



Rating_Action: Moody's changes Transnet's outlook to stable from negative; affirms Ba3 rating

06Feb2023

London, February 06, 2023 – Moody's Investors Service ("Moody's") has today changed the outlook on all ratings of Transnet SOC Ltd. ("Transnet" or "the company") to stable from negative. At the same time, Moody's has affirmed most of Transnet's ratings, including the corporate family rating (CFR) of Ba3, the national scale senior unsecured MTN programme (Medium-Term Note) rating of A2.za and the national scale other short-term rating of P-1.za. The Baseline Credit Assessment (BCA), a measure of standalone credit quality prior to any assessment of potential extraordinary government support has also been affirmed at b2. No action was taken on the Non-Prime (NP) short term rating.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The outlook on Transnet's ratings was changed to stable from negative because the company's liquidity has improved after it announced that it successfully priced a new 5-year \$1 billion international bond that will be issued on 6 February. Moody's now considers Transnet's liquidity as marginally adequate to cover upcoming debt maturities over the next 12 to 18 months, as well as planned capital expenditure.

Transnet's maturity profile remains concentrated with a total of ZAR90 billion of debt coming due over the 5 years from April 2023 to March 2028. Continued strong access to debt capital markets therefore remains crucial for the success of necessary ongoing refinancing efforts. Moody's believes that the February 2023 international bond issuance has reconfirmed Transnet's ability to access international capital markets, which should also ease the way for further refinancing activity in the local South African debt market and puts liquidity management on an improving trend.

Moody's views liquidity management as a governance factor and has therefore revised the financial policy ESG score to 4 from 5 to reflect highly negative, rather than very highly negative exposure to financial management. The compliance and reporting score was also revised to 4 from 5 to reflect that the company was able to obtain an unqualified audit opinion for the financial year ending March 2022, which reduces its exposure to compliance and reporting risks to highly negative from very highly negative. At the same time the governance issuer profile score (IPS) was revised to IPS-4 from IPS-5 to reflect an overall improvement in exposure to governance risks to highly negative from very highly negative.

Proceeds of the bond are sufficient to repay a ZAR12.6 billion short term bridge loan the company entered in July 2022 to repay a maturing \$1 billion international bond. After full repayment of the bridge, the new bond provides additional liquidity that can be used, together with Transnet's cash balance, to repay other remaining maturities due before the end of the March 2023 financial year. While debt maturities due in the next financial year, ending in March 2024 remain substantial at ZAR14.6 billion, Moody's believes Transnet has sufficient liquidity

sources to fully address these maturities as well. These liquidity sources include the company's cash balance, cash expected to be generated from operations, announced government support of ZAR5.8 billion, proceeds from the sale of some non-core assets, as well as its fully available ZAR13.3 billion short term call facilities as of September 2022. Although most of the call loans can be canceled by lenders upon 365 days' notice, these loans have historically always been rolled over.

Moody's however also notes that Transnet's operational recovery remains slow, with Moody's adjusted EBITDA for the six months ending September 2022 down 3% from a year earlier and EBITDA for the twelve months ending September reaching ZAR23.3 billion against March 2022 full year EBITDA of ZAR23.7 billion. Combined with rising interest rates, Moody's expects this will lead to continued EBIT/ interest coverage below 1.0x until at least the end of financial year March 2025. This continues to expose the company to a degree of vulnerability when refinancing upcoming maturities and could over time again weaken its liquidity profile.

Transnet falls under Moody's Government-Related Issuers Methodology given its 100% government ownership and importance to the South African economy. The strong link between Transnet and the Government of South Africa (Ba2 stable) is reflected by Moody's assumptions of 'Very High' default dependence with the Government of South Africa and 'Strong' extraordinary support from the government, which supports a two-notch uplift from the BCA.

Transnet's Ba3 CFR continues to reflect the company's solid business profile with ownership of long-term infrastructure assets and a monopoly position in South Africa that provides a degree of cash flow visibility. The Ba3 CFR is supported by its (1) monopoly on the South African railway infrastructure and freight services; (2) ownership of South Africa's eight seaports and operation of a large part of South Africa's stevedoring services; and (3) operation of strategically important hydrocarbon pipelines. At the same time, the rating also reflects; (1) weak free cash flow generation due to high capital spending requirements; (2) weak EBIT/ interest coverage due to increasing cost of debt and slow operational recovery; (3) ongoing large refinancing requirements over the next five years and only marginally adequate liquidity, which requires continued strong access to capital markets; (4) aging infrastructure causing operational disruption and reducing capacity; and (5) regulatory uncertainty on tariff structures.

STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Transnet will continue to strengthen its liquidity profile, while operations will gradually recover to pre-Covid levels over the next 2-3 years.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's would consider an upgrade if Transnet's operations improved materially and EBIT/ interest expense exceeds 1.0x, combined with a comfortable liquidity profile, all on a sustainable basis. An upgrade of the CFR could also be possible if Transnet received material direct support from the South African government or if South Africa's government bond rating was upgraded.

Transnet's rating is likely to face downward pressure if the company's liquidity weakens. In the absence of a meaningful improvement in Transnet's fundamental credit profile, a downgrade of South Africa's government bond rating would also likely lead to a downgrade of Transnet's ratings given our assessment of strong credit linkages between the two.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Transnet SOC Ltd.

.... Baseline Credit Assessment, Affirmed b2

.... Probability of Default Rating, Affirmed Ba3-PD

....LT Corporate Family Rating, Affirmed Ba3

....Subordinate Medium-Term Note Program, Affirmed (P)B1

....NSR Subordinate Medium-Term Note Program, Affirmed Baa2.za

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Ba3

....NSR Senior Unsecured Medium-Term Note Program, Affirmed A2.za

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Ba3

....NSR Other Short Term, Affirmed P-1.za

Outlook Actions:

..Issuer: Transnet SOC Ltd.

....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Surface Transportation and Logistics published in December 2021 and available at <https://ratings.moodys.com/api/rmc-documents/360641>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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The local market analyst for this rating is Lisa Jaeger, +971 (423) 796-59.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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