



## RATING ACTION COMMENTARY

# Fitch Affirms Transnet SOC Ltd. at 'BB-'; Withdraws Rating

Mon 21 Jun, 2021 - 11:21 AM ET

Fitch Ratings - London - 21 Jun 2021: Fitch Ratings has affirmed South Africa-based Transnet SOC Ltd's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) and senior unsecured rating at 'BB-'. The Outlook on the IDR is Negative. The ratings have simultaneously been withdrawn. A full list of rating actions is below.

Feedback

The ratings have been withdrawn for commercial reasons.

## KEY RATING DRIVERS

Transnet's rating is constrained by the sovereign's rating through our assessment of the strength of the links with the sovereign under our Government-Related Entities (GRE) Rating Criteria and Parent and Subsidiary Rating Linkage (PSL) Criteria.

Transnet's 'bb' Standalone Credit Profile (SCP) incorporates the near- to medium-term impact of the Covid-19 pandemic on Transnet's operational performance and financial profile as well as the company's strong business profile, characterised by its near monopolistic market position in freight rail, services to eight commercial sea ports and multi-product pipeline for hydrocarbon products. Fitch views demand volatility in line with economic cycles in the port and pipelines segment, but the freight rail segment (about 55% of EBITDA for FY20) is sustained by long-term take-or-pay contracts with diversified counterparties, including miners, industrial companies and general freight trade.

## DERIVATION SUMMARY

Fitch assesses Transnet's SCP at 'bb', benefiting from its strong business. Structural weaknesses in the operating environment, funding needs due to capex, and legacy irregular expenditure issues constrain the SCP.

The SCP is lower than JSC Russian Railways (bbb+), which has higher geographical diversity and a more conservative financial profile.

Transnet's national scale rating of 'AA(zaf)/Stable' is lower than Namibian Port Authority (NamPorts, AAA (zaf)/Stable) primarily due to the latter's high level of debt guaranteed by the Namibian government.

## **RATING SENSITIVITIES**

Not applicable

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

## ISSUER PROFILE

Transnet is an integrated freight transport company that provides freight transport and logistics services in South Africa. The company operates through six divisions: freight rail, engineering, national ports authority, port terminals, pipelines and properties.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Transnet's ratings were linked to the South African sovereign rating.

## ESG CONSIDERATIONS

Financial Transparency: The Financial Transparency score of '4' reflects insufficient reporting systems to identify all irregular expenses as a result of non-compliant procurement under prior years' contracts. This has a negative impact on its credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

Following the rating withdrawal Fitch will no longer provide ESG Relevance Scores for the entity.

### RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Transnet SOC Ltd.	LT IDR	BB- Rating Outlook Negative	Affirmed	BB- Rating Outlook Negative
	LT IDR	WD	Withdrawn	BB- Rating Outlook Negative
	ST IDR	B	Affirmed	B

**ENTITY/DEBT****RATING****PRIOR**ST WD  
IDR

Withdrawn

B

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Raman Singla**

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## **APPLICABLE CRITERIA**

[Parent and Subsidiary Linkage Rating Criteria \(pub. 26 Aug 2020\)](#)

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 05 Jan 2021\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub. 30 Apr 2021\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Transnet SOC Ltd.

UK Issued, EU Endorsed

## UNSOLICITED ISSUERS

Transnet SOC Ltd. (Unsolicited)

With Rated Entity or Related Third Party Participation Yes

With Access to Internal Documents Yes

With Access to Management Yes

Feedback



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### UNSOLICITED ISSUERS

**ENTITY/SECURITY**

**ISIN/CUSIP**

**RATING TYPE**

**SOLICITATION  
STATUS**

Feedback

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
Transnet SOC Ltd. ZAR 1.5 bln 10% Gtd Bonds 30 Mar 2029	XS0095884424	National Long Term Rating	Unsolicited
Transnet SOC Ltd.	-	Stand-Alone Credit Profile	Unsolicited
Transnet SOC Ltd.	-	Local Currency Short Term Issuer Default Rating	Unsolicited
Transnet SOC Ltd. ZAR bond/note	-	National Long Term Rating	Unsolicited

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Corporate Finance: Leveraged Finance   Africa   South Africa

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Feedback