

Rating Action: Moody's takes action on five South African corporates following sovereign outlook change

07 Nov 2019

DIFC - Dubai, November 07, 2019 -- Moody's Investors Service ("Moody's") has today taken rating actions on five South African corporates.

These rating actions follow Moody's sovereign outlook change, on 1 November, of the Government of South Africa's ratings to negative from stable and affirmation of the Baa3 long-term foreign-currency and local-currency issuer ratings. For further information on the sovereign rating action, please refer to Moody's press release published on 1 November 2019: https://www.moody.com/research/Moodys-changes-South-Africas-outlook-to-negative-from-stable-affirms--PR_412385.

Moody's has affirmed the Baa3 long-term issuer ratings and changed the outlook of the following companies to negative from stable:

- Growthpoint Properties Limited
- Redefine Properties Limited
- Barloworld Limited
- The Bidvest Group Limited
- Telkom SA SOC Limited

Moody's has taken no actions on the following Baa3 rated companies:

- AngloGold Ashanti Limited
- Gold Fields Limited
- Naspers Limited
- Sasol Limited
- Transnet SOC Ltd.

Full details of the rating actions for the affected entities can be found at the end of this press release.

RATINGS RATIONALE

The negative outlook on these corporates is a direct consequence of the sovereign outlook change to negative from stable. The weakening macroeconomic environment has translated into depressed consumer and business confidence which flows through to lower growth prospects for these corporates, given their material exposure to the domestic operating environment. The rating agency expects GDP growth of only 0.7% in 2019 and 1.0% in 2020.

CHANGE OF OUTLOOK TO NEGATIVE FROM STABLE

GROWTHPOINT PROPERTIES LIMITED

Growthpoint Properties Limited is the largest Real Estate Investment Trust (REIT) by gross assets in South Africa. The negative outlook reflects Growthpoint Properties' significant exposure to the real estate market in South Africa, with 70% of assets and 77% of EBIT derived from properties within the country, as of 30 June 2019. Moody's recognize that Growthpoint Properties Limited's exposure outside of South Africa, both from a cash flow generation and asset exposure, as well as currently good credit metrics reduce the degree of rating linkage to Government of South Africa's rating. However, Moody's do not consider this to be sufficient to

warrant a delinking from the sovereign rating.

REDEFINE PROPERTIES LIMITED

Redefine Properties Limited is one of the largest REITs listed on the Johannesburg Stock Exchange. The negative outlook reflects Redefine Properties Limited's operational concentration to South Africa with 73% of distributable income and 76% of property value derived from South Africa, as of 31 August 2019. Whilst Redefine benefits from some diversification into Poland (A2 stable) and property investments in the United Kingdom and Australia, at this point, this is not sufficient to delink Redefine Properties Limited's ratings from the sovereign rating. In addition, the ratio of Debt to Total Assets remains weak for the current rating.

BARLOWORLD LIMITED

Barloworld Limited, headquartered in South Africa, is a leading distributor and after-sales support provider of heavy equipment and motor vehicles for leading international brands across southern African markets and Russia. It also provides integrated rental, fleet management, product support and logistics solutions. With close to 75% of revenue and operating profit derived from South Africa, Barloworld Limited is intrinsically linked to the macro environment of South Africa. Barloworld Limited is diversified into Russia (Baa3 stable), which contributes 11% of revenue, and the rest of Southern Africa which contributes 14% revenue, as of March 2019. This provides some geographic diversification but compared to South Africa Moody's view the risks of operating in most of these countries equal or higher as highlighted by the respective sovereign ratings.

THE BIDVEST GROUP LIMITED

As a service-orientated and business-focused company that predominately operates in South Africa, the trends in Bidvest's credit profile are correlated with the developments in the South African economy, in particular, with the trends in business sentiment and purchasing patterns, economic growth and credit markets. As such, Moody's view the company as being exposed to risks associated with the political, social and economic environment in South Africa, and consider Bidvest's rating to be closely correlated with the credit profile of South Africa.

TELKOM SA SOC LIMITED

As the dominant South African fixed-line operator and the fourth incumbent mobile operator, Telkom has 100% operational concentration in South Africa. Together with its 40.5% government ownership, the company is exposed to the risks associated with the political, social and economic environment in the South Africa.

