Rating Actions Taken On Various Corporate And Infrastructure Issuers Following Downgrade Of South Africa

May 12, 2020

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- On April 29, 2020, we lowered our long-term foreign currency ratings on South Africa to 'BB-' from 'BB' and lowered our long-term local currency ratings to 'BB' from 'BB+'. The outlooks are stable.
- Simultaneously, we revised the mapping specification for our South Africa national scale ratings.
- These developments, alongside COVID-19 fallout and bleak economic prospects for 2020, will further setback South Africa's already sluggish economic growth and fiscal outcomes, and adversely affect, to varying extents, corporate and infrastructure issuers operating in this market.
- We are therefore taking various rating actions on numerous corporate and infrastructure issuers based in, or exposed to, South Africa.

JOHANNESBURG (S&P Global Ratings) May 12, 2020--S&P Global Ratings said today that it has taken various rating actions on numerous South African corporate and infrastructure issuers following the downgrade of South Africa on April 29, 2020 (see "South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable," published on RatingsDirect).

Today's rating actions affect South African government-related entities (GREs), issuers rated above the sovereign credit rating on South Africa, or those entities with South Africa national scale ratings.

Specifically, we took the following rating actions on South African GREs:

- We revised to negative from stable our outlook on ESKOM Holdings SOC Ltd., and affirmed our long-term foreign and local currency issuer credit ratings at 'CCC+'. We also affirmed our 'zaB' long-term and 'zaB' short-term South Africa national scale ratings on Eskom. At the same time, we affirmed our 'CCC+' issue ratings on Eskom's senior secured and unsecured unguaranteed notes, and lowered our rating on its government-guaranteed foreign currency issuance to 'BB-' from 'BB'.
- We lowered our long-term foreign currency issuer credit rating on Rand Water to 'BB-' from 'BB' and lowered our long-term local currency issuer credit rating to 'BB' from 'BB+'. The outlooks on these ratings are stable. We lowered our local currency issue rating on Rand Water's senior unsecured debt to 'BB' from 'BB+'. At the same time, we affirmed our 'zaAAA' long-term and

'zaA-1+' short-term South Africa national scale ratings on Rand Water.

- We lowered our long-term issuer credit ratings on Telkom SA SOC Ltd. to 'BB' from 'BB+', and assigned a stable outlook.
- We lowered our long-term foreign and local currency issuer credit ratings on Transnet SOC Ltd. to 'BB-' from 'BB', and assigned a stable outlook. We lowered our foreign and local currency issue ratings on Transnet's senior unsecured debt to 'BB-' from 'BB'. We lowered our local currency issue rating on Transnet's South African rand (ZAR) 3.5 billion government-guaranteed debt to 'BB' from 'BB+'. At the same time, we affirmed our 'zaAA' long-term and 'zaA-1+' short-term South Africa national scale ratings on Transnet.
- We affirmed our 'zaAAA' long-term and 'zaA-1+' short-term South Africa national scale ratings on Umgeni Water.

We took the following rating actions on these corporates based in, or exposed to, South Africa:

- We placed our 'zaA-' long-term South Africa national scale issuer credit rating on enX Leasing Investments (Pty) Ltd. on CreditWatch with negative implications.
- We affirmed our 'zaA-' long-term and 'zaA-2' short-term South Africa national scale issuer credit ratings on Exxaro Resources Ltd.
- We lowered our long-term issuer credit ratings on MTN Group Ltd. to 'BB-' from 'BB', and assigned a stable outlook. We affirmed our long-term South Africa national scale rating at 'zaAA'.
- Similarly, we lowered our long-term issuer credit ratings on Mobile Telephone Networks Holdings Ltd. to 'BB-' from 'BB', and assigned a stable outlook. We affirmed our long-term South Africa national scale rating at 'zaAA'. We lowered our local currency issue rating on the group's debt to 'BB-' from 'BB'. The '3' recovery rating remains unchanged.
- In addition, we lowered our issue rating on the senior unsecured debt issued by MTN (Mauritius) Investments Ltd. to 'BB-' from 'BB'. The recovery rating remains unchanged at '3'.
- We affirmed our 'BB/B' long- and short-term issuer credit ratings on Sasol Ltd. The outlook is still negative. We also affirmed our 'BB' issue ratings, with '3' recovery ratings on the senior unsecured debt issued by Sasol Financing USA LLC and Sasol Financing International Ltd.
- We affirmed our 'BB' long-term and 'B' short-term issuer credit ratings on Sappi Ltd. The outlook remains negative. We also affirmed our 'BB' issue ratings, with a '3' recovery rating, on the senior unsecured debt issued by Sappi Papier Holding GmbH.
- We assigned our 'B+' issuer credit rating to Sibanye Stillwater Ltd. The outlook is stable. We also assigned the company our 'zaA' South Africa national scale rating. We withdrew our ratings on Sibanye Gold Ltd. We affirmed our 'B+' issue ratings, and '3' recovery rating, on the senior unsecured debt issued by Stillwater Mining Co.
- We raised our long-term South Africa national scale rating on Super Group Ltd. to 'zaAAA' from 'zaAA', and affirmed our 'zaA-1+' short-term rating.
- The 'zaA-' South Africa national scale issuer credit rating on Woolworths Holdings Ltd. remains on CreditWatch with negative implications, where we placed it on April 15, 2020.
- Furthermore, we affirmed the 'BBB' long-term and 'A-2' short-term global scale ratings on London-headquartered mining company Anglo American PLC. The outlook remains stable. We also affirmed our 'zaAAA/zaA-1+' national scale ratings on Anglo American.

The 'BB+/B' global scale ratings, with a stable outlook, and 'zaAAA/zaA-1+' South Africa national scale ratings on AngloGold Ashanti Ltd. were unaffected by the rating action on South Africa or revision to the respective mapping table for the national scale ratings. Similarly, the 'BB+/B' global scale ratings, with a stable outlook, and 'zaAAA/zaA-1+' South Africa national scale ratings on Gold Fields Ltd. were not affected by the sovereign rating action or the recalibrated national scale ratings.

South Africa's already contracting economy will face a further sharp COVID-19-related downturn in 2020. The resulting financial market dislocations have led to massive portfolio outflows in first-quarter 2020 and a weakening of the South African rand. Headwinds to GDP growth are largely linked to the strict domestic lockdown, a markedly weaker external demand outlook, and tighter credit conditions. We estimate real GDP growth will contract by 4.5% in 2020, primarily due to the COVID-19 pandemic, before rebounding to 3.5% in 2021. We also expect households' disposable incomes and the affordability of a variety of goods and services to come under pressure in 2020, despite lower interest rates, due to external shocks and the economic crisis.

Following the negative rating actions on South Africa, we republished our guidance document to update the South Africa mapping specification table (see "Guidance | General Criteria: Methodology For National And Regional Scale Credit Ratings," published June 25, 2018). National scale ratings express our opinion of the creditworthiness of an issuer or a debt instrument relative to other issuers and issuances in a given country. In this regard, we affirmed our 'zaAAA/zaA-1+' long- and short-term national scale ratings on South Africa on April 29, 2020.

The sensitivity of our corporate and infrastructure issuers to the effects of a prolonged economic lockdown and gradual opening of the economy vary, depending on the industry in which they operate, as well as the resilience and liquidity of the respective businesses. As such, in addition to considering the sovereign-related and national scale credit effects on rated corporates and GREs in South Africa, we have taken into account the effects of lower GDP growth, currency movements, as well as changes to product/service demand and pricing may have on our issuers. This is amid decelerated economic growth, the COVID-19-related lockdown, and household affordability considerations, among others.

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.

Eskom Holdings SOC Ltd.

