S&P Global
Ratings

RatingsDirect®

Research Update:

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

**July 22, 2019**

## Rating Action Overview

- enX Group, listed parent of operating leasing company enX Leasing Investments (enX Leasing) has entered into a definitive subscription agreement with Bidvest for the divestment of Eqstra Fleet Management and Logistics (EFML).
- EFML is a material operating segment within enX Leasing, contributing 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 the rating following the transaction close depending on our assessment of the company's remaining operations and capital structure.

PRIMARY CREDIT ANALYST

**Rishav Singh**
Johannesburg
(27) 11-214-4856
rishav.singh
@spglobal.com

SECONDARY CONTACT

**Omega M Collocott**
Johannesburg
(27) 11-214-4854
omega.collocott
@spglobal.com

## Rating Action Rationale

The rating action follows the announcement of enX Group that it has entered into a definitive subscription agreement with Bidvest for the divestment of Eqstra Fleet Management and Logistics (EFML), which contributes 45%-55% of enX Leasing's consolidated EBIT, for an enterprise value of South African rand (ZAR) 3.1 billion.

We may lower the rating following the transaction close because we believe the smaller scale of the remaining Eqstra Industrial Equipment (EIE) business in terms of revenues and customers, and increased concentration following its disposal of EMFL business, could have a negative effect on enX Leasing's creditworthiness. The rebalancing of group exposure toward a higher level of trading revenues (as opposed to operating lease) may also weigh on our assessment.

The divestment will require engagement with enX Leasing's domestic medium-term note program's noteholders in order to begin the early redemption of all issued notes under the program. Furthermore, the company will also be required to refinance its existing bank debt to a level that meets the ongoing requirements of the remaining EIE business.

We expect sale proceeds after settlement of EFML-related debt obligations and transaction related costs will amount to ZAR1.1 billion-ZAR1.3 billion. While no clarity on the use of sale proceeds has been provided, we anticipate it will be a combination of returns to shareholders and reinvestement in remaining business segments.

While the transaction proceeds could be used to deleverage the remaining businesses, this appears to be less likely, given that management considers the current leverage level within EIE to be optimal. As such, while debt repayment could improve financial leverage, we anticipate that the overall effect of the divestitures will result in credit metrics commensurate with a lower rating.

We assess enX Leasing's liquidity as adequate. We expect the company's sources of liquidity will exceed uses of liquidity for the upcoming 12 months by at least 1.2x as of June 1, 2019. We note that enX Leasing has flexibility to cut capital expenditure (capex) in a downturn, as it has done in the past. We expect the group will continue to rely on projected cash generation and access to adequate funding sources for its requirements. enX Leasing's successful bond issuances in May and June 2019 indicate there is appetite from debt capital markets.

For the 12 months started June 1, 2019, we calculate that enX Leasing has the following principal liquidity sources:

- Cash and cash equivalents of ZAR161 million.
- Committed undrawn credit lines of ZAR650 million maturing beyond 12 months.
- Forecast cash funds from operations (FFO) of about ZAR1.75 billion.
- Working capital inflows of ZAR190 million.

For the same period, we calculate the following principal liquidity uses:

- Debt maturities of about ZAR340 million.
- Capex of about ZAR1.6 billion–ZAR1.9 billion.

We note that if we consider the 15 month period from June 1, 2019, debt maturities total ZAR660 million.

We could affirm the rating on enX Leasing if the transaction does not close, and the company maintains adequate liquidity and its weighted average credit metrics remain in line with our expectations, specifically FFO to debt above 30% and EBIT interest coverage above 1.3x. We could also affirm the rating if the transaction closes and proceeds are deployed in deleveraging, such that reduced scale and diversification are compensated by a sustainable reduction in enX Leasing's financial risk metrics.

The company's chosen funding strategy exposes it to larger single-debt maturities, so there is a greater mismatch between asset run-offs and debt maturities than usual for industry peers. A change in the capital structure to better reflect global industry norms and improve asset-liability matching could also support the current rating

We could lower the rating once the transaction closes, as a result of the company's smaller scale and lesser diversification. We could also lower the rating if the transaction does not close, leading to elevated refinancing risk on the company's existing capital structure. For example, rating pressure could also emerge if liquidity levels reduce, with sources covering uses by less than 1.2x.

We expect to reassess the rating level once the transaction has concluded. The company expects transaction closing to occur in late 2019 or early 2020.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- 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, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- enX Leasing Investments 'zaA-' South Africa National Scale Rating Affirmed, Nov. 6, 2018

## 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: Nov. 6, 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.

S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.

## 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 mid-point, 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.
- Corporate Industry and Country Risk Assessment (CICRA): Derived by combining an issuer's country risk assessment and industry risk assessment.
- 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: This is earnings before interest and tax.
- Economies of scale: This is the cost advantage that arises with increased size or output of a product.
- 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.
- Free operating cash flow: Cash flow from operations minus capital expenditure.
- Funds from operations: EBITDA minus interest expense minus current tax.
- Group rating methodology: The assessment of the likelihood of extraordinary group support (or conversely, negative group intervention) that is factored into the rating on an entity that is a member of a group.
- 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.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Profitability ratio: Commonly measured using return on capital and EBITDA margins, but can be measured using sector-specific ratios.
- Scale, scope, and diversity: The concentration or diversification of business activities.
- 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.

information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.