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CREDIT OPINION
6 December 2017

Update

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RATINGS

Imperial Group Ltd

Domicile	Johannesburg, South Africa
Long Term Rating	Baa3 , Possible Downgrade
Type	LT Issuer Rating - Fgn Curr
Outlook	Rating(s) Under Review

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Imperial Group Limited

Update of Key Credit Factors Following Sovereign Rating Action

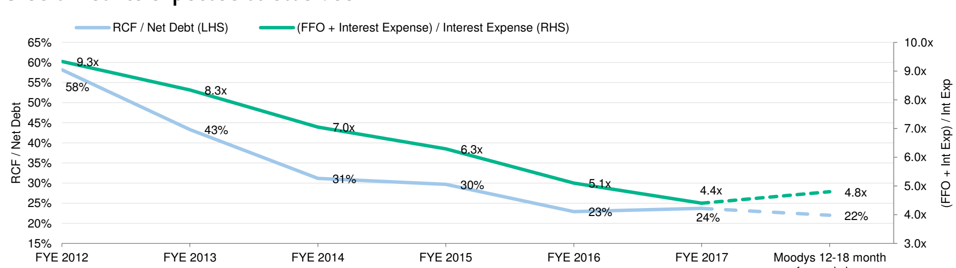
Summary

The placement of Imperial Group Ltd's ("Imperial" or "Group") Baa3 global scale ratings under review for downgrade reflects the credit linkages to the government of South Africa which was placed under review for downgrade on 24 November 2017. It also reflects Imperial's operational concentration in South Africa with 57% of Group revenues and 63% of Group operating profit, which exposes the company to the heightened risks associated with South Africa's operating environment.

Imperial's Baa3/ Aa1.za long-term issuer ratings continue to be based on Moody's perception of the Group's business risk profile, combined with its level of debt protection ratios, and its diversified business structure, which mitigates its complex organization structure. The ratings also recognise Imperial's long history and solid reputation in South Africa, its track record of growth, its strong market position and quality of management also support its ratings.

Furthermore, the rating factors Imperial's ongoing conservative financial policies and its inherent exposure to currency volatility. While credit metrics remain within rating guidance, the declining trend in metrics has eroded the headroom within Imperial's Baa3 rating category. We have noted, through non-core asset disposal over the past 12 months, credit metrics have stabilized.

Exhibit 1
Credit metrics expected to stabilise



Source: Imperial Holdings Limited financials and Moody's Financial Metrics™

Credit strengths

» Strong brand and market presence in South Africa

» Diversified operations by product offering and geography

Credit challenges

» Concentration to South Africa and cyclical vehicle related businesses

» Operating margins exposed to foreign exchange volatility, cost pressures and productivity disruptions

» Declining financial flexibility to accommodate strategic initiatives including debt funded acquisitions

Rating outlook

The ratings under review for downgrade reflects Imperial's operational concentration in South Africa with 57% of Group revenues and 63% of Group operating profit, exposing the company to the heightened risks associated with the operating environment in South Africa. While Imperial's offshore exposure into Africa and Europe is increasing, through acquisitions and higher operating growth, it is not sufficient to fully mitigate against the operational risks faced in South Africa.

Factors that could lead to an upgrade

We do not expect any further upward rating action as Imperial's rating is likely to be constrained at the same level as South Africa's government bond rating given the bulk of Imperial's cash flows and operational exposure are derived in South Africa and the rest of Africa.

Subject to the government of South Africa's bond rating, Moody's would consider an upgrade if Imperial were able to:

» Materially grow its offshore operations into markets with stronger credit profiles relative to South Africa

» Maintain a retained cash flow to net debt ratio above 25%, on a sustainable basis

» Maintain stable and improving operating margins

» Achieve increased debt protection levels, such that Imperial's (funds from operations + interest expense)/interest expense were to exceed 4.0x on a sustainable basis

The credit metrics relative to guidance incorporates some flexibility to accommodate a range of strategic initiatives including debt funded acquisitions. Any debt funded acquisitions would nevertheless have to be assessed in terms of its impact on Imperial's business risk profile, overall capital structure and how it fits strategically in the Group. All metrics are according to Moody's standard adjustments and definitions.

Factors that could lead to a downgrade

Negative pressure could be exerted on the ratings or outlook of Imperial as a result of

» Downgrade of the government of South Africa's bond rating

» Weakness in Imperial's operating performance, resulting in lower debt protection measures, with (funds from operations + interest expense)/interest expense sustainably below 4.0x, or lower operating margins

» An average retained cash flow/net debt ratio that trends below 20% on a prospective basis, considering past and expected future performance

» Debt protection measures weakening

» A failure to adjust financial policies and cost structure such that Imperial generates positive free cash flow on a sustained basis through conservative capital expenditure and adjusted shareholder remuneration policies

