S&P Global
Ratings

RatingsDirect®

Summary:
Super Group Ltd.

Primary Credit Analyst:
Rishav Singh, Johannesburg (27) 11-214-4856; rishav.singh@spglobal.com

Secondary Contact:
Omega M Collocott, Johannesburg (27) 11-214-4854; omega.collocott@spglobal.com

Table Of Contents

Credit Highlights

Our Base-Case Scenario

Key Metrics

Base-Case Projections

Company Description

Business Risk

Financial Risk

Liquidity: Adequate

Other Credit Considerations

Ratings Score Snapshot

Reconciliation

Related Criteria

Related Research

Regulatory Disclosures

Table Of Contents (cont.)

Disclaimers

Summary:

Super Group Ltd.

Credit Highlights

Overview	
Key Strengths	**Key Risks**
Continued focus on organic and bolt-on acquisitive growth in existing geographies and industries builds scale in operating segments.	Highly acquisitive strategy lowers the degree of predictability in credit metrics and could lead to lasting increases in leverage.
Diverse geographic spread in developed markets as operations expand in the U.K., Australia, and Western Europe.	Weak economic growth, low consumer confidence and currency volatility in South Africa, combined with Brexit uncertainties and the short-term effects of European emission testing on stock availability, continue to affect auto dealerships.
Track record of free cash flow generation, which supports growth initiatives and the maintenance of ratings-commensurate credit metrics.	Exposure to cyclical, fragmented, and intensely competitive logistics markets in South Africa and Western Europe.
Generally prudent risk management with substantial unrestricted cash on hand and a history of prefunding maturities.	
Level 1 Broad Based Black Economic Empowerment (B-BBEE) credentials positions group well in the South African market.	

Most free cash flow is directed toward growing scale in existing business segments and geographies.

We understand that Super Group will continue to expand its core businesses by investing capital and seizing acquisition opportunities in South Africa and the other regions in which it has a presence. This is likely to support improved scale and earnings growth.

Geographic and business segment diversity support stable credit metrics.

We anticipate that Super Group's balanced country and industry exposure will continue to support metrics through the cycle, and help it withstand exposure to any changes in regulation or specific regional downturns better than some regional competitors.

We could lower our South African national scale rating on Super Group if intense competition, adverse business conditions, or unexpected operational issues lead to a revision of its business profile, sustained deterioration of credit metrics, or weaker liquidity.

We could also lower the rating if Super Group's acquisitive strategy or opportunistic share repurchases lead to weaker credit metrics--specifically, S&P Global Ratings-adjusted funds from operations (FFO) to debt below 45% and adjusted FFO cash interest coverage below 6.0x--without tangible prospects for recovery. This could also happen if, for example, greater-than-expected capital expenditure (capex) associated with an acquired company led to negative free operating cash flow for more than 12 months.

Our Base-Case Scenario

We estimate that Super Group will maintain FFO to debt and interest coverage commensurate with the rating.

Assumptions

- Real GDP growth in South Africa of 1.3% in the financial year (FY) ending June 30, 2019 and 2.1% in FY2020, with consumer price index (CPI) inflation of 5.1% and 5.4%, respectively.
- Real GDP growth in Australia of 3.1% and 3.0% in FY2019 and FY2020, respectively, with CPI inflation around 2.9% in both years.
- Organic revenue growth of about 2.9% in FY2019--primarily attributed to a change in revenue recognition accounting in SG Fleet that is expected to be implemented in FY2019–-growing by around 1.8% a year thereafter. In constant FY2018 terms, before considering the change in revenue recognition accounting, we assume marginal revenue decline in FY2019 of around 2.5% due a decline in South African business segments.
- Adjusted EBITDA margins to decline by around 30 basis points in constant FY2018 terms, before considering the change in revenue recognition accounting expected in FY2019, as a result of expected revenue decline.
- Capex of about South African rand (ZAR) 2 billion in FY2019 and ZAR1.7 billion in FY2020, from ZAR1.8 billion in FY2018. Elevated capex levels in FY2018 actual and FY2019 expected reflects fleet replacement capex in Supply Chain Africa.
- Working capital outflows of around ZAR250 million in FY2019 and FY2020.
- Proceeds from asset disposals of around ZAR500 million in FY2019 and FY2020.
- No acquisitions assumed in our forecasts.
- We do not anticipate any dividend payments to Super Group shareholders in the next 12–24 months, based on the company's guidance. However, we do expect SG Fleet to pay dividends of at least ZAR240 million a year to its minority shareholders.

