



Credit Rating Announcement

GCR Assigns National Scale Issuer Ratings of A_(ZA)/A1_(ZA) and an International Scale Rating of BB- to SANRAL, Outlook Stable

Rating action

Johannesburg, 13 August 2019 – GCR Ratings ("GCR") has assigned national scale issuer ratings to South African National Roads Agency SOC Limited ("SANRAL") of A_(ZA) and A1_(ZA) in the long term and short term respectively, with a Stable Outlook. Concurrently an International scale issuer rating of BB- with a Stable Outlook was also assigned.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
South African National Roads Agency SOC Limited	Issuer Long Term	National	A _(ZA)	Stable
	Issuer Short Term	National	A1 _(ZA)	-
	Issuer Long Term	International	BB-	Stable

Rating rationale

SANRAL's credit rating is premised upon the substantial ongoing financial support provided by the Government of South Africa ("GoSA"). This support is provided both to cover ongoing operational requirements, as well as anticipated extraordinary requirements. GCR expects such financial support to persist, given the importance of SANRAL's economic mandate and the guarantees issues by the GoSA to most of SANRAL's debt, as well as the cross defaults between SANRAL debt and other Government guaranteed debt. In light of this GCR has applied the credit support floor.

SANRAL plays a critical role in the South African economy. It operates within a legislated mandate, with clear guidelines as to its responsibilities and obligations in terms of operating and maintaining national roads in South Africa. In this regard, it benefits from a close operating relationship with the Department of Transport, and does not face any competition in its sphere of obligations. Moreover, SANRAL is protected from insolvency by legislation. Furthermore, its performance is not impacted by competition or pricing related pressures, aside from the potential loss of traffic volumes on some toll roads due to general economic cyclicality.

However, the rating is constrained by SANRAL's very weak stand-alone financial profile, reflecting poor cash collections, high leverage and weak stand-alone liquidity. The company does not operate with a profit motive, which enables it to maintain a very long term project implementation cycle that is characterised by cash absorptions up to year 15 of a project, before earnings turn positive and are sufficient to meet operating and debt service costs. However, the cycle has been aggravated by the non-payment of Gauteng Freeway Improvement Project ("GFIP") tolls, which has placed additional pressures on cash flows. After covering operating costs in years prior to FY17, SANRAL was required to impair almost R7.5bn in outstanding debtors in FY17 and FY18 related to the GFIP. The consequence of the non-collection was evident in FY18, where SANRAL was forced to reduce capital spend to conserve cash. A similar situation is likely to have materialised in FY19 and to repeat in FY20, with capex being scaled back to take account of the weak income and cash flows. Such a situation is not sustainable in the long term, as it directly impacts SANRAL's ability to deliver on its core infrastructure development mandate. As there is currently no resolution, GCR is of the view that the earnings profile will remain a rating weakness.

SANRAL reports very high debt of R50bn at FY18. While net debt to EBITDA did improve to 4.4x at FY18, this was largely due to the special R1.9bn (including VAT) grant provided by the GoSA. For the same reason, net interest cover improved to 1.7x in FY18, but coverage has been much lower in previous years. Positively, the grants demonstrate the extent of ongoing government support, however operational cash flow coverage of debt and interest is likely to be even weaker, as a result of the non-collection of tolls. Although SANRAL has a very long dated and relatively smooth debt maturity profile, because of the high absolute quantum of debt the company faces debt redemptions of several billion rand in any given year. However, access to refinancing has been somewhat limited by the collection challenges, highlighting the significant reliance on capital markets for funding.

As SANRAL's financial position has deteriorated, the uncertainty regarding GFIP tolls has given rise to a major liquidity constraint, with SANRAL's access to long term funding severely limited by investor concerns. On a standalone basis, SANRAL cannot generate sufficient cash to meet its debt service obligations, as well as ongoing operational and capex costs. Moreover, there is little sign that this cash flow situation will improve in the short to medium term, as indicated by the persistent cash outflows projected for the toll business. However, comfort is taken from recent large extraordinary grants provided to SANRAL, highlighting the GoSA's continued support for the entity. In this regard, the neutral liquidity assessment is premised on the expectation that the GoSA will continue to provide the necessary financial support to SANRAL to meet its debt redemptions in a timely manner, as well as for operating costs.

Outlook statement

The Stable Outlook reflects GCR's expectation that the GoSA will continue to provide the necessary financial support to ensure that SANRAL can meet its financial obligations.

Rating triggers

Negative rating action would derive from any perceived decrease in funding support from the GoSA.

The rating could improve if there is a resolution to the GFIP toll payment issues that would allow SANRAL to move towards financial self-sustainability. Measures taken to ease the substantial debt burden could also see the rating improve. This is considered to be unlikely over the ratings horizon.

Analytical contacts

Primary analyst Johannesburg, ZA	Eyal Shevel Shevel@GCRratings.com	Sector head: Corporate Ratings +27 11 784 1771
Committee chair Johannesburg, ZA	Mathew Pirnie MatthewP@GCRratings.com	Sector head: Financial Institution Ratings +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2019

Criteria for Rating Corporate Entities, May 2019

Country Risk Scores, June 2019

Corporate Sector Risk Scores, June 2019

Ratings history

South African National Roads Agency SOC Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial/ Last	National	A _(ZA)	Stable	Aug 2019
Issuer Short Term	Initial/ Last	National	A1 _(ZA)	-	Aug 2019
Issuer Long Term	Initial/ Last	International	BB-	Stable	Aug 2019

RISK SCORE SUMMARY

Risk score	14.00
Operating environment	14.50
Country risk score	7.50
Sector risk score	7.00
Business profile	2.50
Corporate profile position	3.00
Management and governance	-0.50
Financial profile	-8.00
Earnings	-3.00
Capitalisation	-5.00
Liquidity	0.00
Comparative profile	5.00
Government support floor	5.00
Peer comparison	0.00

Glossary

Capital Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Debtor	The party indebted or the person making repayments for its borrowings.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Forecast	A calculation or estimate of future financial events.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Income	Money received, especially on a regular basis, for work or through investments.
Insolvency	When an entity's liabilities exceed its assets.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Pricing	A process of determining the price of a debt security.
Redemption	The repurchase of a bond at maturity by the issuer.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	Current; ordinarily less than one year.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Upgrade	The rating has been raised on its specific scale.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The credit rating has been disclosed to South African National Roads Agency SOC Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

South African National Roads Agency SOC Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from South African National Roads Agency SOC Limited and other reliable third parties to accord the credit rating included:

- The audited financial results up to 30 June 2018
- Four years of comparative audited numbers
- Unaudited interim results up to 28 February 2019
- Budgeted financial statements for 2019
- The current year reinsurance summary
- Statutory returns to 30 June 2018, and
- Other related documents.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2019 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.