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## Research Update:

# enX Leasing Investments 'zaA-' South Africa National Scale Rating Affirmed

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## Research Update:

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## Overview

- enX Group, the listed parent of operating leasing company enX Leasing, announced last week that it has entered into a process that could result in the divestment of all or part of Eqstra Fleet Management and Logistics (EFML).
- EFML is a material segment within enX Leasing, which contributes 45%-55% of enX Leasing's consolidated EBIT.
- We are affirming our 'zaA-' long-term South Africa national scale rating on enX Leasing.
- We may lower or raise the rating in the next few quarters depending on developments in and the outcome of the divestment process.

## Rating Action

On Nov. 6, 2018, S&P Global Ratings affirmed its 'zaA-' long-term South Africa national scale rating on South Africa-based operating leasing company enX Leasing Investments (Pty) Ltd.

## Rationale

The rating action reflects that we may lower or raise the rating in the next few quarters, depending on developments in and the outcome of the divestment process of Eqstra Fleet Management and Logistics (EFML), which contributes 45%-55% of enX Leasing's consolidated EBIT.

enX Leasing's divestment of EFML, if successful, could result in us revising our assessment of the business and credit metrics in its remaining businesses. EFML comprises around half of enX Leasing's current earnings and asset base. If enX Leasing fully divests EFML, its remaining businesses would comprise its industrial equipment business in South Africa, and its forklift leasing businesses in South Africa and the U.K.

The divestment would require engagement with noteholders of enX Leasing's domestic medium-term note program and could result in either early redemption of all issued notes under the program or migration of the note program to the purchaser of EFML (which would require noteholder consent). Furthermore, the company would likely be required to restructure its existing bank debt to a level commensurate with remaining industrial equipment businesses.

In the absence of a material divestment, we do not anticipate changes to the company's stand-alone credit quality over the next 12 months. Our current rating incorporates our expectation that enX Leasing's businesses will not experience major operational setbacks, that profitability will remain at its current level, and that its access to external sources of capital and its liquidity will remain adequate.

We may lower or raise the rating over the next few quarters depending on developments in and the outcome of the divestment process. For example, we could lower the rating if the divestment process is successful, and we conclude that any de-leveraging efforts resulting from the divestment do not adequately compensate for the smaller scale and more limited product diversification of the remaining businesses. We could also lower the rating if uncertainty surrounding the ongoing divestment process were to hamper the company's ability to raise capital for upcoming maturities.

We could raise the rating if the divestment process is successful, we do not believe that the business is materially impacted by the smaller scale of remaining operations, and we conclude that the company's de-leveraging efforts, strategy, and financial policy would likely result in lower leverage levels going forward.

## **Ratings Score Snapshot**

National Scale Rating: zaA-

Business risk: Weak

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Weak

Financial risk: Significant

- Cash flow/Leverage: Significant

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Negative (-1 notch)

## Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria - Corporates - Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed

enX Leasing Investments (Pty) Ltd.  
Issuer Credit Rating  
South Africa National Scale                      zaA-/--/--

## Regulatory Disclosures

- Primary Credit Analyst: Rishav Singh, Associate
- Rating Committee Chairperson: G.Andrew Stillman
- Date initial rating assigned: Sept. 20, 2018
- Date of previous review: Sept. 20, 2018

## Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published

criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

#### Materials Used in The Credit Rating Process

Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

## Glossary

- **Business risk profile:** This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).
- **Capital:** The sum of equity and debt.
- **Comparable rating analysis:** This involves taking a holistic review of a company's stand-alone credit risk profile (SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the midpoint, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- **Competitive advantage:** The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- **Competitive position:** Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- **Country risk:** This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- **Creditworthiness:** Ability and willingness of a company to meet its debt and debt-like obligations; measured by assessing the level current and

future resources relative to the size and timing of its commitments.

- **Diversification/portfolio effect:** Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- **Earnings:** Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- **EBIT:** Earnings before interest and tax.
- **Financial risk profile:** This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- **Industry risk:** This addresses the major factors that affect the risks that companies face in their respective industries.
- **Issuer credit rating:** This is a forward-looking opinion of an obligor's overall creditworthiness.
- **Leverage:** The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- **Liquidity:** This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- **Management and governance:** This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- **Stand-alone credit profile (SACP):** S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.

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