Key Metrics

	2018A	2019E	2020E
EBITDA margin (%)	10.9	9.8–10.2	9.9–10.3
FFO to debt (%)	57.8	55.0-60.0	75.0–80.0
Debt to EBITDA (x)	1.3	1.0–1.5	1.0–1.5
FFO cash interest coverage (x)	7.4	7.5–8.0	9.5-10.0

All figures are S&P Global Ratings adjusted.

A-Actual. E--Estimate. FFO--Funds from operations.

Base-Case Projections

Earnings will be moderately weaker in FY2019.

Although Supply Chain Africa experienced revenue and earnings growth in FY2018, as a result of strong coal commodity volumes, we consider this was largely exceptional. We anticipate Supply Chain Africa's revenue and earnings will be lower in FY2019, as a result of slowing coal volumes and continued weakness in the industrial and consumer segments. Subdued consumer demand, affected by weak macroeconomic growth in South Africa and Brexit-related uncertainties in the U.K. (alongside the short-term effects of European emission testing on vehicle supplies in the second half of 2018), will continue to affect dealership sales.

However, credit metrics should remain stable, given Super Group's ability to generate free cash flows.

Positive free cash flow forecasted of around ZAR450 million in FY2018 and ZAR800 million in FY2019 should result in lower adjusted debt (which is net of surplus cash) and stable credit metrics. However, we do not assume any acquisitions in our projections.

Company Description

Super Group is primarily a transport logistics, fleet solutions and auto-dealerships provider, headquartered in South Africa, with revenue of ZAR35.7 billion (US$ 2.5 billion) in FY2018, which ended on June 30.

The company's operating segments consist of

- Supply chain (Supply Chain Africa and Supply Chain Europe);
- Fleet solutions (Fleet Africa and SG Fleet Ltd., which is listed in Australia and 57% owned by Super Group); and
- Dealerships (based in South Africa and the U.K.).

Business Risk

Our assessment reflects Super Group's diversified business segments and geographic footprint, relatively small scale of individual business segments and exposure to cyclical end markets including retail, automotive, and commodities.

Super Group continues to expand its geographical presence and scale in lower-risk geographies such as Australia, the U.K., and Western Europe. We estimate that these geographies currently contribute about 55%-60% of the group's EBITDA, with South Africa contributing the remaining 40%-45%.

We still view Super Group's business model as resilient to prolonged weak macroeconomic conditions in South Africa. It achieves this though its geographic reach in more stable, albeit competitive, geographies such as Western Europe, Australia, and the U.K., which currently provide 8%, 41%, and 9% of total EBITDA, respectively. These regions counterbalance weaker prospects in the local economy, where Super Group generated about 42% of its total EBITDA in FY2018 (down from 46% in FY2017). Moreover, we consider that its increased diversity, supported by its balanced exposure to mature and emerging markets, will continue to support growth through the cycle. It will also help withstand any potential exposure to changes in regulation or specific regional downturns better than some regional competitors.

That said, Super Group's competitiveness is constrained by its relatively small scale, especially in its supply chain businesses, where it competes with larger players that have established economies of scale. In addition, subdued economic activity in South Africa and operational and regulatory uncertainties in Western Europe weigh on Super Group's competitive position. Although its Supply Chain Africa business remains competitive at present, supported by exceptionally high demand in commodities, its ability to compete on pricing is limited. In particular, it faces fierce competition in its industrial and consumer segments. We anticipate that, to manage margins, Supply Chain Africa will focus on maintaining existing customers and growth in niche market segments.

