MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades SANRAL to Baa3 and places ratings on review for further downgrade

Global Credit Research - 06 Sep 2013

Johannesburg, September 06, 2013 -- Moody's Investors Service has today downgraded the South African National Roads Agency Limited's (SANRAL) long-term issuer ratings to Baa3 (global scale, local and foreign currency) and to A3.za (South African national scale), from Baa2 and A2.za to reflect the company's intensifying cash flow pressures. In addition, Moody's has placed these ratings and the P-3 (global scale short-term rating) on review for further downgrade.

RATING RATIONALE

--RATIONALE FOR DOWNGRADE AND REVIEW

The decision to downgrade SANRAL's rating is driven by the significant deterioration in the company's cash flows, which are necessary to meet its operating expenses and to service its very high debt levels acquired to fund the Gauteng Freeway Improvement Project (GFIP). This cash-flow strain has arisen from the prolonged delay in the realisation of e-toll revenue earmarked to repay GFIP-related debt, and casts doubt on the company's financial health in the medium term.

Moody's notes that over the past five years SANRAL acquired ZAR20 billion ($1.9 billion) in debt to finance the construction of GFIP. Approximately 50% of the debt is guaranteed by the Government of South Africa (Baa1 negative). SANRAL's debt stock has substantially increased to an estimated ZAR36.2 billion ($3.5 billion) as at 31 March 2013, up from ZAR6.2 billion in 2007, mainly due to GFIP. Moreover, further borrowings are anticipated in the interim, with the entity's debt stock projected to total ZAR39 billion at FYE2014.

E-tolling was initially expected to begin in June 2011 and its revenue was expected to absorb the company's mounting debt-service costs. Whilst SANRAL has ZAR15 billion available in its guarantee from the South African government to issue more debt to meet its operating requirements for the next few months, including redeeming the ZAR2 billion scheduled for 31 October 2013, additional debt issuance will further increase its already high finance charges and will put more pressure on SANRAL's finances even with the anticipated realization of e-toll revenues as budgeted by SANRAL for the period 2013/14 -- 2015/16.

--FOCUS OF THE REVIEW

Moody's review in the next three months will focus on (1) SANRAL's ability to manage its current cash challenges, including the upcoming redemption of ZAR2 billion in debt; (2) the entity's ability to implement e-tolling and realize revenue that is crucial to meet operating costs and mitigate risks associated with SANRAL's high finance charges.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's could confirm SANRAL's Baa3/A3.za and P-3 issuer ratings in the event of it stabilizing its cash position without a major recourse to debt, and its ability to implement e-tolling and realize additional revenues necessary to support the entity's financial performance in the medium-term.

Conversely, SANRAL's inability to implement e-tolling, with a consequent further tensions in cash flows going forward, accompanied by heavy reliance on debt issuance as a substitute to cover operating costs will exert downward rating pressure.The intensity of the rating transition will reflect the severity of SANRAL's financial pressures and the deterioration in its credit metrics, including debt-service capacity.

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 to the central government which has determined SANRAL's mandate to develop, finance and manage the national road infrastructure in South Africa.

The principal methodology used in this rating was Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Moody's National Scale 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 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 ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Methodology published in October 2012 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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