The Baa3/Aa1.za ratings reflect Moody's view on the fundamental credit quality of Telkom, represented by a Baseline Credit Assessment (BCA) of baa3, combined with the strong linkage between Telkom and the Government of South Africa as reflected by our assumptions of "high" dependence on and "moderate" support from the South African government.

RATIONALE FOR COMPANIES WHERE NO ACTION TAKEN

The decision to take no rating action on AngloGold Ashanti Limited (Baa3 stable), Gold Fields Limited (Baa3 stable) and Naspers Limited (Baa3 stable) reflects the material exposure of assets and cash flows these companies have outside of South Africa in combination with their strong credit profiles. The ratings and outlooks of Sasol Limited (Baa3 negative) and Transnet SOC Ltd. (Baa3 negative) remain unchanged and are already in line with that of the sovereign. While Sasol has a degree of credit delinkage from the domestic economy through meaningful exposure outside of South Africa, its credit profile is facing challenges as reflected in its negative outlook. Transnet is constrained by the sovereign rating because of its entirely domestic exposure and 100% government ownership.

WHAT COULD CHANGE THE RATINGS UP/DOWN

GROWTHPOINT PROPERTIES LIMITED

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if the Government of South Africa's rating is changed to stable.

Any positive rating action would further depend on strengthening financial metrics such that:

- Total debt/gross assets remains below 35% on a sustained basis

- Fixed charge coverage ratio remains above 3.0x on a sustained basis
- Secured debt/gross assets remains below 25%

The ratings are likely to be downgraded in case of a downgrade of the Government of South Africa's rating.

Growthpoint's rating would also come under downward pressure if:

- The company's liquidity risk profile deteriorates
- Total debt/gross assets exceeds 40% on a sustained basis
- Fixed charge coverage ratio trends below 2.0x
- Secured debt/gross assets exceeds 30%

REDEFINE PROPERTIES LIMITED

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if the Government of South Africa's rating is changed to stable.

Subject to an upgrade of the South African government bond rating, an upgrade could be considered if:

- Total debt/gross assets remains sustainably below 35%
- Fixed charge coverage ratio remains above 3.0x on a sustained basis
- Secured debt/gross assets falls below 25%

The ratings are likely to be downgraded in case of a downgrade of the Government of South Africa's rating.

Moody's would also consider a downgrade if one or a combination of the following occurs:

- Total debt/gross assets exceeding 40% on a sustained basis
- Fixed charge coverage ratio trending below 2.0x
- Secured debt/gross assets remaining above 30%
- A deterioration in Redefine's liquidity risk profile

BARLOWORLD LIMITED

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if the Government of South Africa's rating is changed to stable.

Subject to an upgrade of the South African government bond rating, an upgrade could be considered if:

- Barloworld is able to grow in size and geographic diversification, while maintaining its financial performance under challenging operating conditions
- Debt/EBITDA were to fall below 2.0x
- EBIT/interest increases above 4.0x

The ratings are likely to be downgraded in case of a downgrade of the Government of South Africa's rating.

Negative pressure on the ratings would also develop if:

- Debt/EBITDA rises above 3.0x
- EBIT/interest expense falls below 2.5x
- The company's liquidity risk profile deteriorates

THE BIDVEST GROUP LIMITED

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if the Government of South Africa's rating is changed to stable.

Subject to an upgrade of the South African government bond rating, Moody's would consider an upgrade if Bidvest is able to grow in size and increase its geographical diversification; Moody's-adjusted gross debt/EBITDA is under 2.5x on a sustained basis; the company's Moody's-adjusted EBITA/interest expense is well above 4.0x; and it maintains positive free cash flow on a sustained basis.

The ratings are likely to be downgraded in case of a downgrade of the Government of South Africa's rating.

Moody's would also consider a downgrade if there is an erosion in the group's operating performance or higher debt levels, such that its Moody's-adjusted EBITA/interest expense remains below 3.5x on a sustained basis or the group's Moody's-adjusted gross debt/EBITDA trends above 3.0x on a sustained basis; a failure in maintaining a good liquidity profile with sizeable cash balances; and free cash flow generation is negative.