Super Group's SG Fleet business is 57% held by Super Group and provides fleet management and novated lease solutions in Australasia and the U.K. It benefits from its leading market position in Australia where it has around 147,000 vehicles under management. However, competition from original equipment manufacturer (OEM) captives and limited space for product differentiation in the industry is likely to limit growth in its traditional business. We understand SG Fleet will look toward value-added products and services, mobility solutions, and its operation in the U.K. for organic growth opportunities. Meanwhile, market consolidation opportunities in Australia remain possible.

Super Group's Fleet Africa business provides operating leases, primarily to South African government entities and parastatals. These leases benefit from cost pass-through mechanisms on long-term contracts and vertical integration with Super Group's auto-dealership network. However, protracted lead times for new contract negotiations and renewals; a move toward insourcing at certain government entities; and a highly competitive corporate market, dominated by financial institutions, has constrained new business growth.

Scale in Super Group's auto-dealership business was bolstered in FY2018 by acquisitions in the U.K. Overall, we consider the business exhibits below-average profitability, compared with rated peers. We anticipate short-term pressure related to Brexit uncertainties and European emissions testing to be balanced by cost rationalization efforts in newly acquired dealerships. Although the business is bolstered by support from OEMs in the U.K., Dealerships South Africa is likely to remain under pressure until consumer confidence improves.

Peer comparison

Table 1

Super Group Ltd. -- Peer Comparison

	Super Group Ltd.	Transnet SOC Ltd.	Logwin AG	AutoCanada Inc.
Issuer Rating as of Nov. 20, 2018	--/--/--	BB+/Stable/--	BB/Positive/--	B+/Negative/--
	zaAAA/--/zaA-1+	zaAAA/--/--	--/--/--	--/--/--

Table 1

Super Group Ltd. -- Peer Comparison (cont.)				
	--Fiscal year ended June 30, 2018--	--Fiscal year ended March 31, 2018--	--Fiscal year ended Dec. 31, 2017--	
(Mil. ZAR)				
Revenues	35,662.9	72,882.0	16,633.5	30,636.3
EBITDA	3,888.8	32,198.5	1,204.6	1,237.2
Funds from operations	2,958.3	19,803.0	977.1	750.6
Net income from continuing operations	1,151.6	4,851.0	390.4	571.4
Cash flow from operations	3,013.5	20,979.0	926.6	878.4
Capital expenditures	1,823.1	21,982.0	154.7	245.3
Free operating cash flow	1,190.4	(1,003.0)	771.9	633.1
Discretionary cash flow	953.3	(1,003.0)	681.1	403.4
Cash and short-term investments	3,009.2	4,941.0	1,896.7	935.0
Debt	5,117.7	124,307.5	1,554.2	4,715.3
Equity	11,377.1	162,078.2	2,304.8	5,310.3
Adjusted ratios				
EBITDA margin (%)	10.9	44.2	7.2	4.0
Return on capital (%)	15.9	5.7	17.6	9.5
EBITDA interest coverage (x)	8.1	2.4	11.5	4.1
FFO cash interest coverage (x)	7.4	2.8	54.4	3.0
Debt/EBITDA (x)	1.3	3.9	1.3	3.8
FFO/debt (%)	57.8	15.9	62.9	15.9
Cash flow from operations/debt (%)	58.9	16.9	59.6	18.6
Free operating cash flow/debt (%)	23.3	(0.8)	49.7	13.4
Discretionary cash flow/debt (%)	18.6	(0.8)	43.8	8.6

ZAR--South African rand. FFO-Funds from operations.

Peers including Transnet SOC Ltd., Logwin AG, and AutoCanada Inc. operate in similar geographies or industry segments. Transnet has a stronger business risk assessment, despite lower geographic diversity, given its dominant position in South Africa's port and rail infrastructure network. Logwin has a weaker business risk assessment, stemming from its smaller scale and concentrated exposure to the highly fragmented and competitive logistics industry.