Primary Analyst: Omega Collocott

The affirmation of the 'CCC+' long-term issuer credit rating on Eskom reflects that we do not foresee specific default scenarios within the next 12 months. We also continue to assess the utility's stand-alone credit profile (SACP) at 'ccc-', since we consider cash inflows insufficient to meet cash outflows beyond six months without extraordinary government support. We continue to believe there is a high likelihood of extraordinary government support for Eskom in the event of financial distress. This is based on Eskom's very important role for the government as the main electricity provider to municipalities and large industrial customers in South Africa, strong link with the government, its sole owner, and our view of forthcoming support in certain circumstances.

In 2019, the government announced a ZAR138 billion support package for Eskom. While this has improved the utility's liquidity flexibility, it is insufficient to cover ESKOM's remaining funding requirements for the 2021 and 2022 fiscal years (ending March 31). In addition to full utilization of the government's support package, Eskom's management has indicated that it needs to raise around ZAR30 billion in debt in each of the next two fiscal years. In our view, debt raising requirements could be higher (ZAR45 billion to ZAR50 billion), given the uncertain post-lockdown economic growth and power demand trajectories, and high upcoming debt maturities. Furthermore, Eskom continues to struggle with below cost-inflation tariff increases and constrained cost containment. A combination of solid access to external financing, cash-flow supportive tariffs, and favorable cost trends could help Eskom's sources of liquidity exceed projected uses for more than six months.

However, COVID-19 effects on electricity demand have placed additional strain on Eskom's operating cash flows, while lockdowns in South Africa have delayed tariff award decisions as well as court decisions related to tariff recoupments under the regulatory clearing account mechanism. Eskom, as a provider of essential power generation, transmission and distribution services, has continued to operate during South Africa's lockdown. However, the lockdown and related adverse effects have reduced power demand during the initial five-week lockdown period by around 30%, and the expected recession in 2020 and repercussions for Eskom's customers imply a slow return to normalized power demand. Furthermore, heightened revenue collection challenges, delays in essential maintenance and affordability of future above-inflation tariff increases could also strain cash flows in the months ahead.

Our forecasts take into account Eskom's expected net cash flow reductions of ZAR2.5 billion to ZAR3.0 billion per month during lockdown, which reflects the combined impact of lower demand on revenues and lower collections offset by lower primary generation costs due to reduced use of open cycle gas turbines to maintain power supply. Eskom is in the process of quantifying potential cost-savings from capital expenditure (capex) management, voluntary severance arrangements, and reduced coal and power offtake during April and May. The long-term cash flow effects of COVID-19 and its aftermath are not yet evident. Overall, Eskom's liquidity condition is more fragile now than reflected in our previous assessment (see "South African Electricity Utility ESKOM Holdings 'CCC+' And 'zaB' Ratings Affirmed; Outlook Stable," published Nov. 26, 2019).

Specifically, COVID-19 effects hinder cash flow as well as limit the government's ability to support the utility. Eskom faces substantial refinancing risks in August 2020 and in January and February 2021, and relies on government support during this period to meet its debt obligations. At the same time, local credit markets are less receptive to new debt issuance, and to date, Eskom has secured around 40% of its pre-COVID-19 funding requirements of ZAR31 billion. In addition, the government has shown increasing reluctance to elevate support to state-owned companies, partly due to a lower capacity to do so.

Outlook

The negative outlook on Eskom reflects our view that subdued power demand, economic growth, and debt collection due to COVID-19 will further squeeze Eskom's already-low cash flow generation. Furthermore, while the government's direct financial support package of up to ZAR138 billion over fiscals 2020-2022 (ZAR56 billion in fiscal 2021 and ZAR33 billion in fiscal 2022) has reduced the potential for funding shortfalls over the coming six months, in our view, there are sizable upcoming debt maturities in fiscal 2021. Moreover, we believe the government's capacity to provide additional support to Eskom, if required, has diminished, given intensifying fiscal strain and rising financial support needs across its portfolio of state-owned companies.

We would consider lowering the rating if we believe there are specific default scenarios within the next 12 months such as should the government's implementation of its support package in a timely and effective manner stop. This would lead to a further deterioration of Eskom's financial position or liquidity without government countermeasures. In addition, we could lower the rating by one or more notches if Eskom undertakes a debt restructuring, which, in our view, could be tantamount to a default on Eskom's financial obligations. Also, we could lower the long-term ratings by one notch if we note additional credit weakness in the sovereign, all other factors remaining unchanged.

We would consider a positive rating action if Eskom were to sustainably secure more than 12 months of liquidity. This could result from a smoother monthly cash flow profile and improved investor sentiment supporting higher levels of committed funding, since government support does not cover Eskom's full liquidity needs. Liquidity could also benefit from a combination of tariff awards and cost efficiencies that strengthen operating cash flow.

Rand Water

Primary Analyst: Omega Collocott

We align the ratings on Rand Water with those on South Africa. We have revised down our assessment of the government's likelihood of extraordinary government support for Rand Water to extremely high from almost certain. Specifically, we reassessed Rand Water's role for the government and economy to very important from critical, reflecting our view that a default at Rand Water would not necessarily heighten government default risk, and we would expect the entity to continue providing essential water services. We continue to believe that Rand Water's creditworthiness is not insulated from that of South Africa and consequently the company cannot be rated above the sovereign.

We have revised down our assessment of Rand Water's SACP to 'bb' from 'bb+'. This reflects our view that Rand Water's regulatory advantage has weakened to fair from satisfactory due to the company's increasing inability to perform the infrastructure development component of its mandated role in line with its corporate plan. Notably, water regulation is set by the Department of Water and Sanitation, which is not independent. We previously assessed Rand Water's ability to influence its regulatory environment (water regulation and tariff framework) as positive, but now see this as neutral since persisting capex underspend points to an inability of Rand Water to influence its broader regulatory environment, a situation which is not dissimilar from other water boards in South Africa. In recent years, tighter procurement-related regulations applicable to South Africa's state-owned companies have led to ongoing challenges in procuring products and services related mainly to infrastructure development.

Rand Water, as a provider of essential water services, has continued to operate during South Africa's lockdown. However, we note that COVID-19 and lower domestic economic growth could affect water sales volumes, particularly from industrial customers. We also anticipate a dimming effect on customers' payment ability, the company's capex profile, and the affordability of future above-inflation tariff increases. That said, we expect Rand Water will maintain intermediate financial risk, reflecting solid financial metrics (debt to EBITDA below 1.5x and funds from operations [FFO] to debt above 60%), moderated by an anticipated lumpy and volatile capex profile (around ZAR28 billion for the next five years), and management's impaired ability to control the timing of capex. Negative free operating cash flow (FOCF) could therefore constrain credit metrics from the fiscal year starting July 1, 2020.

Outlook

The stable outlook reflects that on South Africa, given our view of the extremely high likelihood of government support the utility would receive from the South African government. We do not see Rand Water's creditworthiness as insulated from that of South Africa and consequently would not rate it higher than the sovereign.

If we lower our ratings on South Africa, we would likely take a similar rating action on Rand Water. In addition, we could lower the ratings on the utility if government support weakens and we saw pressure on Rand Water's SACP. Specifically, we could reassess Rand Water's SACP if we expect the company's FFO-to-debt ratio to drop below 60% on a sustained basis (all other things being equal).

We could take positive action on Rand Water if we took a similar action on South Africa.

Telkom SA SOC Ltd.

Primary Analyst: Omega Collocott

We consider Telkom to be a GRE, with a limited link and limited importance to the South African government. We therefore believe there is a low likelihood of government support for Telkom, given the government's minority (around 40%) shareholding, the company's listed status, and the commercial operating model. As a result, we do not cap the rating on Telkom at the foreign currency rating on South Africa ('BB-'). We consider that Telkom may be rated one notch above the foreign currency rating on South Africa since it passes our sovereign stress test. This points to our view of the company's resilience under a hypothetical sovereign default scenario, which includes a 20% earnings stress and a 50% depreciation of the South African rand.

