Research Update:

Super Group Long-Term Rating Lowered To 'zaAA' On Weaker Prospects Due To COVID-19 Outbreak

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Rating Action Overview

- Super Group's supply chain, transport, and auto dealership operations in South Africa, Australia, and Europe will be hurt by restrictions, weak global auto demand, and reduced economic activity stemming from the COVID-19 pandemic.
- We expect the resulting drop in revenue, earnings, and cash flow to lead to weaker leverage and cash flow adequacy metrics in fiscal year (FY) ending June 30, 2020, with dim prospects for a sharp recovery in FY2021.
- We are lowering our South Africa national scale long-term issuer rating on Super Group Ltd. to 'zaAA' from 'zaAAA' and affirming our 'zaA-1+' short-term rating.
- The ratings are sensitive to uncertainty regarding the evolution and economic impact of the pandemic and how this could affect Super Group's earnings, credit metrics, and liquidity.

Rating Action Rationale

The COVID-19 pandemic will worsen an already difficult economic and business environment for the automotive sector. The impact of the COVID-19 pandemic and expected contraction of the global economy during 2020 will exacerbate the economic headwinds Super Group has faced over the past 18 months. Furthermore, we expect the pandemic will result in global auto sales declining by 15%-20% in 2020 before recovering by 5%-10% in 2021. In FY2019, about 70% of Super Group's revenue and 64% of its operating profit were exposed to the auto industry through its supply chain management solutions for automakers in Europe, fleet leasing activities in South Africa and Australia, and dealerships in South Africa and the U.K. As a result, we forecast revenue in Super Group's Supply Chain Europe, Dealerships South Africa, and Dealerships U.K. divisions will be hardest hit, with revenue decreasing by more than 20% in FY2020. We forecast SG Fleet and Fleet Africa will be less affected initially, owing to their annuity-like revenue streams. We anticipate that demand for coal-commodity transport in the Supply Chain Africa operation will offset lower volumes in Super Group's commercial and industrial segment, supporting the company's cash flows until lockdown measures are lifted.

We expect Super Group's revenue, earnings, and free cash flow to weaken materially in 2020 following a challenging 2019. In our base case for Super Group, we forecast revenue and EBITDA declining by 15%-20% and 25%-35%, respectively, in calendar year 2020, from South African rand (ZAR) 37.3 billion and about ZAR4.1 billion in 2019. For FY2020, ending June 30, 2020, this translates into a 15% decline in revenue, with a 10%-15% recovery in FY2021. We think Super Group's variable-cost structure in its supply chain and dealership segments will cushion margins against the forecast drop in revenue and help it partly offset the adverse effects of ongoing recessionary conditions. We forecast EBITDA margins will hold at 9%-10% in FY2020 and FY2021 compared with 11% in FY2019, and for absolute EBITDA to decline 20%-30% in FY2020. We expect this to result in S&P Global Ratings-adjusted debt to EBITDA of 2.0x-2.7x and funds from operations (FFO) to debt of 25%-35% both in FY2020 and FY2021. In addition, we expect break-even free cash flows before lease and debt capital payments and acquisitions in FY2020.

Super Group's liquidity cushion will offset significantly weaker cash flows in 2020. We believe Super Group has sufficient liquidity to weather the next few quarters of weak trading volumes and likely negative free cash flows. The company reported about ZAR3.4 billion of cash on Dec. 31, 2019, and we understand its ZAR1.6 billion committed overdraft and revolving credit facilities are available but remain undrawn. Furthermore, we understand floor-plan financing arrangements for the vehicle inventory in its auto dealerships are in place until vehicles are sold; this will limit potential working capital stress while dealerships are closed due to lockdowns. We also anticipate the company will suspend share repurchases and acquisitions until 2021. Super Group's debt maturities total ZAR1.5 billion in 2020 and ZAR1.0 billion in 2021. We expect the company to stay in compliance with its covenants under our base case.

Super Group's creditworthiness depends on the duration of the pandemic and its effect on trading conditions. We currently assume a recovery of economic activity by midyear. However, there is a risk of a prolonged period of business disruption resulting from the COVID-19 pandemic. An extended global recession could weigh further on Super Group's credit metrics and strain its liquidity. We could lower our South Africa national scale ratings within the next 12 months, if:

- We think adjusted debt to EBITDA will rise above 3.0x or adjusted FFO to debt will remain below 30% on average, without tangible prospects for recovery.
- We expect Super Group's liquidity position or covenant headroom to significantly decline as a result of weak earnings and cash flows, or a change to financial policy.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Environmental, social, and governance (ESG) factors relevant to the rating action:

- Health and safety

Company Description

Super Group is a provider of supply chain logistics, commodity transport, fleet solutions, and auto dealerships. It is headquartered in South Africa and generated revenue of ZAR37.9 billion ($2.6 billion) in FY2019, 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 60% owned by Super Group); and
- Dealerships (based in South Africa and the U.K.).