Although Super Group is also exposed to cyclical end-markets such as retail, automotive, and commodities, it has maintained less volatile earnings than Logwin owing to its diversified business segments. We also see Logwin's operations as narrower than Super Group, which has a global reach, greater customer diversity, and a larger customer base. AutoCanada has historically displayed stronger revenue generation and profitability in its 68 dealerships, compared with Super Group's 83 dealerships. However, it also displays higher business segment, OEM, and geographic concentration, which has contributed to its recent underperformance. We downgraded AutoCanada to 'B+'

from 'BB-' on its weak outlook for operating performance in August 2018.

Financial Risk

Super Group's financial risk profile reflects our expectation that despite macroeconomic challenges in South Africa and Brexit-related uncertainties, the group will remain free cash flow positive. This will allow its credit metrics to remain commensurate with the rating. We expect the company to generate free cash flow of around ZAR450 million in FY2019 and ZAR800 million in FY2020. We anticipate that the company will prioritize allocation of excess free cash flow toward organic growth and acquisitions, before considering opportunistic share repurchases.

Super Group is exposed to changes in foreign-exchange currency rates because around 55%-60% of EBITDA is generated outside South Africa. We understand that Super Group manages its group-level financing and liquidity such that most foreign-exchange denominated uses of cash (such as capex and debt maturities) are matched with available cash on hand and FFO generated in the respective local currency.

Although the uncertain magnitude and timing of any acquisitions means that we do not factor them into our forecasts, we anticipate that the company's acquisitive strategy will help improve its earnings diversification and will be the main growth driver.

Financial summary

Table 2

Super Group Ltd. -- Financial Summary		
Industry Sector: Transportation Equipment & Services		
	--Fiscal year ended June 30--	
	2018	**2017**
(Mil. ZAR)		
Revenues	35,662.9	29,873.9
EBITDA	3,888.8	3,362.2
Funds from operations	2,958.3	2,606.2
EBIT	2,591.8	2,257.6
Interest Expense	480.5	440.4
Net income from continuing operations	1,151.6	992.7
Cash flow from operations	3,013.5	2,784.7
Capital expenditures	1,823.1	1,628.1
Free operating cash flow	1,190.4	1,156.6
Discretionary cash flow	953.3	934.2
Cash and short-term investments	3,009.2	2,307.8
Debt	5,117.7	5,008.8
Equity	11,377.1	9,855.3
Adjusted ratios		
EBITDA margin (%)	10.9	11.3
EBIT interest coverage (x)	5.4	5.1
Return on capital (%)	15.9	15.6

Table 2

Super Group Ltd. -- Financial Summary (cont.)		
Industry Sector: Transportation Equipment & Services		
	--Fiscal year ended June 30--	
	2018	**2017**
(Mil. ZAR)		
EBITDA interest coverage (x)	8.1	7.6
FFO cash int. cov. (x)	7.4	6.9
Debt/EBITDA (x)	1.3	1.5
FFO/debt (%)	57.8	52.0
Cash flow from operations/debt (%)	58.9	55.6
Free operating cash flow/debt (%)	23.3	23.1
Discretionary cash flow/debt (%)	18.6	18.7
Debt/debt and equity (%)	31.0	33.7

ZAR--South African rand. FFO-Funds from operations.

Liquidity: Adequate

We rate Super Group's South African national scale short-term rating as 'zaA-1+', based on its long-term issuer credit rating of 'zaAAA' and our assessment of the company's liquidity.

We assess Super Group's liquidity to be adequate because we forecast that sources will cover uses by around 1.8x for the 12 months beginning June 30, 2018. We consider that the company has good access to the capital markets, given its September 2018 issuance of ZAR450 million in unsecured notes, as well as the ZAR500 million in equity capital it raised in October 2017.