Key indicators

Exhibit 2

	6/30/2014	6/30/2015	6/30/2016	6/30/2017	2018-proj.	2019-proj.
Revenue (USD Billion)	$9.7	$9.4	$8.0	$8.6	$9.0	$9.5
Operating Margin	5.5%	5.2%	4.8%	4.5%	4.5%	4.6%
FFO / Debt	35.5%	33.9%	27.7%	25.8%	24.4%	28.6%
EBITA / Avg. Assets	10.1%	9.3%	8.7%	8.1%	8.7%	9.2%
Debt / EBITDA	2.3x	2.4x	2.6x	2.8x	2.7x	2.5x
EBIT / Interest Expense	4.4x	3.6x	3.0x	2.5x	2.4x	2.8x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] Ratios relate to Imperial Holdings Ltd, the guarantor of Imperial Group Ltd.
Source: Moody's Financial Metrics™

Profile

Imperial Holdings Limited is the 100% owner of Imperial Group Ltd and is the largest private sector transport and mobility group in South Africa. Incorporated in 1946, Imperial operates in Africa, the UK, Europe, USA, South America and Australia. Imperial's core activities include services relating to transportation and mobility. In their broader context these activities include logistics, car rental, motor vehicle dealerships and distributorships, aftermarket parts as well as financial services.

As of 30 June 2017, Imperial reported revenues of ZAR116.8 billion ($8.6 billion) and Moody's adjusted EBITDA of ZAR10.5 billion ($0.7 billion).

Detailed credit considerations

Strong brand and market position combined with diversified and integrated mix of related businesses support the ratings

Imperial is the largest private sector transport and mobility group in South Africa. Imperial holds sole or joint market leadership positions in South Africa in all of its core businesses, with the exception of its financial services operations. Imperial's two key business segments are (1) Imperial Logistics (43% of Group revenues) and (2) Motus Corporation (57% of Group revenues). The business model comprises a mix of mostly related businesses operating in a common value chain around the transport and mobility sectors. Imperial's strategy is to extract the maximum value from identifying synergies and the cross-selling of different business solutions available across its value chain.

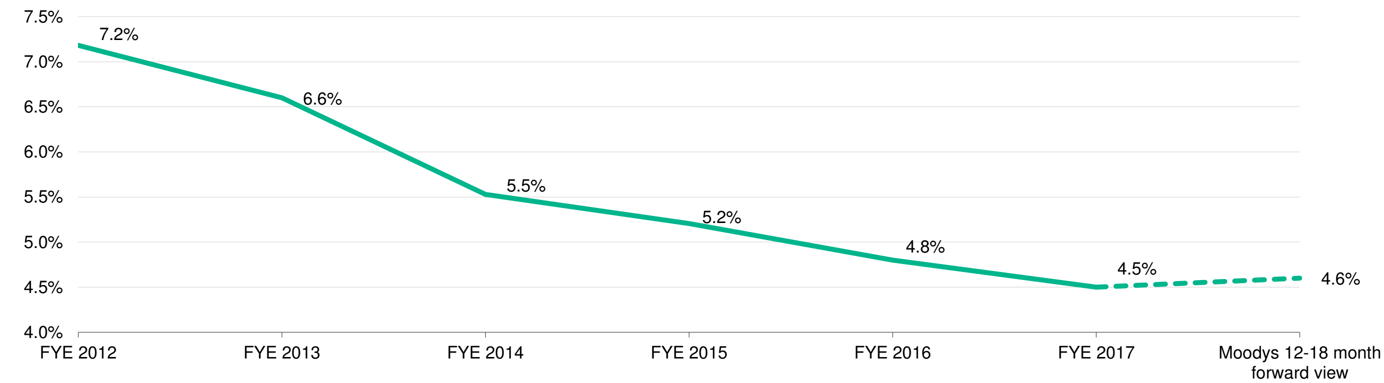
Although 57% of Imperial's revenues were derived from South Africa, it has decreased from approximately 70% in FYE 30 June 2013, as Imperial has expanded its operations into Africa and the rest of the world. Imperial's commercial interests in Europe, the United Kingdom, Australia, the United States of America, South America and Africa create a geographically diversified business. Contributions from Europe and Australia have increased to 33% of revenue and 24% of operating profit (31% and 22% respectively for FYE 2016). Africa (excluding South Africa) contributed around 10% of revenue and 13% of operating income (11% and 14% respectively, for FYE 2016). The diversification renders Imperial's combination of activities relatively resilient to external factors such as global economic downturns and currency volatility, although it remains highly exposed to the South African economy and its political, social and economic environment as well as the more cyclical motor vehicle market.

Operating margins affected by foreign exchange volatility and weakened operating environment in South Africa

The trading environment in South Africa continues to remain challenging given the weak South African economy, which has led to softer volume growth on new vehicle sales which is expected to continue over the next 12 months. The weaker demand is expected to intensify competition and limit pricing power on new vehicles. However, Imperial's exposure to the used vehicle market and autoparts (benefits from approximately 11 million vehicles on the road) has and will continue mitigate the weaker profits from new cars sales.