TELKOM SA SOC LIMITED

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if the Government of South Africa's rating is changed to stable.

Subject to an upgrade of the South African government bond rating, Moody's would consider an upgrade if Telkom is successful in its turnaround strategy to diversify the business away from the structural decline in voice revenue; and Telkom right sizes its cost base and demonstrates that its mobile business remains profitable such that the company's consolidated EBITDA margin is on an improving trajectory above 30% on an adjusted basis.

The ratings are likely to be downgraded in case of a downgrade of the Government of South Africa's rating.

Negative pressure on Telkom's rating could also result from higher-than-expected competitive threats or execution challenges in its mobile offering or bundled services; EBITDA margin falling and remaining below 20%; leverage, as measured by debt/EBITDA, increasing towards 2.5x; and retained cash flow/total debt falling below 25% on a sustained basis as a result of higher debt levels or dividend distributions.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Barloworld Limited

.... LT Issuer Rating, Affirmed Baa3

.... ST Issuer Rating, Affirmed P-3

.... NSR LT Issuer Rating, Affirmed Aa1.za

.... NSR ST Issuer Rating, Affirmed P-1.za

..Issuer: Bidvest Group Limited, The

.... LT Issuer Rating, Affirmed Baa3

.... ST Issuer Rating, Affirmed P-3

.... NSR LT Issuer Rating, Affirmed Aa1.za

.... NSR ST Issuer Rating, Affirmed P-1.za

..Issuer: Telkom SA SOC Limited

.... LT Issuer Rating, Affirmed Baa3

.... NSR LT Issuer Rating, Affirmed Aa1.za

..Issuer: Growthpoint Properties Limited

.... LT Issuer Rating, Affirmed Baa3
.... ST Issuer Rating, Affirmed P-3
.... NSR LT Issuer Rating, Affirmed Aaa.za
.... NSR ST Issuer Rating, Affirmed P-1.za
.... NSR LT Senior Unsecured Medium-Term Note Program, Affirmed Aaa.za
.... NSR Other Short Term, Affirmed P-1.za
.... Other Short Term, Affirmed (P)P-3
.... LT Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa3
.... Other Short Term, Affirmed P-3
.... LT Senior Unsecured Regular Bond/Debenture, Affirmed Baa3
..Issuer: Growthpoint Properties International
.... BACKED LT Senior Unsecured Regular Bond/Debenture, Affirmed Baa3
..Issuer: Redefine Properties Limited
.... ST Issuer Rating, Affirmed P-3
.... LT Issuer Rating, Affirmed Baa3
.... NSR LT Issuer Rating, Affirmed Aa1.za
.... NSR ST Issuer Rating, Affirmed P-1.za
.... LT Senior Secured Conv./Exch. Bond/Debenture, Affirmed Baa3
.... NSR LT Senior Unsecured Medium-Term Note Program, Affirmed Aa1.za
.... NSR Other Short Term, Affirmed P-1.za
.... Other Short Term, Affirmed (P)P-3
.... LT Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa3

Outlook Actions:

..Issuer: Barloworld Limited
....Outlook, Changed To Negative From Stable
..Issuer: Bidvest Group Limited, The
....Outlook, Changed To Negative From Stable
..Issuer: Telkom SA SOC Limited
....Outlook, Changed To Negative From Stable
..Issuer: Growthpoint Properties Limited
....Outlook, Changed To Negative From Stable
..Issuer: Growthpoint Properties International
....Outlook, Changed To Negative From Stable
..Issuer: Redefine Properties Limited

...Outlook, Changed To Negative From Stable

PRINCIPAL METHODOLOGIES

The principal methodology used in rating Barloworld Limited was Retail Industry published in May 2018. The principal methodology used in rating Bidvest Group Limited, The was Business and Consumer Service Industry published in October 2016. The principal methodology used in rating Growthpoint Properties Limited, Growthpoint Properties International and Redefine Properties Limited was REITs and Other Commercial Real Estate Firms published in September 2018. The principal methodologies used in rating Telkom SA SOC Limited were Telecommunications Service Providers published in January 2017 and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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The local market analyst for Growthpoint Properties Limited and Redefine Properties Limited ratings is Lahlou Meksaoui, +971 (423) 795-22.

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