Principal Liquidity Sources

- Cash and cash equivalents of ZAR3 billion for the 12 months from June 30, 2018 (excluding about ZAR350 million of restricted cash held as collateral).
- Availability under committed bank lines with maturities greater than 12 months of about ZAR740 million.
- Annual forecasted cash FFO of about ZAR2.5 billion.
- Completed ZAR450 million bond issuance in September 2018.
- Annual proceeds from asset disposals of about ZAR500 million.

Principal Liquidity Uses

- Scheduled debt maturities and amortization for the 12 months from June 30, 2018, of about ZAR1.4 billion.
- Capex of about ZAR2.0 billion.
- Working capital outflows of around ZAR235 million.
- Deferred contingent purchase considerations of around ZAR65 million.
- Dividends to minority shareholders, primarily in SG Fleet, of at least ZAR240 million.

- Potential bolt-on acquisitions and opportunistic purchases of SG Fleet shares.

Covenant Analysis

We understand that the general banking facility documentation includes minimum capital adequacy; net interest coverage ratios; and net debt-to-EBITDA covenants, which are measured quarterly after deconsolidating SG Fleet. We expect that headroom under these covenants will remain adequate and that the group will be able to meet its cash needs from internally generated funds.

Other Credit Considerations

The 'zaAAA' South Africa national scale rating incorporates our view of Super Group's acquisitive strategy. We see a risk that Super Group could make large debt-funded acquisitions on an opportunistic basis, resulting in ratios falling short of our base-case forecast and rating-commensurate levels, with limited prospects of improving within a year after the acquisition.

Ratings Score Snapshot

Issuer Credit Rating

zaAAA/--/zaA-1+

Business risk: Fair

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

Financial risk: Modest

- Cash flow/Leverage: Modest

Modifiers

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

Reconciliation

Table 3

Reconciliation Of Super Group Ltd. Reported Amounts With Our Adjusted Amounts (Mil. ZAR)

	--Fiscal year ended June 30, 2018--						
Super Group Ltd. reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**
Reported	6,205.2	9,798.2	3,529.8	2,435.5	467.2	3,529.8	2,721.9
Our adjustments							
Interest expense (reported)	--	--	--	--	--	(467.2)	--
Interest income (reported)	--	--	--	--	--	133.0	--
Current tax expense (reported)	--	--	--	--	--	(583.1)	--
Operating leases	1,681.9	--	392.0	100.5	100.5	291.6	291.6
Surplus cash	(3,009.2)	--	--	--	--	--	--
Share-based compensation expense	--	--	47.9	--	--	47.9	--
Nonoperating income (expense)	--	--	--	136.7	--	--	--
Noncontrolling Interest/minority interest	--	1,578.9	--	--	--	--	--
Debt - Put options on minority stakes	239.9	--	--	--	--	--	--
EBITDA - Gain/(loss) on disposals of PP&E	--	--	(21.3)	(21.3)	--	(21.3)	--
EBITDA - Fair value changes of contingent consideration	--	--	38.0	38.0	--	38.0	--
EBITDA - Foreign exchange gain/(loss)	--	--	-9	-9	--	-9	--
EBITDA - Valuation gains/(losses)	--	--	(1.2)	(1.2)	--	(1.2)	--
EBITDA - Other income/(expense)	--	--	(0.2)	(0.2)	--	(0.2)	--
EBITDA - Other	--	--	(87.2)	(87.2)	--	(87.2)	--
Interest expense - Other	--	--	--	--	(87.2)	87.2	--
Total adjustments	(1,087.5)	1,578.9	359.0	156.3	13.3	(571.5)	291.6
Our adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	5,117.7	11,377.1	3,888.8	2,591.8	480.5	2,958.3	3,013.5

ZAR--South African rand. PP&E--Property, Plant And Equipment.

Related Criteria

- 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, 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: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- South Africa Corporate And Infrastructure National Scale Ratings Raised After Criteria Review; Removed From UCO, July 2, 2018

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "South Africa Corporate And Infrastructure National Scale Ratings Raised After Criteria Review; Removed From UCO," published July 2, 2018, on RatingsDirect.

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. This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

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