Overall, we believe COVID-19 will have only a moderate effect on Telkom's financial metrics, given the heightened importance of telecommunications during the lockdown, considering the social distancing measures and restricted mobility. Although we expect voice and data demand to be reasonably sound, we incorporated into our revised base case our expectations of weaker fixed voice revenues, lower consumer affordability, and the impact of GDP contraction on Telkom's revenue. We also note that supply chain disruption and customers' financial stress may result in capex delays and working capital inefficiencies. We continue to assess Telkom's SACP as 'bbb-', considering the company's modest financial risk.

Outlook

The stable outlook considers Telkom's 'bbb-' SACP and our view that the ratings cannot exceed our long-term foreign currency rating on South Africa by more than one notch, given the company's predominantly domestic operations, and the government's significant minority ownership stake.

We could revise the outlook on Telkom to negative if we took a similar action on South Africa, which could occur due to a lasting weakening economic and fiscal trajectory of the country, and a surge in related operating constraints in South Africa. The ratings on Telkom could also come under pressure if, in our view, its SACP were to deteriorate by more than two notches. We could also consider lowering the rating if weakened liquidity left Telkom unable to pass our sovereign stress case, and we capped its rating at the level of our foreign currency rating on South Africa.

We could raise the rating on Telkom if we took a similar action on South Africa.

Transnet SOC Ltd.

Primary Analyst: Omega Collocott

Following the downgrade of Transnet, the stable outlook reflects the revision of the outlook on South Africa to stable, alongside our belief that Transnet will continue to benefit from a very high level of government support. The government owns a 100% stake in Transnet, and it controls the company's strategy, funding plans, and regulation. We anticipate a very high likelihood of timely and sufficient extraordinary government support for Transnet in the event of financial distress, although we currently view the need for direct extraordinary support as fairly limited.

We have revised down our assessment of Transnet's SACP to 'bb-' from 'bb'. Transnet, as a provider of essential services, has continued to operate during South Africa's lockdown. However, the COVID-19 situation overall, including our expectations of constrained economic, import, and export growth trajectories and prospects for Transnet's customers, has led us to anticipate sharp declines in freight, port and pipeline volumes in the fiscal year ending March 31, 2021, with a modest recovery thereafter, pointing to higher financial risk and weaker credit metrics. Our forecast revisions, which align with the range of revenue contractions across our rated universe of global transportation infrastructure, have resulted in our forecast of around 11% negative revenue growth for Transnet in fiscal 2021 (versus 4.6% growth in our previous forecast), together with a margin contraction of 300bps-400bps. We expect revenue to recover by around 8% in fiscal 2022. Moreover, we expect the COVID-19 disruption to cause an S&P Global Ratings-adjusted EBITDA decline of about 24%--versus our previous forecasts in fiscal 2021 of 5.3% growth--with a recovery of around 12% in fiscal 2022.

Furthermore, while we recognize the inherent strengths of Transnet's integrated freight business model, we also see rising business risk stemming from revenue pressure given the company's high exposure to bulk commodities (especially coal) and a worse-than-expected evolution in freight demand from industries in a post-COVID-19 world. We also acknowledge the potential for future weakness in South Africa's country risk given the negative trajectory of the sovereign's creditworthiness, in our view.

Transnet's liquidity remains less than adequate, in our opinion, although the company has made significant progress toward funding its upcoming maturities. We continue to see risk to Transnet's SACP stemming from further liquidity stress, including the impacts of potential un-remediated breaches of financial and rating-related covenants. For example, if covenant headroom decreases further, such that coverage tests could be breached if forecasted EBITDA were to decline by just 10% without signs of recovery or a credible plan to mitigate a potential breach, we might reassess the company's liquidity as weak, which could result in a multi-notch downward revision of the company's SACP.

Outlook

The stable outlook reflects our view that Transnet's creditworthiness is underpinned, in our view, by the very high likelihood of extraordinary government support. This would be the case even if the company's SACP were to deteriorate by up to two notches due to, for example, liquidity stress over the next 12 months or further constraints on cash flow due to COVID-19 effects on freight, port, and pipeline volumes.

The risk of higher interest costs on future debt refinancing has been somewhat moderated by a lower interest rate environment in South Africa. Furthermore, foreign currency debt is fully hedged. We expect the company to achieve FFO to debt, as adjusted by S&P Global Ratings, of 11%-12% and an FFO-interest-coverage ratio of around 1.9x over the next two to three years, with fiscal 2021 representing a particularly weak year given the COVID-19 pandemic and South Africa's severe lockdown, on the local economy and GDP growth. The company's strong competitive position in key freight and port operations, support our current view of the company's business and financial risk.

If we downgraded South Africa further, we would take a similar action on Transnet. We could also downgrade Transnet if its SACP, which we currently assess at 'bb-', were to weaken by more than two notches. This could stem from:

- Liquidity stress linked to the triggering of nonfinancial covenants (including ratings-related covenants) or tighter financial covenant headroom, to the extent that these covenants cannot be waived or renegotiated;
- Materially weaker cash flow than forecast, given significant forecasting risk; or
- Increased volatility of cash flows or a reassessment of country risk leads us to apply higher financial benchmarks at the same rating level.

We could revise our SACP assessment downward if Transnet's FFO to debt declines and stays below 9%, if FFO interest coverage falls to below 2.0x over a prolonged period, or if liquidity deteriorates markedly. The latter could occur if there was a pronounced shortfall in available liquidity, or if covenant headroom tightened, such that coverage tests could be breached if forecast EBITDA were to decline by just 10% within the following 12 months.

We may revise the outlook to positive if the outlook on South Africa were revised to positive, alongside an improvement in Transnet's cash flow or liquidity. This could happen if the company recovers more strongly than expected from COVID-19 and related negative macroeconomic effects, refinances its upcoming debt maturities with long-term funding, and receives waivers with respect to any covenant breaches.

Umgeni Water

Primary Analyst: Omega Collocott

We align the national scale ratings on Umgeni Water with those on South Africa. We now believe there is an extremely high likelihood of extraordinary government support for Umgeni, versus almost certain previously. Specifically, we changed our assessment of the role of Umgeni Water to the government and economy to very important from critical, reflecting our view that a default at the company would not necessarily heighten government default risk, and we would expect the entity to continue providing necessary water services. We continue to believe that Umgeni Water's creditworthiness is not insulated from that of the sovereign and consequently cannot be rated higher than the sovereign.

We continue to assess Umgeni Water's business risk as fair, largely reflecting our assessment of regulatory advantage as adequate/weak. Notably, water regulation is set by the Department of Water and Sanitation, which is not independent. We also note that tighter procurement-related regulations applicable to South Africa's state-owned companies, have led to persistent challenges in procuring products and services related to mainly to infrastructure development. This has resulted in significant amount of underspent capex, which in our view hinders Umgeni Water's ability to effectively implement its corporate plan.

Umgeni Water, as a provider of essential water services, has continued to operate during South Africa's lockdown. However, we note that COVID-19 and decelerated South African economic expansion could weigh on water sales volumes, particularly from industrial customers. We could also observe a dampening effect on customers' ability to pay and on the company's capex profile, and the affordability of future above-inflation tariff increases. Still, we expect Umgeni Water to maintain solid financial metrics (debt to EBITDA below 1.5x and FFO to debt above 60%), and our financial risk assessment is moderated by an anticipated lumpy and volatile capex profile (ZAR17 billion for the next five years), and management's reduced ability to control the timing of capex. Negative FOCF could therefore weigh on credit metrics beyond the fiscal year ending June 30, 2020.

