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Research Update:

South African Transport Firm Super Group 'zaA+/zaA-1' National Scale Ratings Affirmed

Primary Credit Analyst:
Francisco Serra, London (44) 20-7176-3377; francisco.serra@spglobal.com

Secondary Contact:
Izabela Listowska, Frankfurt (49) 69-33-999-127; izabela.listowska@spglobal.com

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Overview

- On April 3, 2017, we lowered our long-term foreign currency sovereign credit rating on the Republic of South Africa to 'BB+' and the long-term local currency rating to 'BBB-', and maintained our negative outlook.
- We anticipate that South Africa-based transportation firm Super Group will likely maintain sufficient liquidity to cover its future commitments, even if the sovereign suffered an extreme stress event.
- Over the last few years, Super Group has considerably diversified its cash flow generation to low risk countries such as Australia, the U.K., and Germany.
- We are therefore affirming our 'zaA+' long-term national scale rating and 'zaA-1' short-term national scale rating on Super Group.
- The ratings incorporate 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 April 10, 2017, S&P Global Ratings affirmed its 'zaA+' long-term South Africa national scale rating and 'zaA-1' short-term South Africa national scale rating on transportation firm Super Group Ltd.

Rationale

The affirmation follows the downgrade of South Africa on April 3, 2017, and reflects our view that Super Group will likely maintain sufficient liquidity to cover its commitments, even in the event of hypothetical extreme stress on the sovereign associated with a default (see "South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political And Institutional Uncertainty; Outlook Negative," published on RatingsDirect). We think that Super Group's solid balance sheet and track record of operating cash flow generation, combined with an ample cash balance--of which about half is held in low risk countries--will protect the company in a stress scenario. Nevertheless, we assess Super Group's sensitivity to country risk as high, due to its still significant reliance on domestic economic demand and its exposure to related country risks in its home country. We therefore believe that the company's credit quality may be affected should the sovereign's credit quality continue to deteriorate.

Over the last few years, Super Group has significantly increased its earnings generation through acquisitions from low risk countries such as Australia, the U.K., and Germany. We estimate that these countries currently contribute more than 45% to the group's EBITDA and about 55% of the group's assets are in these countries. Furthermore, we understand that the company manages its group financing and liquidity such that most foreign-exchange denominated calls on cash (such as capital expenditure [capex] and debt maturities) are matched with available cash on hand and forecast fund generation in the respective hard currencies.

We view Super Group's business model as more resilient to an economic downturn, based on the company's diversification into more stable countries, which will counterbalance weak prospects in the South African economy. Moreover, we think Super Group's increase in diversity, supported by its balanced exposure to mature and emerging markets, will partly mitigate downside risks through a cycle. It will also help the company withstand any potential exposure to changes in regulation or specific regional downturns better than some competitors.

On the other hand, we believe that Super Group's relatively small scale--mainly in its supply chain and dealership division, where it competes with much larger players--limits the assessment. Although the company remains cost competitive, rendering stable profit margins, we think that its ability for superior pricing is limited due to high price competition in the logistics business. Moreover, we think Super Group's exposure to the highly fragmented cyclical and competitive logistics services market in South Africa diminishes its organic growth prospects given the current weak economic expectations in the country.

In our base case, we assume:
- Revenue growth of about 15% in fiscal year 2017 (ending June), mainly attributable to recent acquisitions being accounted for the full year and modest organic growth expectations of about 2%, in line with weighted-average GDP growth for South Africa, Australia, Germany, and the U.K.
- Adjusted EBITDA margin of about 10%-11% in 2017, marginally down from 2016 and mostly reflecting our view that pricing competition across most of Super Group's end markets will continue.
- Relatively high capex of about South African rand (ZAR) 1,225 million.
- No dividend payments for the next 12-18 months.

Based on these assumptions, we arrive at the following credit measures:
- Funds from operations (FFO) to debt of about 70% in fiscal year 2017, improving to about 100% in fiscal year 2018.
- Strong FFO to interest cover of about 7x in these two years.

Super Group's financial risk profile is supported by its track record of generating positive free cash flow as a result of its balanced approach to both capex and acquisitions. Although the company has adequate headroom under its financial profile, we remain focused on how Super Group balances its need to retain cash for acquisitions and desire to return capital to its shareholders, although we do not expect aggressive shareholder distributions.

Liquidity

We assess Super Group's liquidity as adequate. We forecast that sources will cover uses by more than 1.2x for the 12 months ending Dec. 31, 2017. In addition, we assume that sources will exceed uses even if EBITDA declines by more than 15%.

Principal liquidity sources over the 12 months starting from Dec. 31, 2016 include:
- Cash and cash equivalents of about ZAR2.5 billion;
- Availability under long-term committed bank lines of ZAR565 million and an overdraft of €7.5 million available in Germany; and
- FFO of about ZAR2 billion.

Principal liquidity uses over the same period include:
- Scheduled debt amortization of about ZAR1.5 billion;
- Working capital outflows of about ZAR235 million; and
- Capex of about ZAR1.2 billion.

We understand that the general funding 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

National Scale Ratings: zaA+/--/zaA-1

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

Financial risk: Modest
- Cash flow/Leverage: Modest

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

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, 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: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political And Institutional Uncertainty; Outlook Negative, April 3, 2017

Ratings List

Ratings Affirmed

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

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.