

Rating Action: Moody's places SANRAL's ratings on review for downgrade

Global Credit Research - 14 Sep 2016

Johannesburg, September 14, 2016 -- Moody's Investors Service, ("Moody's") has today placed on review for downgrade South African National Roads Ag. Ltd's (The) (SANRAL) long-term and short-term issuer ratings of Baa3/P-3 (global scale) and of Aa3.za/P-1.za (South African national scale) following the continuing deterioration of the Gauteng Freeway Improvement Project (GFIP) cash flows and rising funding challenges at a time when SANRAL faces large debt maturities. At the same time, Moody's has lowered the issuer's standalone credit profile (Baseline Credit Assessment) to b3 from b2, which mainly reflects the decline in GFIP toll revenues.

RATINGS RATIONALE

RATIONALE FOR RATING REVIEW

SANRAL's rating review reflects ongoing cash flows pressure, despite a number of interventions by the national government to encourage e-toll payments. Road users barely utilized the opportunity to clear their outstanding debt during a recent six-month window to settle accumulated e-toll fees at a discount. Resistance to open road tolling remains strong, as from July 2015 to August 2016 SANRAL collected on average ZAR76 million per month which is lower than the average ZAR86 million collected during FY2014-15. While SANRAL issued summonses to defaulting road users some are preparing to defend their cases in court further delaying debt collection. Therefore Moody's expects SANRAL's cash flow pressures to persist in 2017.

The review also reflects rising funding challenges, following some signals of increased risk aversion by funding counterparties owing to market concerns regarding the governance of South African state-owned enterprises. Between September and November 2016 SANRAL will face debt maturities of ZAR3.7 billion which the company plans to roll-over. During the review period Moody's will assess the company's ability to raise new funding. While SANRAL's cash and cash investments of ZAR7.4 billion (at the end of August 2016) are sufficient to repay maturing notes in the coming months, this would deplete its liquidity buffer, implying that further funding will be critically needed given the continuing deterioration of the (GFIP) cash flows.

SANRAL's Baa3 issuer rating incorporates six notches of rating uplift from its b3 stand-alone credit profile, reflecting its full government ownership, its critical role in South Africa's road infrastructure development and the explicit government guarantee on 76% of its debt, the remainder benefiting from cross acceleration provisions between SANRAL's government-guaranteed debt and the unguaranteed debt.

Until the end of the fiscal year (March 2017), SANRAL plans to finance its capital expenditure and debt refinancing by issuing guaranteed debt, as a result the company has applied to the national government for the extension of the guarantee. During the review period, Moody's will consider the outcome on the company's application.

WHAT COULD CHANGE THE RATING UP/DOWN

As indicated by the rating review, there is currently no upward pressure on SANRAL's ratings over the near term.

SANRAL's rating could be confirmed if national government approves its application to extend the guarantee and the company is able to tap the market to finance its funding requirements. Any successful enforcement of e-toll collections that may lead to an improvement in cash flows would also support the rating. On the contrary, SANRAL's ratings could be downgraded if the company is unable to access the market to fund its operations on the back of its persistently weaker cash flows from GFIP. In addition, any indications of a loosening of the sovereign's willingness to support SANRAL would likely lead to a downgrade.

SANRAL is a public company, wholly owned by the Republic of South Africa, with the Minister of Transport representing the government as the sole shareholder. The company remains a key strategic asset for the central government, which has mandated SANRAL to develop, finance and manage the national road infrastructure in South Africa.

The principal methodology used in these ratings was Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit Rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_189530.

Glossary of Terms and Acronyms

Capital Expenditures or Capex: This includes gross expenditures for property, plant and equipment and intangible assets.

Confirmation: A Confirmation is a public statement that a previously announced review of a rating has been completed without a change to the rating.

Credit Rating: A Credit Rating is an opinion from Moody's Investors Service (MIS) regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.

Debt: Long term debt (including liability for capital leases) plus short term debt plus current portion of long term debt. May also be adjusted to include other long term obligations, such as leases and pensions.

Global Scale Long Term Credit Rating: Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

Global Scale Ratings: Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities.

Global Scale Short Term Credit Rating: Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect the likelihood of a default on contractually promised payments.

Issuer: The term Issuer means any entity by which a Security has been issued, guaranteed, or by which the credit underlying a Security has been otherwise supported. The term Issuer also includes the corporate parent or majority-owned subsidiary of an Issuer.

Issuer Rating: Issuer Ratings are opinions of the ability of entities to honor senior unsecured financial counterparty obligations and contracts.

National Scale Long Term Rating: Moody's long-term National Scale Ratings (NSRs) are opinions of the relative creditworthiness of issuers and financial obligations within a particular country. NSRs are not designed to be compared among countries; rather, they address relative credit risk within a given country.

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Rating Review: A rating review indicates that a rating is under consideration for a change in the near term. A rating can be placed on review for upgrade (UPG), downgrade (DNG), or more rarely with direction uncertain (UNC). A review may end with a rating being upgraded, downgraded, or confirmed without a change to the rating. Ratings on review are said to be on Moody's "Watchlist" or "On Watch".

For further information on these definitions or on Moody's ratings symbols, please consult the Rating Symbols and Definitions document on www.moody's.com

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The rating for 820031729, NSR LT Issuer Rating, ISSUER RATING, ZAR of South African National Roads Ag. Ltd (The) was initially assigned on 01 Feb 2007 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 820031729, NSR ST Issuer Rating, ISSUER RATING, ZAR of South African National Roads Ag. Ltd (The) was initially assigned on 01 Feb 2007 and the last Credit Rating Action was taken on 11 May 2016.

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3) If Moody's assumptions about profitability, interest coverage, and asset quality are materially lower (higher) than actual future results, this could result in positive (negative) implications for the rating.

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