Overall, our national scale ratings on Umgeni Water are likely to remain in line with those on South Africa, given our view of the extremely high likelihood of support the utility would receive from the government. We do not see Umgeni Water's creditworthiness as insulated from that of South Africa, and consequently would not rate it higher than the sovereign. If we revise our ratings on South Africa, we would likely take a similar rating action on Umgeni Water. In addition, we could downgrade the utility if government support weakens and we saw pressure on Umgeni Water's SACP.

Anglo American PLC

Primary Analyst: Ozana Breaban

The recent downgrade of the sovereign rating on South Africa has no impact on the ratings on Anglo American (BBB/Stable/A-2; zaAAA/--/zaA-1+). This is explained by the geographical diversification of the group's portfolio, the exposure to the domestic economy of South Africa as an exporter, and the strong liquidity, which allows it to absorb a financial shock in the country.

Anglo American's activities in South Africa include iron ore mines, Platinum Group Metals (PGM) mines, thermal coal mines, and one diamond mine. Over the past three years, the group generated about 30%-40% of its cash flows (EBITDA minus capex on a proportional consolidation basis) in South Africa. Anglo American also has material exposure to Brazil (about 25% in 2019); Australia (20%-25%), and Chile (about 15%). Based on the company's ongoing pipeline of projects, we do not expect material changes in the current composition in the coming years. This would change somewhat with the completion of Quellaveco, the greenfield copper mine in Peru in 2022, alongside other small projects. That said, in the short term, the composition could change somewhat with our expectations for commodity prices. For example, we assume that the current depressed copper prices and lower coking coals prices, while iron ore prices remain elevated, the company's operations in South Africa and Brazil will remain a central part of our analysis.

According to our rating approach, the rating on Anglo American could be up to four notches above the weighted average of the foreign currency ratings on the countries meeting the 25% of free cash flows threshold. As a result, the rating on Anglo American is currently capped at 'BBB' and could feel strain if the foreign currency rating on South Africa was lowered further, all else being equal. That said, such a decision would take into account the evolution of exposure to different countries, commodity prices (a potential recovery in copper and coking coal prices), and a change in the foreign currency sovereign rating on Brazil, among other factors.

The main considerations supporting the current four-notch differential between the foreign currency sovereign rating and the ratings on Anglo American include:

- The company's access to its $4.5 billion revolving credit facility (RCF) at the parent level and a sizable cash balance outside South Africa, both of which were fully available as of Dec. 31, 2019;
- Other cash streams originating outside of South Africa; and
- Limited debt in South Africa and minimal maturities in the coming 12 months. As of end-2019, overall debt of about $0.8 billion compared with cash in the country of about $5.0 billion, or $0.4 billion on a managed basis.

Outlook

The stable outlook on Anglo American reflects our view of the limited upside or downside prospects for the rating over the coming years.

We consider that the projected credit metrics, the absolute reported net debt, and positive FOCF, together with adherence to the shareholder distribution policy, provide ample headroom within the current rating level to absorb a material decline in commodity prices.

Under our base-case scenario, we forecast FFO to debt will be well above 60% (using proportionate consolidation) in the coming years, above the 60% level that we view as commensurate with the current rating under midcycle conditions.

We see limited ratings downside over the forecast horizon through 2021. In our view, the company's current debt position and capital allocation framework should allow it to absorb shocks to its businesses while sustaining Anglo American's current creditworthiness.

However, Anglo American's S&P Global Ratings-adjusted FFO to debt (using proportionate consolidation) potentially dropping below 45% at the bottom of the cycle or below 60% under midcycle conditions over the medium term would create rating pressure. Such a scenario may include:

- The company's deviation from its financial policy by distributing material dividends or entering a new acquisition that resulted in a significant increase in leverage; or
- The economic downturn lasting beyond 2020, with a meaningful slowdown of the Chinese economy that materially affects the prices of Anglo American's key commodities (iron ore, copper, and coking coal).

In addition, we could take a negative rating action on Anglo American if there is a further deterioration in South Africa's creditworthiness (assuming no changes in the exposure to other material countries).

At this stage, we see very limited rating upside in the coming 12-24 months. A higher rating would require the following:

- A further sustained improvement in the company's portfolio. This is unlikely to be achieved before the ramp-up of projects such as the copper mine Quellaveco, and by additional work on the cost structure of other assets. In our view, maintaining and strengthening its relative competitive position to peers should provide Anglo American with some protection in the next downturn.
- A decrease in the company's exposure to South Africa, with an increase in the exposure to less

risky countries, as the current rating is currently capped by the foreign currency sovereign credit rating on South Africa ('BB-' plus four notches).

enX Leasing Investments (Pty) Ltd.

Primary Analyst: Rishav Singh

The CreditWatch negative on our 'zaA-' long-term South Africa national scale issuer credit rating on enX follows the company's announcement on May 5, 2020, that its transaction to divest its Fleet Management and Logistics (FML) business had been terminated. The CreditWatch indicates downside risks to enX's earnings, credit metrics, and liquidity because of the terminated transaction and the COVID-19 pandemic.

enX's revenue visibility benefits from medium-duration leases (typically four to five years) to a diversified base of corporate customers in both its Industrial Equipment and FML businesses. Value added-services and sale of equipment and vehicles at the end of the initial lease term also generate a material and sustainable component of the company's revenues. Both businesses are considered essential services and continue to operate during South Africa's COVID-19 related lockdown. Also notable is that enX's forklift distributorship contract with Toyota was recently renewed for an additional three years.

We expect the economic downturn in both South Africa and the U.K. will hinder the company's revenues and working capital cycle, with reduced spending by customers on capex across end markets and weak secondary markets for used vehicle sales in 2020. COVID-19-related effects and the weaker rand may also hurt enX's margins, leading to higher costs of imported equipment and vehicles, elevated bad debt ratios, and increased borrowing costs to fund its lease books.

enX had extended its debt maturity schedule and accessed the domestic market with issuances in April 2020 prior to the sale termination. However, the company delayed refinancing its larger bank and bond debt maturities in 2021 and 2022 given the anticipated sale transaction. At the start of May 2020, the company drew on its bank facilities with ZAR350 million in cash and debt maturities of ZAR105 million for the remainder of 2020, which we think will support operations in the near term until a revised funding plan is implemented.

CreditWatch

In resolving the CreditWatch, we will evaluate enX's revised operating and funding strategy following the sale termination, and the effect of COVID-19 on earnings forecasts, credit metrics, liquidity position, and covenants. We expect to resolve the CreditWatch this quarter.

We could lower the ratings if we forecast a substantial deterioration in enX's credit metrics or liquidity due to the sale termination or COVID-19 fallout, with limited ability for the company to restore metrics or liquidity headroom in the fiscal year ending Aug. 31, 2021. In particular, we could lower the rating if:

- We think that the company's adjusted FFO to debt is likely to fall below 30% on average; or
- A prolonged disruption to operations or inability to timely refinance upcoming debt maturities narrows the liquidity headroom and support from the domestic credit market, such that sources cover uses by less than 1.2x.

We could affirm or raise the ratings once we have more certainty regarding the impact of the

COVID-19 pandemic on enX's operations and credit metrics. Execution of the company's funding strategy to refinance and re-profile its debt maturities would support its credit quality.

Exxaro Resources Ltd.

