



## Rating Action: Moody's confirms Transnet's Ba3 CFR; negative outlook

---

14 Oct 2022

London, October 14, 2022 -- Moody's Investors Service ("Moody's") has today confirmed those ratings of Transnet SOC Ltd. ("Transnet" or "the company") that had been on review for downgrade. This includes the company's 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 confirmed at b2. The outlook on all ratings has been changed to negative from ratings under review. This rating action concludes the review that was initiated on Transnet on 8 June 2022.

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

### RATINGS RATIONALE

Transnet's ratings were confirmed because the company's liquidity has improved after it raised new financing in the form of a \$685 million 5-year amortizing term loan and a bridge to bond facility that allowed it to repay its \$1 billion international bond maturity on 26 July 2022. The outlook was changed to negative because the company's liquidity profile remains under pressure, albeit not as acute as before the new financings were raised. Transnet remains reliant on accessing debt capital markets to refinance the bridge facility and other maturing debt within the next twelve months. Given ongoing volatile market conditions Moody's expects that it will be challenging to access capital markets within a narrow timeframe. Moody's however also continues to believe that strong support from the South African government exists in case it would be required.

Moody's expects that as of the end of September, Transnet had sufficient liquidity to meet investment needs and debt amortization payments coming due over the next twelve months. These liquidity sources are comprised of the company's cash balance, cash expected to be generated from operations, proceeds from the sale of some non-core assets, as well as its fully available ZAR13.3 billion short term call facilities. Although most of the call loans can be canceled by lenders upon 365 days' notice, these loans have historically always been rolled over. Transnet has not received any notice of cancellation so far and therefore the loans remain available until at least October 2023. Debt maturities until the end of September 2023 amount to ZAR22 billion, when including drawings under the bridge to bond, which Moody's expects to have a short term maturity. Transnet's debt maturity profile remains concentrated beyond the next twelve months, with an additional ZAR12 billion of debt maturing between September 2023 and March 2024, which Moody's expects can only be repaid if Transnet succeeds in raising additional debt. Overall maturities over the next 4.5 years, from October 2022 until March 2027 amount to ZAR76 billion. Apart from refinancing risk, this also exposes the company to materially rising interest costs.

With regards to corporate governance, Transnet has achieved incremental improvements in

terms of compliance and reporting, but Moody's continues to monitor improvements in the company's financial and liquidity risk management where the company remains vulnerable to refinancing exposure over the next 12 to 18 months. After the National Treasury granted an exemption for the reporting of legacy breaches under the Public Finance Management Act (PFMA), the company was able to release audited financial statements for the financial year ending March 2022 within a timely manner following the end of the financial year and obtained an unqualified audit opinion for the first time since 2018. The timely reporting and clean audit opinion avoided a debt covenant breach, which over the past four years frequently caused delays in securing new financing. Moody's however notes that most of the company's debt agreements also contain a cash interest coverage maintenance covenant that the company is at risk of breaching in the near term, especially as interest costs on new debt are rising. While Moody's expects lenders to remain generally supportive as demonstrated in the past, any covenant breaches would delay the company's access to refinancing.

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.

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 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 ratings also reflect (1) liquidity pressure over the short term and large debt maturities over the next five years which requires strong access to debt markets to refinance; (2) weak free cash flow generation due to high capital spending requirements; (3) aging infrastructure causing operational disruption and reducing capacity; and (4) regulatory uncertainty on tariff structures.

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

Given the negative outlook, an upgrade is unlikely at this time. Moody's would consider stabilizing the outlook at the current rating level if Transnet secures long term financing to replace the short term bridge loan that was used to redeem a \$1 billion bond maturity in July 2022. To consider a rating upgrade, we would further expect to see a sustainably restored liquidity profile and improved liquidity management. We would also expect to see operational improvements and EBIT/ interest expense to exceed 1.0x on a sustained basis. An upgrade of the CFR would require raising the BCA by at least two notches while the sovereign bond rating of South Africa remains Ba2 or improves.

Transnet's BCA is likely to face downward pressure if Transnet's liquidity weakens. A downgrade of the BCA is likely to lead to a downgrade of Transnet's ratings. 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

Confirmations:

..Issuer: Transnet SOC Ltd.

....LT Corporate Family Rating, Confirmed at Ba3

....Probability of Default Rating, Confirmed at Ba3-PD

....Baseline Credit Assessment, Confirmed at b2

....BACKED Senior Unsecured Regular Bond/Debenture, Confirmed at Ba3

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

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

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

....NSR Subordinate Medium-Term Note Program, Confirmed at Baa2.za

....NSR Other Short Term, Confirmed at P-1.za

Outlook Actions:

..Issuer: Transnet SOC Ltd.

....Outlook, Changed To Negative From Rating Under Review

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.

Moody's National Scale Credit 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 credit 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 ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit Rating Methodology published in August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1280297](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1280297).

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>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on <https://ratings.moodys.com>.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

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

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](https://ratings.moodys.com/documents/PBC_1288235).

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

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moodys.com>.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Raffaella Altamura

VP - Senior Credit Officer  
Infrastructure Finance Group  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London, E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

David G. Staples  
MD - Corporate Finance  
Infrastructure Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London, E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING,**

## OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's

Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations – Corporate Governance – Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements."