Bidding for contracts is therefore competitive, which can hurt services providers' prices and margins, in our view.

These constraints are partly mitigated by the relatively strong underlying

growth fundamentals of the industry in South Africa, driven by globalization and fleet management needs. In our opinion, Super Group's supply chain business is still relatively small but has the potential to further expand into new end markets.

We could raise the rating if Super Group's revenues and profitability grow significantly, due to potential acquisitions and/or new contracts wins. We consider adjusted FFO to debt of more than 60%, on a sustainable basis, to be commensurate with a 'zaAA-' rating, all other things being equal. We could also take a positive rating action if the company was able to show a track record of successful acquisitions whilst maintaining adjusted FFO to debt in line with our base-case scenario.

We could lower the rating if Super Group's liquidity position deteriorates significantly as a result of weaker operating performance or cash flow generation than we anticipate, or if the group makes sizable debt-funded acquisitions or aggressive shareholder distributions. We could consider lowering the rating if the adjusted FFO to debt falls below 40%, all other things being equal.

Liquidity

The South African short-term national scale rating on Super Group is 'zaA-1,' reflecting our assessment of Super Group's liquidity as "adequate" under our criteria.

We believe that Super Group's eligible sources of cash should cover uses by over 1.2x for the next 12 months ending Sept. 30, 2015. Our liquidity assessment of "adequate" also indicates that sources will exceed uses, even if EBITDA declines by more than 15%.

The following are the principal liquidity sources for the 12 months to Sept. 30, 2015:

- Cash and cash-equivalents of about ZAR2.1 billion;
- Undrawn bank lines worth approximately ZAR215 million under a total revolver facility of ZAR795 million; and
- Our forecast of positive funds from operations of approximately ZAR1.5 billion.

The following are the principal liquidity uses for the 12 months to Sept. 30, 2015:

- Debt amortization of around ZAR654 million;
- Our expectations of working capital outflows of around ZAR224 million;
- Capital investments of around ZAR1 billion;
- Our assumption of acquisitions of around ZAR480 million (including the recent Allan Ford UK Ltd. acquisition); and
- Our expectation of share repurchases of around ZAR80 million.

We understand that the general banking facility 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.

Ratings Score Snapshot

Business Risk: Fair

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

Financial Risk: Modest

- Cash Flow/Leverage: Modest

Modifiers:

- Diversification/Portfolio effect: Neutral
- Capital Structure: Neutral
- Liquidity: Adequate
- Financial policy: Negative (-1 notch)
- Management and Governance: Fair
- Comparable Rating Analysis: Neutral

Related Criteria And Research

Related criteria

- Key Credit Factors For The Railroad and Package Express Industry, Aug. 12, 2014
- Methodology and Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology-Ratios and Adjustments, Nov. 19, 2013

Ratings List

Upgraded; New Rating

	To	From
Super Group Ltd. Corporate Credit Rating		
South Africa National Scale	zaA+/--/zaA-1	zaA/--/--

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