Primary Analyst: Rishav Singh

The affirmation of our 'zaA-/zaA-2' South Africa long-term and short-term national scale issuer credit ratings on Exxaro Resources Ltd. reflects our view that the company's production has not been materially affected by COVID-19 fallout. Exxaro has operated at full capacity since authorities implemented lockdown measures. However, reduced economic activity and energy demand during the lockdown has led to an oversupply of coal and further constrained the liquidity of Exxaro's largest customer, Eskom (about 70% of sales by volume and 50%-60% of revenue in 2019). Eskom declared force majeure on selected long-term take-or-pay coal supply contracts at end-April 2020, and we understand that Exxaro will challenge the claim. We think Exxaro's credit metrics and liquidity can absorb Eskom's lower-than-contractual off-take at the Grootegeluk mine in 2020, even with 10% less off-take. Positively, we understand that Exxaro has not experienced payment delays or non-payment to date. In addition, Exxaro has retained access to the export market during lockdown, which will support its cash flows. Still, realized prices have reflected weaker energy demand in key export markets.

Our view on Exxaro's creditworthiness remains constrained by the fragile liquidity position of its largest customer, Eskom. Under our revised base case, we expect Exxaro to maintain adequate liquidity, with S&P Global Rating-adjusted debt to EBITDA of 1.2x-1.7x and FFO to debt above 45% on average, similar to levels in 2019. Our rating also reflects that discussions around the COVID-19 pandemic could heighten awareness around existing social and environmental considerations and accelerate change in the overall mix of coal and other fossil fuels in global energy supply.

We could lower our rating on Exxaro due to lower-than-expected coal prices and sales volumes, a large debt-funded acquisition as part of Exxaro's defense against climate change strategy, or unexpected operational issues that lead to FFO to debt weakening below 30% on average or a weaker liquidity position. We could also lower the rating if Exxaro experiences payment delays or non-payment on sales to Eskom, resulting in Exxaro's liquidity position weakening, or if Exxaro does not timeously refinance upcoming maturities.

We see limited rating upside over the next 12 months given the strain on Exxaro's creditworthiness from the company's large exposure to Eskom. However, we would consider an upgrade of Exxaro if risks stemming from Eskom subside. This could occur, for example, if Eskom's liquidity outlook improves, resulting in an upward revision of our rating on Eskom, or if there is broader certainty that Eskom's suppliers would be paid in a timely manner in the event of an adverse funding gap at Eskom.

MTN Group Ltd.

Primary Analyst: Omega Collocott

Overall, our ratings on MTN Group Ltd., Mobile Telephone Networks Holdings Ltd., and MTN (Mauritius) Investments Ltd. are constrained by the foreign currency ratings on South Africa and Nigeria. The downgrades reflect the same action on South Africa. This resulted in us lowering by one notch our blended sovereign rating above which we can rate MTN. With economic exposures to

South Africa (foreign currency BB-/Stable/B) slightly below exposures to Nigeria (foreign currency B-/Stable/B), we apply our test for rating above the sovereign using the blended sovereign rating of 'B' (previously 'B+'). We view a two-notch difference between the potential sovereign cap and the 'BB-' issuer credit rating on MTN as appropriate, given the group's forecast liquidity exceeding uses during sovereign stress.

We see COVID-19 as having a moderate effect on MTN's financial metrics, given the heightened importance of telecommunications during periods of lockdown, social distancing, and restricted mobility. We expect voice and data demand to be reasonably well supported, although lower consumer affordability and the impact of negative GDP growth on enterprise customers cannot be discounted. We also note that supply chain effects and customers' financial stress may result in capex delays and working capital inefficiencies.

We expect pressures on South African consumer and wholesale businesses to contract revenue growth by around 3%, with recovery expected beyond fiscal 2020. In MTN's Nigerian business, oil exposure in the economy could lead to lower affordability of mobile voice, data, and payments services, and possible margin pressures, while Nigerian naira devaluation or depreciation and higher value-added tax rates will likely place upward pressure on the cost base and lower cash flow generation from Nigeria. We have not revised forecasts for countries apart from South Africa and Nigeria, but we acknowledge that broader weakness is possible, while noting that MTN provides utility-like services in less developed countries that do not have access to fixed-line telecommunication infrastructure.

Notably, a weaker South African rand (which we expect to depreciate around 19% against the U.S. dollar and on average 12% against other important currencies in MTN's broader African portfolio in fiscal 2020 (including naira) based on S&P Global Ratings' economic assumptions) bolsters MTN's revenue and EBITDA from non-South African operations. In part, the larger reaction of the rand to COVID-19 effects reflects its liquidity as a globally traded currency; most other currencies in sub-Saharan Africa are significantly less liquid and many are partly managed. In our base case, we have moderated the positive currency impacts on earnings from larger African markets, since we do not see the strength of several regional currencies as a driver of higher MTN earnings in the longer term.

Despite our adjustments to our base case assumptions, we consider the current 'bb+' SACP as able to absorb the financial pressure of a 300 basis point (bps) decline in Nigerian revenue growth and up to 20% naira depreciation, as well as a 3% revenue decline in South Africa, somewhat offset by the weaker rand.

Outlook

The stable outlook reflects our view that the blended sovereign rating of 'B', above which MTN can be rated by two notches, is unlikely to be lowered in the next 12 months given stable outlooks on both the sovereign ratings on Nigeria and South Africa.

MTN's creditworthiness is sensitive to the creditworthiness of both South Africa and Nigeria. We could revise the outlook on MTN to negative from stable in the event of weaker operating performance that reduces MTN's liquidity, limiting its ability to withstand our sovereign stress scenario for a 12-month period, such that we can no longer rate the company two notches higher than the blended sovereign rating. We could also downgrade MTN if adjusted debt to EBITDA rises above 4x, with all else remaining unchanged.

We could raise the ratings on MTN if we upgraded either South Africa or Nigeria. Also, broader exposure away from Nigeria to higher-rated countries could have a positive effect on MTN's credit quality.

Sappi Ltd.

Primary Analyst: Omega Collocott

Our ratings on Sappi Ltd. and Sappi Papier Holding GmbH are not currently capped by our long-term foreign currency sovereign rating on South Africa, a jurisdiction to which Sappi's earnings and operating assets are materially exposed. Sappi can be rated above South Africa since the company passes our hypothetical sovereign default stress test, under which it maintains sufficient liquidity. We do not expect further sovereign weakness to affect Sappi at its current rating level, provided that the company maintains sufficient liquidity. Sappi may be rated at least two notches above the long-term foreign currency sovereign rating; we currently rate the company one notch higher.

Sappi has continued to operate as an essential service despite the various lockdown and social distancing guidelines. Nonetheless, based on our forecasts, we anticipate rising leverage due to lower cash flow, partly mitigated by Sappi's increasingly diversified product offering, prudent risk management, and strong liquidity, which are expected to provide some support through this period of price, currency, and cash flow volatility.

We view pulp and paper companies as moderately and indirectly exposed to COVID-19 fallout, but Sappi's exposure to dissolving wood pulp (DWP), a textile industry feedstock, and coated papers used in print media increases its exposure to declines in earnings. Further depressed product demand in these end markets given the effects of COVID-19, as well as persisting lower pulp and paper prices and potential production downtime, could weigh on revenue and margins in the fiscal year ending Sept. 30, 2020, at least. Sappi's leverage and time taken to deleverage may significantly exceed our previous expectations (see "South Africa-Based Wood Fiber Company Sappi Ltd. Outlook Revised To Negative; 'BB/B' Ratings Affirmed," published April 16, 2020).

Outlook

Our negative outlook on Sappi reflects our expectation that the company's credit metrics will deteriorate materially in fiscal 2020, with adjusted FFO to debt falling below 20% this fiscal year, and below 25% on average, while adjusted debt to EBITDA surpasses 3.0x for the next two years. We base our assumptions on the COVID-19-related demand pressure on DWP and graphic paper in fiscal 2020, with DWP prices staying below $650 per ton through this fiscal year. We then expect a recovery in overall volumes and gradual recovery in DWP sales volumes and EBITDA margins from fiscal 2021.

