

Bulletin:

Transnet SOC Ltd. Ratings Remain On CreditWatch Neg; Progress Noted, But Liquidity And Refinancing Risks Still Elevated

February 23, 2022

JOHANNESBURG (S&P Global Ratings) Feb. 23, 2022--S&P Global Ratings today said that it is keeping its ratings on Transnet SOC Ltd. (Transnet) on CreditWatch with negative implications.

We placed our 'BB-' long-term foreign and local currency issuer credit ratings, 'BB-' foreign and local currency issue ratings on the senior unsecured debt, and 'zaAA' long-term and 'zaA-1+' short-term South Africa national scale ratings on CreditWatch negative on Nov. 26, 2021 (see "Transnet SOC Ltd. 'BB-' Ratings Placed On CreditWatch Negative," published on RatingsDirect). In our CreditWatch placement, we noted that we could lower all our ratings (except on the government-guaranteed issue), potentially by multiple notches, if Transnet is unable to make significant progress toward obtaining covenant waivers, refinancing its upcoming debt maturities, and bolstering its liquidity levels. This could notably also affect our view of a very high likelihood of government support.

In the three months since our CreditWatch placement, Transnet has taken several positive steps toward addressing its covenant, liquidity, and refinancing challenges. In particular, the company obtained waivers on about South African rand (ZAR) 42 billion of loans that were subject to covenant violations at end-November 2021. This enabled Transnet to also engage with lenders regarding its funding plans, and we understand that it is progressing on all the funding initiatives disclosed. These include domestic and foreign debt capital market issuances, a U.S. dollar-denominated syndicated loan of up to \$1 billion, and bilateral loans. Since the beginning of calendar year 2022, Transnet has notably raised ZAR2.5 billion under its domestic medium-term note program.

We note Transnet's progress in addressing its tight liquidity and acute refinancing risks through multiple debt-raising initiatives, but continue to view liquidity and refinancing risks as elevated. The company's interim results for the six months ended Sept. 30, 2021, indicate performance in line with our expectations. However, Transnet's debt repayments for calendar year 2022 are about ZAR22 billion, versus our expectation of cash funds from operations before capital expenditure of about ZAR16 billion, with a \$1 billion notes issue due in July. Consequently, we are extending our CreditWatch by 90 days and will closely monitor Transnet's progress toward bolstering its liquidity and, in particular, refinancing its large July maturity. If we receive information during this 90-day period that provides sufficient clarity on the evolution of liquidity and refinancing risks, we will conduct a review and take appropriate rating action.

PRIMARY CREDIT ANALYST

Munya Chawana
Johannesburg
2711-214-4814
munya.chawana
@spglobal.com

SECONDARY CONTACT

Omega M Collocott
Johannesburg
+ 27 11 214 4854
omega.collocott
@spglobal.com

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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 | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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: Principles Of Credit Ratings, Feb. 16, 2011

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Transnet SOC Ltd. 'BB-' Ratings Placed On CreditWatch Negative," published Nov. 26, 2021, on RatingsDirect.

Glossary

- CreditWatch: This highlights the potential direction of a short- or long-term rating over the short term, typically less than three months. Ratings may be placed on CreditWatch where, in our view, an event or a deviation from an expected trend has occurred or is expected and additional information is necessary to determine the rating impact.
- Creditworthiness: Ability and willingness of a company to meet its debt and debtlike obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Funds from operations: EBITDA minus interest expense minus current tax.

- Government-related entity: An entity that could, under stress, benefit from extraordinary government support in order to meet its financial obligations; or conversely an entity controlled by a government that could be subject to negative extraordinary government intervention if the government is under stress.
- Issue credit rating: This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- 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.
- 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).

This report does not constitute a rating action.

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