MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Transnet's Ba2 CFR; negative outlook

10 Jun 2021

Paris, June 10, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the Ba2 long term corporate family rating (CFR) and the Aa2.za national scale senior unsecured MTN program (Medium-Term Note) rating of Transnet SOC Ltd. (Transnet). Transnet's baseline credit assessment (BCA), a measure of standalone credit quality prior to any assessment of potential extraordinary government support, has been lowered to ba3 from ba2. The outlook remains negative.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The lowering of Transnet's BCA to ba3 from ba2 reflects Moody's view that Transnet's liquidity profile has weakened following delays in refinancing. Bond maturities of ZAR6 billion that came due in May 2021 were met from existing liquidity sources, including cash and drawings under the company's short-term liquidity facilities, rather than through raising of new long-term debt. This reduces the company's available liquidity sources and increases refinancing risk ahead of a USD1 billion international bond maturity (which was fully cross-currency hedged at the time of issuance) due in July 2022.

For the fiscal year ending March 2022, Transnet has a total of ZAR14.6 billion of debt maturities. After redemption of the ZAR6 billion bond maturities in May, c. ZAR8 billion remain due from June 2021 until March 2022. In addition, we understand the company has drawn a portion of its ZAR13.3 billion short-term liquidity facilities, which Moody's considers due over the short-term, as lenders can request repayment at any point upon 360 days' notice, even though lenders have in the past rolled over facilities. Including the bond maturity due in July 2022, Moody's estimates the company has c. ZAR25 billion of debt maturing over the next 14 months until the end of July 2022, the majority of which it will not be able to meet from free cash flow. Transnet therefore significantly relies upon continued access to the bond and loan markets for regular roll overs and new issuances. The maturity profile remains concentrated in the following years as well, with a total of c. ZAR40 billion due between August 2022 and March 2026.

Transnet is actively working on a funding plan and Moody's believe the company will be able to secure the required refinancing in time to meet all obligations due until July 2022. The company has historically had a good track record in refinancing upcoming maturities through diversified sources of funding, benefits from South Africa's deep financial market and maintains good relationships with its bank lenders. However, delays in refinancing as experienced for the May 2021 maturities illustrate the vulnerability of Transnet's liquidity. Delays can be caused by event risks that are out of the company's control and could make accessing new financing temporarily more difficult.

The operating environment in South Africa remains challenging given ongoing coronavirus related uncertainty. Moody's expect Transnet's revenue, EBITDA and cash flows to be significantly reduced for the fiscal year ending March 2021, but to recover over the following years to pre-Covid levels as the company is already benefitting from an increased commodity price environment and will see general freight volumes normalize to pre-Covid levels as part of the macro-economic recovery in South Africa. Moody's expects GDP to grow by 4.0% this year, after a 7.0% decline in 2020.

A significant portion of the company's bank loans are subject to an interest coverage maintenance covenant. Moody's expects the company to be in breach of the covenant for the March 2021 test date, but anticipates that lenders will provide waivers if required given the unprecedented lockdown conditions caused by the coronavirus pandemic.

The decision to affirm Transnet's Ba2 CFR reflects 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.

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 negative) 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 one-notch uplift from the BCA.

Transnet's Ba2 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; (3) operation of strategically important hydrocarbon pipelines; and (4) good profitability, as reflected by its adjusted EBITDA margin that Moody's expects to remain in excess of 30% even during the March 2021 financial year that was severely impacted by the pandemic.

At the same time, the ratings also reflect (1) Transnet's weak free cash flow generation given its ongoing capital spending requirements; (2) its high financial debt levels; (3) significant debt maturities over the next several years which requires strong access to debt markets in order to refinance; and (4) regulatory uncertainty on tariff structures.

OUTLOOK

The negative outlook is aligned with the negative outlook on the sovereign rating. The negative outlook also reflects growing refinancing risk and pressure on liquidity as a $1bn international bond maturity in July 2022 draws closer.

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

Transnet's rating is constrained by the government of South Africa's rating. Given the negative outlook, an upgrade is unlikely at this time. Subject to an upgrade of the sovereign bond rating of South Africa, Moody's would consider an upgrade of Transnet's rating only if the BCA was raised. Moody's would consider raising Transnet's BCA if the company's liquidity profile improved and if Moody's adjusted debt/ EBITDA reduced below 4.0x and EBIT/ interest expense exceeded 2x, all on a sustained basis.

Transnet's BCA is likely to face downward pressure if the company's liquidity position continues to deteriorate, which could be the result of delays in raising new financing well ahead of the $1 billion international bond maturity in July 2022 or from delays in repaying short term facilities used to bridge the repayment of maturities that came due in May 2021. The BCA would also be under pressure if consolidated FFO/debt trends below 10% while EBIT/interest expense remains below 1.25x on a sustained basis. A lowering of the BCA would lead to a downgrade of Transnet's ratings. A downgrade of South Africa's government bond rating would also 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.

....LT Corporate Family Rating, Affirmed Ba2

....Probability of Default Rating, Affirmed Ba2-PD

....ST Issuer Rating, Affirmed NP

....Other Short Term, Affirmed (P)NP

....NSR Senior Unsecured Medium-Term Note Program, Affirmed Aa2.za

....NSR Subordinate Medium-Term Note Program, Affirmed A2.za

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

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

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Ba2

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Ba2

....Senior Unsecured Regular Bond/Debenture, Affirmed Ba2

....Commercial Paper, Affirmed NP

Outlook Actions:

..Issuer: Transnet SOC Ltd.

....Outlook, Remains Negative

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Surface Transportation and Logistics published in May 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113382 , and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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