Sappi is targeting reported net debt to EBITDA at or below 2x in line with its financial policy, but we believe the unknown duration of stressed conditions in 2020 and potentially beyond has reversed the deleveraging trend over the outlook period, and possibly longer. Debt could also rise if operating cash flow is lower than expected given existing capex commitments.

We could downgrade Sappi if its financial risk profile were to deteriorate such that FFO to debt fell below 20% over a prolonged period. This could stem from continued operating challenges, with further falls in sales prices or volumes, prices staying lower for longer than we expect, or adverse currency movements, coupled with negative cash flow due to capex and dividends. We would consider FFO to debt of below 20% for an extended period as commensurate with a lower rating.

We could also downgrade Sappi if weaker operating performance reduces the company's liquidity, constraining its ability to withstand our sovereign stress scenario for a 12-month period, such that we can no longer rate Sappi above South Africa.

We could consider revising the outlook to stable if Sappi's S&P Global Ratings-adjusted average FFO to debt returns to comfortably within the 25%-30% range, and its resumes deleveraging.

Given current weakness in pulp and paper prices and demand for selected products and operating margins, we see a higher rating as unlikely within the outlook period. Still, we could raise the rating if Sappi were to reduce leverage materially while maintaining adequate profitability for the sector, such that leverage fell sustainably below 2.5x and adjusted FFO to debt were sustainably above 35%, given the group's current business model. We believe maintaining a low-cost position in pulp production, as well as investment in growth-orientated projects, will be key to Sappi in maintaining its current business model over the medium term.

Sasol Ltd.

Primary Analyst: Omega Collocott

The ratings on Sasol are not currently capped by our long-term foreign currency sovereign rating on South Africa, a jurisdiction to which the company's earnings and operating assets are materially exposed. Sasol can be rated above South Africa because it passes our hypothetical sovereign default stress test, under which it maintains sufficient liquidity. We do not expect further sovereign weakness to affect Sasol at its current rating level, provided that the company maintains sufficient liquidity. The rating on Sasol is capped at two notches above the long-term foreign currency sovereign rating; we currently rate Sasol one notch higher.

Sasol's cash flow has suffered from lower oil and chemical price environments combined with falling demand given global disruptions linked to the COVID-19 pandemic. We continue to believe that cash flow will be strained through the fiscal year ending June 30, 2020, due to the lower oil price assumptions. In our review published in March, we noted that Sasol's oil, gas, and chemicals businesses are exposed to lower commodities prices and COVID-19-related pullback in demand. The adequate liquidity assessment reflects our expectation that covenant headroom could be minimal, but that the company's solid banking relationships makes a further covenant lift or waiver before the next covenant measurement date relatively likely (see "South Africa-Based Chemicals Group Sasol Downgraded To 'BB/B' On Slumping Oil And Chemicals Markets; Outlook Negative," published March 30, 2020).

More recently, Sasol released revised production guidance for fiscal 2020, which highlighted the severity of fuel demand disruption in South Africa due to the lockdown. While a weakened rand will somewhat mitigate the negative impact on Sasol's fiscal 2020 EBITDA, it also increases the rand-denominated amount of Sasol's foreign currency debt (around $8.5 billion), pushing leverage metrics up. Nevertheless, we consider that these recent developments are adequately captured at the current rating level.

Management continues to implement strategies that bolster the balance sheet, but the lower earnings outlook for at least the next 12-15 months intensifies the potential blow on the company's credit metrics since Sasol is at peak gearing levels. Given high sensitivity of Sasol's earnings to lower oil and chemical prices and a strong rand, cash flow volatility remains a risk.

Outlook

The negative outlook reflects our view that weaker-than-expected oil and chemical prices, and continued volatility and poor visibility in commodity prices, demand evolution, and a weak rand at Sasol's fiscal year end, could result in a covenant breach or other event that prompts us to assess Sasol's liquidity as less than adequate. Lower-than-forecast cash generation outcomes could push the company's S&P Global Ratings-adjusted FFO to debt below 12%, from which there is already limited headroom. For the current rating, we expect adjusted FFO to debt to average more than 12%. We expect Sasol's financial metrics to remain constrained in fiscal 2021, because the commissioning of its U.S.-based ethane cracker in Lake Charles might not offset the damage of lower sales prices and lower margins, and peak leverage is likely to persist in the absence of adequate cash inflows from asset sales or a potential rights issue being implemented before the end of fiscal 2021. We view headroom under the company's debt covenants as minimal.

We would consider lowering the rating if FFO to debt (after our adjustments) weakened to and stayed below 12%, which could result, for example, from EBITDA reduction due to lower oil or chemical prices or demand disruptions, operational setbacks, increased capex, or higher debt. We could also lower the rating if Sasol experiences liquidity stress that constrained its ability to pass our rating-above-the-sovereign stress test, capping the rating at the sovereign level.

We could revise the outlook to stable if there is clear evidence that our adjusted FFO-to-debt ratio for Sasol will remain sustainably above 12% on average, and the risk of a liquidity event that would lead to us lowering our liquidity assessment to less than adequate abated. We could raise the rating if FFO to debt returned to levels sustainably above 20%, driven by a significantly improved operating environment or material deleveraging, which would most likely stem from asset sales, an equity raise, or both.

Sibanye Stillwater Ltd.

Primary Analyst: Rishav Singh

We assume strong gold and platinum group metal (PGM) basket prices will allow Sibanye to maintain its de-leveraging trajectory and offset reduced production caused by COVID-19 related lockdown measures in South Africa. We capture this assumption in our stable outlook on Sibanye, alongside potential risks of a more prolonged business disruption than we currently anticipate, or a larger demand-side shock to basket prices if global GDP and new vehicle sales fall more than anticipated. Sibanye has addressed previously assessed downside risks, with Lonmin integrated without disruption, and synergies from the acquisition realized ahead of budget, conclusion of the South Africa PGM wage negotiations in November 2019 and refinancing its rand-denominated revolving credit facility.

We forecast that Sibanye will deliver S&P Global Ratings-adjusted debt to EBITDA below 1.5x and FFO to debt above 50% on average, from 3.0x and 26%, respectively, in 2019. In our base case, we assume Sibanye will deliver 1.45 million ounces (moz)--1.55moz of production at its SA PGM assets, including Marikana, 630,000oz at its U.S. PGM operation and 25,500kg--26,500kg at its SA Gold operations. We expect COVID-19 lockdown measures will result in 5%-15% lower production at its operations in 2020. We assume gold prices of $1,550/oz, platinum prices of $800/oz and palladium prices of $1,800/oz in 2020. We assess Sibanye's liquidity as adequate and expect sources of liquidity to comfortably cover uses by more than 2.0x to the end of 2021. The company held ZAR16.4 billion in cash and was almost fully drawn on its revolving credit facilities at March 31, 2020 ($12 million available under its U.S. dollar revolving credit facility), with no debt maturities in 2020.

Although the strong price environment has pushed realized basket prices substantially above all-in sustaining costs for Sibanye and most other producers, we continue to assess operations through the cycle. Sibanye's asset portfolio is generally spread across the higher cost per ounce end of the total cash cost and all-in cost curves, with the SA Gold operations operating in the fourth quartile, the U.S. PGM in the first quartile, and the SA PGM operations including Marikana toward the third quartile of the cash cost curves. Our assessment of Sibanye's business profile remains constrained by its structurally high cost asset base, substantial exposure to labor-intensive South African mining operations, and sizable ongoing development capex requirements.

Sibanye currently benefits from a high precious metals commodity price environment, and we expect strong free operating cash flow to add to the company's financial flexibility. We understand the company plans to reinstate its dividend (25%-35% of normalized earnings), early redeem certain debt obligations, and resume M&A activity over the next six to 18 months.

Outlook

The stable outlook balances our expectation of improved earnings, credit metrics, and liquidity with uncertainty on the evolution and impact of the COVID-19 pandemic on Sibanye's production and demand from key end-markets.

We could revise the outlook to positive or raise the rating if Sibanye sustains its deleveraging trajectory through the pandemic, and we expect it to maintain FFO to debt above 45% on average under mid-cycle conditions. An upgrade will also depend on a resilient and stable operational performance across the asset portfolio, stability in the South Africa mining environment, especially electricity supply and labor relationships, and maintaining a credit-supportive financial policy.

We could lower the rating as a result of lower-than-expected metal prices or unexpected operational issues that lead to weaker or more volatile earnings and cash flow than our base-case assumptions. Specifically, we could lower the rating if:

- We expect debt to EBITDA to exceed 4.0x or FFO to debt to fall below 20% on average.
- A prolonged disruption to operations leads to a deterioration in liquidity headroom, with sources covering uses by less than 1.2x.

Super Group Ltd.

Primary Analyst. Rishav Singh

The rating action on Super Group primarily reflects a weakening of the sovereign's underlying creditworthiness relative to the group, as well as the related changed to the South Africa national scale mapping table.

We continue to weigh into our analysis the forecasted contraction in GDP caused by the COVID-19 pandemic in Super Group's key end markets of South Africa, Australia, and Europe, as well as our expectation for severe declines in automotive sales globally (see "Super Group Long-Term Rating Lowered To 'zaAA' On Weaker Prospects Due To COVID-19 Outbreak," published April 20, 2020). We expect the COVID-19 pandemic will exacerbate an already difficult economic and business environment for the automotive sector, and intensify the economic headwinds Super Group has faced over the past 18 months. We think Super Group's Supply Chain Europe, Dealerships South Africa, and Dealerships U.K. will be the hardest hit of the group's divisions, but we anticipate demand for coal-commodity transport in the Supply Chain Africa operation will support cash flows through the pandemic. Additionally, we think Super Group's variable cost structure in its supply chain and dealership segments will cushion margins against a forecast drop in revenue and help it partly offset the adverse effects of recessionary conditions in South Africa and globally.

We forecast Super Group will deliver S&P Global Ratings-adjusted debt to EBITDA of 2.0x-2.7x and FFO to debt of 25%-35% in the fiscal year ending June 30, 2020 and in fiscal 2021, from 1.3x and 53%, respectively in fiscal 2019. In addition, we expect break-even free cash flows before lease and debt capital payments and acquisitions in fiscal 2020, turning positive in fiscal 2021. This is based on our forecast revenue decline of 15% in fiscal 2020, with a 10%-15% recovery in fiscal 2021, and for EBITDA margins to hold at 9%-10% in fiscals 2020 and 2021, compared with 11% in fiscal 2019.

We believe Super Group has sufficient liquidity to weather the next few quarters of weak trading volumes and likely negative free cash flow. The company held about ZAR3.8 billion of cash on March 31, 2020, and we understand its ZAR1.5 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.

We currently assume a recovery of economic activity by mid-2020. However, there is a risk of a prolonged business disruption, and an extended global recession could further strain Super Group's credit metrics and liquidity.

We could lower our South Africa national scale ratings within the next 12 months, if we believe the group's:

- S&P Global Ratings-adjusted debt to EBITDA will exceed 3.0x or adjusted FFO to debt will remain below 30% on average, without solid recovery prospects.
- Liquidity position or covenant headroom will significantly decline because of weak earnings and cash flow, or a change to financial policy.

Woolworths Holdings Ltd.

Primary Analyst. Rishav Singh

Our 'zaA-' South Africa national scale issuer credit rating on Woolworths Holdings Ltd (WHL) remains on CreditWatch negative, where we placed it on April 15, 2020 (see "South Africa-Based Woolworths Holdings Lowered To 'zaA-' And Placed On CreditWatch Negative On COVID-19 Disruption"). We continue to factor into our analysis the weaker growth outlook for South Africa and business disruption to clothing retailers caused by COVID-19 fallout. Based on our assumption of a recovery in trading activity by mid-2020, we believe the pandemic will result in a sharp drop of nearly 10% in WHL's turnover for the fiscal year June 30, 2020, with a 15%-25% decline in WHL's non-food business and low-single-digit growth in food. We also project a contraction of gross profit margins due to discounting once stores open. We anticipate a contraction in adjusted EBITDA of at least 25% in fiscal 2020 after considering WHL's planned cost-saving and cash-preservation measures, which include standstill agreements with affected staff in Australia, deferral or suspension of rental payments in both Australia and South Africa, and postponement of noncritical capex.

We expect WHL's S&P Global Ratings-adjusted debt to EBITDA and FFO to debt to slide to 4.0x-5.0x and of 12%-16%, respectively in fiscals 2020 and 2021. This compares with 3.3x and 20% in fiscal 2019. The flagging economic prospects will temper WHL's ability to quickly restore metrics to 2019 levels.

We believe WHL has sufficient liquidity to cope with the near-term trading disruption, but the buffer could diminish in the event of a more prolonged or harsher disruption than we currently anticipate, or if WHL is unable to secure necessary covenant waivers or suspensions from its Australian lenders. We forecast its liquidity sources will cover uses by more than 1.2x over the 12 months started Jan. 1, 2020, even after considering large seasonal movements in working capital. WHL has committed undrawn credit facilities of ZAR4.1 billion in South Africa and A$280 million in Australia, and its debt maturities are limited to ZAR750 million in 2020. We forecast covenant headroom in Australia will narrow substantially, or suffer a breach under some scenarios, due to a materially weaker earnings outlook. However, based on the company's relationships with its bank syndicate and the widespread effects of COVID-19, we anticipate that WHL would be able to secure covenant waivers or a temporary suspension of covenant measurements. Although, in our view, a more severe or prolonged dent in economic activity or a change to consumer behavior after the pandemic could damage WHL's ability to restore earnings and credit metrics in Australia in the coming years.

CreditWatch

The CreditWatch indicates still-significant downside risks, given the uncertainty as to when the COVID-19 pandemic will peak and whether it will persist beyond second-quarter 2020. We currently assume a recovery in economic activity by mid-2020, however, this could be delayed, weighing further on credit metrics and posing a challenge to WHL's liquidity and covenants. In resolving the CreditWatch, we will evaluate new information regarding the spread of COVID-19 and its effect on WHL's earnings, credit metrics, and liquidity. We will also consider WHL's recovery prospects for second-half 2020 and in 2021.

We could lower the ratings if COVID-19 and any resulting restrictions and social distancing measures looked likely to extend into second-half 2020. This would further weaken the group's ability to restore its credit metrics and covenant headroom. In particular, we could lower the rating if:

- We think that adjusted debt to EBITDA is likely to rise above 5.0x or adjusted FFO to debt is likely to fall below 12%.
- A prolonged disruption to operations leads to a deterioration in liquidity headroom.
- WHL is unable to obtain relief on its maintenance covenants, increasing the likelihood of a breach due to diminishing headroom.

We could affirm or raise the ratings once we have more certainty regarding the duration and severity of the COVID-19 pandemic and its effect on consumer demand, retail trading, and WHL's operating performance and liquidity. This would hinge on WHL maintaining S&P Global Ratings-adjusted debt to EBITDA below 5.0x, adjusted FFO to debt above 12%, adequate liquidity, and sufficient headroom under its covenants.

