

## CREDIT RATING ANNOUNCEMENT

### GCR accords Eqstra Investments a rating of BBB<sub>(ZA)</sub>; Outlook Stable

Johannesburg, 08 November 2016 -- Global Credit Ratings has accorded national scale ratings to Eqstra Investments (Proprietary) Limited of BBB<sub>(ZA)</sub> in the long term and A3<sub>(ZA)</sub> in the short term; with the outlook accorded as Stable.

#### SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Eqstra Investments (Proprietary) Limited ("Eqstra Investments") based on the following key criteria:

Effective 8 November 2016, enX Group Limited ("enX") has acquired 100% of the equity in Eqstra Investments, that owns the Industrial Equipment business ("IE") and Fleet Management and Logistics businesses ("FML") which previously formed part of Eqstra Holdings Limited ("Eqstra Holdings"). enX is a holding company listed on the JSE Stock Exchange, which, following the transaction, has two main operating subsidiaries. Eqstra Investments (the rated entity) holds all the businesses acquired from Eqstra Holdings, and Friedshel 1320 (Proprietary) Limited will hold all the enX businesses that existed prior to the transaction. Eqstra Corporation Limited ("Eqstra Corp") is the primary vehicle through which debt funding is raised for the South-African based businesses of Eqstra Investments and functions as its treasury centre. The UK based IE business has not been considered for the purposes of these ratings, as its debt and earnings are ring-fenced from the South African operations.

Both the IE and FML businesses housed under Eqstra Investments report leading market positions in their respective industries, led by long serving management teams who are being incentivised to remain within the businesses. IE's business is built around its exclusive distribution of Toyota Forklifts in South Africa, which have a local market share of c.35%. Although the forklift market in South Africa has been negatively impacted by the weak economic environment, earnings have been sustained by its strong aftersales offering and the sale/re-leasing of second hand equipment. The UK forklift business has a 5% market share (in a much larger market), and continues to report solid earnings.

FML has diversified into a full service fleet management offering, with leasing now accounting for less than half of revenue and value added services and the sale of second hand vehicles comprising the rest. Whilst most income is annuity based (finance income and service fees), FML does assume risk on the residual value of vehicles and is now underwriting some insurance products. Around 91% of revenue derives from blue chip corporates. FML is in the final stages of implementing a new IT system that will substantially enhance its ability to provide customer services. Both IE and FML employ conservative debtors provisioning policies and have evidenced strong debtor book performance. In FML, over 70% of customers are outstanding less than 30 days, while in IE only 1.9% of debtors have been written off.

Forecasts for Eqstra Investments evidence steady revenue growth, whilst earnings margins should also widen over the forecast period. This would see SA operating profit rise to around R1bn over the medium term. Whilst the strategies being implemented to drive growth provide some comfort that forecasts can be met, the inherent uncertainty in utilising forecasts has been taken into account in according the ratings.

Following the refinancing of debt ahead of the transaction, Eqstra Investments now evidences a more balanced funding structure. Debt maturities are well spread and enX has negotiated standby facilities to cover redemptions, should cash flows or other refinancing options not be available. While credit protection metrics remain somewhat high at the effective date of the transaction, they all comply with debt covenants, with sufficient excess headroom. If earnings progress as projected, credit protection metrics should improve steadily to moderate levels over the forecast period. Cash flows from interest income provide a further avenue to meet debt obligations and are thus positively considered.

GCR views the enX guarantee in favour of Eqstra Corp's debt obligations as providing additional protection to creditors. However, the value of the guarantee is limited by the relatively small size of the existing enX operations (including interest and preference dividend income) relative to Eqstra Investments. Thus, enX cash flows alone would not be sufficient to honour Eqstra Corp's obligations. The major advantage of the guarantee is enX's access to external capital, either through its core shareholders or its ability to raise funding through a public share issuance.

Upward rating movement is premised on the attainment of revenue and earnings forecasts over the medium term. A reduction in debt and gearing metrics would also be positively considered. Failure to successfully integrate the transaction or to extract the projected benefit from the acquisitions will likely result in weaker earnings. This would impact cash flows and could prejudice Eqstra Investments' ability to meet debt redemption, or would lead to higher gearing metrics.

**NATIONAL SCALE RATINGS HISTORY**

Initial rating (November 2016)  
Long term: BBB<sub>(ZA)</sub>; Short term: A3<sub>(ZA)</sub>  
Outlook: Stable

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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Corporate Entities, updated February 2016

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**GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY**

Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.



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Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Redemption	The repurchase of a bond at maturity by the issuer.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.

## SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Eqstra Investments participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Eqstra Investments with no contestation of the rating.

The information received from Eqstra Investments and other reliable third parties to accord the credit ratings included:

- Pro-forma historical accounts for the IE and FML businesses for the period F13 to F16
- Audited results for IE and FML for the year to 30 June 2016 (as part of the Eqstra Holdings results)
- Management forecast model for Eqstra Investments and enX
- Credit risk policies for IE and FML
- Full details of the refinancing and new funding facilities
- JSE listing and equity raise documentation
- Relevant analyst presentations
- Signed copies of the relevant legal documentation, including Common Terms Agreement, enX Note Holder Guarantee, Mezzanine loan agreements

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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