

**Rating Action: Moody's assigns negative outlook to SANRAL's ratings, affirms Baa3/A3.za ratings**

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Global Credit Research - 19 Jan 2015

Johannesburg, January 19, 2015 -- Moody's Investors Service has today changed to negative from stable the outlook on South African National Roads Agency Limited's (SANRAL) issuer rating and at the same time affirmed the Baa3/P-3 (global scale, local and foreign currency) and A3.za/P-2.za (South African national scale) ratings.

Moody's has also lowered SANRAL's Baseline Credit Assessment (BCA) to b2 from ba3.

**RATING RATIONALE**

The change in outlook and lower BCA reflect Moody's assessment of the decrease in SANRAL's financial strength following weaker than expected e-toll revenue collection from the Gauteng Freeway Improvement Project (GFIP) scheme and SANRAL's plans to increase debt issuance.

Non-payment of e-tolls has increased following a decision by the Province of Gauteng to establish a panel to assess the impact of e-tolls in doing business in the province, which sparked speculation among the general public that the e-toll project may be abandoned. This caused e-toll revenue collections to drop by 38% from July to November 2014, which in turn led SANRAL to revise downward its expected e-toll revenue for the fiscal year 2014-15 to ZAR907 million, against ZAR1.4 billion previously.

As e-toll revenue was planned to be the main contributor towards the reduction of borrowing requirements, as well as help improve cash flows, the lower than expected revenues will likely lead to an increase in SANRAL's debt level. Moody's anticipates that SANRAL's debt will increase more than expected and reach ZAR44.1 billion by 31 March 2015, from ZAR39.6 billion at 31 March 2014.

Moody's affirmation of SANRAL's ratings at Baa3/A3.za reflects the explicit guarantee on 74% of its total debt and implied guarantee on the remaining 26% from the national government as of 31 December 2014. In addition, SANRAL could legally enforce e-toll payments through the SANRAL Act no 7 of 1998 and Transport and Related Matters Amendment Act of 25 September 2013, although these are yet to be implemented. Moody's will continue to monitor e-toll collections in the coming months as well as SANRAL's cash flow and any potential impact on its ratings.

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.

**WHAT COULD CHANGE THE RATING UP/DOWN**

A stabilisation of the outlook would require evidence of SANRAL's capacity to generate strong e-toll revenue collections. A structural improvement in the company's financial position, leading to lower than anticipated borrowing needs, could also apply upward pressure.

The inability to generate sufficient e-toll revenue, leading to deteriorating cash flows and growing borrowing needs, would apply downward rating pressure. Any indication of a loosening of the sovereign's willingness to support SANRAL would likely lead to a downgrade.

The principal methodology used in this rating was Government-Related Issuers published in October 2014. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

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information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

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