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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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 Telecommunications And Cable Industry, June 22, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Forest And Paper Products Industry, Feb. 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 | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, 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
- 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: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Coronavirus Impact: Key Takeaways From Our Articles, May 11, 2020
- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020
- South Africa National Scale Mapping Revised Following Sovereign Downgrade, April 29, 2020
- Global Credit Conditions: Rising Credit Pressures Amid Deeper Recession, Uncertain Recovery Path, April 22, 2020
- Rating Actions Taken On Seven South Africa Corporate And Infrastructure Issuers Following Outlook Revision To Sovereign, Dec. 2, 2019

Ratings List

************** **Anglo American PLC** **************		
Ratings Affirmed		
Anglo American PLC		
Issuer Credit Rating	BBB/Stable/A-2	
South Africa National Scale	zaAAA/--/zaA-1+	
Anglo American Capital PLC		
Senior Unsecured	BBB	
Anglo American SA Finance Ltd.		
Senior Unsecured	zaAAA	
************* **ESKOM Holdings SOC Ltd.** ************		
Downgraded		
	To	**From**
ESKOM Holdings SOC Ltd.		
Senior Unsecured*	BB-	BB
Ratings Affirmed		
ESKOM Holdings SOC Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaB/--/zaB	

ESKOM Holdings SOC Ltd.		
Senior Secured	CCC+	
Senior Unsecured	CCC+	
Ratings Affirmed; Outlook Action		
	To	**From**
ESKOM Holdings SOC Ltd.		
Issuer Credit Rating	CCC+/Negative/--	CCC+/Stable/--
*** * * * * * * * * * * * * Exxaro Resources Ltd. * * * * * * * * * * * * ***		
Ratings Affirmed		
Exxaro Resources Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaA-/--/zaA-2	
*** * * * * * * * * * * * * * * MTN Group Ltd. * * * * * * * * * * * * * * ***		
Downgraded; Outlook Action		
	To	**From**
MTN Group Ltd.		
Mobile Telephone Networks Holdings Ltd.		
Issuer Credit Rating	BB-/Stable/--	BB/Negative/--
MTN (Mauritius) Investments Ltd.		
Mobile Telephone Networks Holdings Ltd.		
Senior Unsecured	BB-	BB
Recovery Rating	3(65%)	3(65%)
Ratings Affirmed		
MTN Group Ltd.		
Mobile Telephone Networks Holdings Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAA/--/--	
*** * * * * * * * * * * * * * * * Rand Water * * * * * * * * * * * * * * * ***		
Downgraded; Outlook Action; Ratings Affirmed		
	To	**From**
Rand Water		
Issuer Credit Rating		
Foreign Currency	BB-/Stable/--	BB/Negative/--
Local Currency	BB/Stable/--	BB+/Negative/--
South Africa National Scale	zaAAA/--/--	zaAAA/--/--
Senior Unsecured	BB	BB+

*** * * * * * * * * * * * * * * * Sappi Ltd. * * * * * * * * * * * * * * * ***		
Ratings Affirmed		
Sappi Ltd.		
Issuer Credit Rating	BB/Negative/B	
Sappi Papier Holding GmbH		
Senior Unsecured	BB	
Recovery Rating	3(55%)	
*** * * * * * * * * * * * * * * * Sasol Ltd. * * * * * * * * * * * * * * * ***		
Ratings Affirmed		
Sasol Ltd.		
Issuer Credit Rating		
Foreign Currency	BB/Negative/B	
Sasol Financing International Ltd.		
Sasol Financing USA LLC		
Senior Unsecured	BB	
Recovery Rating	3(65%)	
*** * * * * * * * * * * * * * Sibanye Gold Ltd. * * * * * * * * * * * * * ***		
Not Rated Action		
	To	**From**
Sibanye Gold Ltd.		
Issuer Credit Rating	NR	B+/Negative/--
South Africa National Scale	NR	zaA-/--/--
Ratings Affirmed		
Stillwater Mining Co.		
Senior Unsecured	B+	
Recovery Rating	3(65%)	
*** * * * * * * * * * * * * Sibanye Stillwater Ltd. * * * * * * * * * * * ***		
New Rating		
Sibanye Stillwater Ltd.		
Issuer Credit Rating	B+/Stable/--	
South Africa National Scale	zaA/--/--	
*** * * * * * * * * * * * * * * Super Group Ltd. * * * * * * * * * * * * * ***		
Upgraded; Ratings Affirmed		
	To	**From**
Super Group Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAAA/--/zaA-1+	zaAA/--/zaA-1+

**************** Telkom SA SOC Ltd. ****************		
Downgraded; Outlook Action		
	To	**From**
Telkom SA SOC Ltd.		
Issuer Credit Rating	BB/Stable/--	BB+/Negative/--
**************** Transnet SOC Ltd. ****************		
Downgraded; Outlook Action; Rating Affirmed		
	To	**From**
Transnet SOC Ltd.		
Issuer Credit Rating	BB-/Stable/--	BB/Negative/--
South Africa National Scale	zaAA/--/zaA-1+	zaAA/--/zaA-1+
Senior Unsecured	BB-	BB
Senior Unsecured*	BB	BB+
****************** Umgeni Water ******************		
Ratings Affirmed		
Umgeni Water		
Issuer Credit Rating		
South Africa National Scale	zaAAA/--/zaA-1+	
*************** Woolworths Holdings Ltd. ***************		
Ratings Remain On CreditWatch		
Woolworths Holdings Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaA-/Watch Neg/--	
************ enX Leasing Investments (Pty) Ltd. ************		
CreditWatch Action		
	To	**From**
enX Leasing Investments (Pty) Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaA-/Watch Neg/--	zaA-/--/--

*Guaranteed by the Republic of South Africa. NR--Not rated.

Regulatory Disclosures

enX Leasing Investments (Pty) Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G.Andrew Stillman

- Date initial rating assigned: Sept. 20, 2018
- Date of previous review: July 22, 2019

Exxaro Resources Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: March 12, 2014
- Date of previous review: Jan. 29, 2020

ESKOM Holdings SOC Ltd.

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: July 7, 1995
- Date of previous review: Nov. 26, 2019

MTN Group Ltd.

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Oct. 8, 2014
- Date of previous review: April 1, 2020

Mobile Telephone Networks Holdings Ltd.

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Oct. 8, 2014
- Date of previous review: April 1, 2020

Rand Water

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: May 9, 1997
- Date of previous review: Dec. 2, 2019

Sappi Ltd.

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Jan. 10, 2002
- Date of previous review: April 16, 2020

Sasol Ltd.

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Feb. 19, 2003
- Date of previous review: March 30, 2020

Sibanye Gold Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: June 27, 2017
- Date of previous review: June 13, 2019

Sibanye Stillwater Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: May 12, 2020
- Date of previous review: N/A

Super Group Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Ratings Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Aug. 20, 2013
- Date of previous review: April 20, 2020

Transnet SOC Ltd.

- Primary Credit Analyst: Omega Collocott, Director

- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Sept. 4, 1997
- Date of previous review: Nov. 29, 2019

Telkom SA SOC Ltd.

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Nov. 20, 1995
- Date of previous review: Dec. 2, 2019

Umgeni Water

- Primary Credit Analyst: Omega Collocott, Director
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Jan. 28, 2016
- Date of previous review: Dec. 2, 2019

Woolworths Holdings Ltd.

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G. Andrew Stillman
- Date initial rating assigned: Sept. 15, 2017
- Date of previous review: April 15, 2020

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.

S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.

Glossary

- 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).
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- 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.
- 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.
- Government-related entity: An entity that could, under stress, benefit from extraordinary government support in order to meet its financial obligations; or conversely an entity controlled

by a government that could be subject to negative extraordinary government intervention if the government is under stress.

- 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.
- Issue credit rating: This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- 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).
- Rating above the sovereign assessment: Our assessment of whether an entity can be rated above the sovereign rating on a jurisdiction it has a material exposure to.
- 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.

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on 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.