Our Base-Case Scenario

Assumptions:

- Revenue to decline by about 15% in FY2020 and recover by a similar percentage in FY2021.
- Adjusted EBITDA margins of 9.5%-10.0% in FY2020 and FY2021, compared with 11% in FY2019.
- Capital expenditure (capex) of about ZAR2.3 billion in FY2020 and ZAR2.1 billion in FY2021, versus ZAR2.4 billion in FY2019.
- Proceeds from fleet asset disposals of around ZAR600 million in FY2020 and FY2021.
- Working capital outflows of around ZAR550 million in FY2020 and ZAR350 million in FY2021.
- We anticipate a credit-supportive financial policy with no material acquisitions in 2020.
- We do not anticipate any dividend payments to shareholders in the next 12 months.

Key metrics:

As the situation evolves, we will refine our forecasts based on our updated assumptions and estimates accordingly.

- Adjusted debt to EBITDA of 2.0x-2.5x in FY2020 and FY2021, up from 1.3x in FY2019.
- FFO to debt of 25%-30% in FY2020, recovering to 30%-40% in FY2021, from 53% in FY2019.
- Break-even free cash flows (before acquisitions) in FY2020, turning positive in FY2021.

Liquidity

Our short-term rating on Super Group is 'zaA-1+', based on the long-term issuer credit rating of 'zaAA' and our assessment of the company's liquidity as adequate. Our assessment of the company's liquidity profile incorporates the following:

- The company's liquidity sources are forecast to exceed uses by 1.2x in 2020.

- Net sources are forecast to remain positive, even if EBITDA declines more than 15%.
- Super Group's ability to absorb low-probability and high-impact market or operating shocks with limited need for refinancing is supported by its variable-cost structure, substantial cash balances, and manageable debt maturity profile.
- Bolt-on acquisitions, opportunistic purchases of SG Fleet shares, and repurchases of Super Group shares are a possibility, although the level could be reduced at the company's discretion during the pandemic.

For the 12 months started Jan. 1, 2020, we calculate the following principal liquidity sources:

- Cash and cash equivalents of ZAR3.4 billion.
- ZAR1.6 billion available under committed revolving credit facilities and overdrafts with tenors greater than 12 months.
- Forecast cash FFO of about ZAR2.0 billion.
- Proceeds from fleet asset disposals of about ZAR600 million.

Principal liquidity uses:

- Scheduled debt maturities and amortization of about ZAR1.5 billion.
- Capex of about ZAR2.3 billion.
- Working capital outflows of around ZAR500 million, with additional intrayear working capital requirements of up to ZAR2 billion.
- Dividends to minority shareholders, primarily in SG Fleet, of at least ZAR150 million.

Covenants

Under the company's general banking facility documentation, it is required to remain in compliance with net interest coverage and net debt-to-EBITDA covenants, which are measured quarterly after deconsolidating SG Fleet. Based on our current base case forecast, we expect the company to stay in compliance with the covenants, albeit with a reduced cushion.

Ratings Score Snapshot

National Scale Rating: zaAA/--/zaA-1+

Business risk: Fair

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

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Modifiers

- Diversification/Portfolio effect: Neutral(no impact)

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

Related Criteria

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- 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, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; Ratings Affirmed

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

Regulatory Disclosures

Super Group Ltd.

- Primary Credit Analyst: Rishav Singh, Associate

- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Aug. 20, 2013
- Date of previous review: Dec. 2, 2019

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.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

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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.

- Corporate Industry and Country Risk Assessment (CICRA): Derived by combining an issuer's country risk assessment and industry risk assessment.
- 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.
- CreditWatch: This highlights the potential direction of a short- or long-term rating over the short term, typically less than three months. Ratings may be placed on CreditWatch where, in our view, an event or a deviation from an expected trend has occurred or is expected and additional information is necessary to determine the rating impact.
- 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: Cash flow from operations minus capital expenditure.
- Funds from operations: 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.
- 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.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- 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.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.