The risks to foreign exchange rate volatility, industrial action and above inflationary wage increases are key challenges facing the Group in South Africa. While future exchange rate movements are unpredictable we note that the Rand has strengthened against major currencies (approximately 16% to the US dollar over the past 12 months to 30 June 2017) and has remained in a range band between 13 and 14 to the USD post June to November 2017. Exchange rate volatility does influence the costs of importing its major motor brands Kia, Hyundai and Renault and can impact Imperial's market share and value proposition compared to its competitors. We note however that Imperial's foreign operational exposure does provide an element of protection against a weaker Rand as foreign cash flows benefit from translation gains.

Exhibit 3
Group's operating margins remain under pressure



Source: Imperial's financials and Moody's Financial Metrics

Over the next 12-18 months we anticipate Imperial's performance and credit metrics to remain under pressure as the weak South African economy continue to pressure South African margins. This will be tempered by stronger performance from non-vehicle businesses, which are expected to grow faster than the vehicle businesses contributing more to the consolidated Group's cash flows.

Rating incorporates moderate leverage going forward and recognises management's balanced financial policies

Imperial's stated growth plans include (1) organic growth through capital expenditures to maintain quality of assets and market leadership; (2) divesting underperforming operations that are capital intensive and low cash flow generation; and (3) strategic acquisitions in African and Europe. Imperial's growth plans are focused in the logistics industry and product distribution reducing its exposure to the more cyclical vehicle operations in South Africa. Over the last five years non-vehicle business as a percentage of Group revenue has increased to 43% from 34% (FYE 2012). Imperial's strategy of following its customers into new geographies is viewed favourably, as the Group is entering new countries with a known demand for its products already.

Imperial aims to grow its operations in Africa through acquiring large, well-run, established family-owned businesses, which we view favourably as it protects the Group from the risks associated with greenfield projects in Africa. Imperial has already developed a strong distribution presence in the fast moving consumer goods and pharmaceutical sectors within key African markets. We note that although there is good growth potential on the African continent fueled by favourable consumer demographics, it is a volatile and challenging market to operate in, which may pose certain risks to Imperial.

It is also our expectation that while considering potential acquisitions management will continue to follow its prudent financial policies and maintain a solid focus on cash flow generation, capital management and liquidity management at all times. Over the past 18 months management has disposed of the majority of its non-core assets, with limited impact on operating cash flows. The proceeds have been used to reduce debt improving financial flexibility for expansion opportunities within current rating guidance. Given the uncertainty around future M&A activity each potential acquisition would be evaluated on a case by case basis to determine how it impacts the credit profile of Imperial, such as strategic fit, its cash flow and margin contributions, as well as any integration risks the Group may face.

Liquidity analysis

Imperial's liquidity position is sufficient to meet near term obligations, supported by the large availability under committed facilities of approximately ZAR12.6 billion ($911 million), with sufficient covenant headroom, together with a unrestricted cash of ZAR4.5 billion ($328 million) as of 30 June 2017 and positive cash generation capabilities. The company's debt maturity profile comprises a well staggered tenor of repayments and continues to show good access to debt capital markets.

Imperial's funding profile is split 68% local currency (Rand) and 32% foreign currency (predominantly Euro) as of FYE 2016. This compares to approximately 63% of operating income generated in South Africa and the balance from the rest of Africa and rest of the world. There remains a small mismatch between foreign currency debt and cash flows which is not hedged exposing itself to foreign exchange risk should the Rand depreciate.

Structural considerations

Imperial's euro-denominated senior unsecured banking facility is issued from Imperial Mobility Finance B.V. and guaranteed by both Imperial Mobility International B.V. (an offshore holding company - wholly owned by Imperial - established for its international operations) and Imperial Holdings Limited.

Compared to other existing debt at the Imperial Group Ltd level, the banking facility benefits from an additional upstream indemnity from Imperial Group Ltd in favour of Imperial Holdings Group, which in our view is not deemed to be a strong enough difference in terms of guarantee package to consider any notching implications.

Rating Methodology and Scorecard Factors

The principal methodology used in rating the company was Moody's Global Surface Transportation and Logistics Companies Rating Methodology (May 2017). While Imperial has a broad product offering, its operations are predominantly in the business of providing logistics services to corporations.

Based on FYE2017 Imperial's overall performance measurements from the rating grid indicate a rating outcome equated to a Baa3, in line with the assigned issuer rating of Baa3. We expect Imperial grid implied rating to remain at Baa3 given stable operating metrics.

Exhibit 4

Rating Factors				
Imperial Holdings Ltd				
Surface Transportation and Logistics Industry Grid [1][2]	Current FY 6/30/2017		Moody's 12-18 Month Forward View As of 11/20/2017 [3]	
Factor 1 : Business Profile (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Business Profile	Baa	Baa	Baa	Baa
Factor 2 : Scale (20%)				
a) Revenue (USD Billion)	$8.6	Baa	$9 - $9.5	Baa
Factor 3 : Profitability, Cash Flow, and Returns (20%)				
a) Operating Margin	4.5%	B	4.5% - 4.6%	B
b) FFO / Debt	25.8%	Baa	24.4% - 28.6%	Baa
c) EBITA / Avg. Assets	8.1%	Ba	8.7% - 9.2%	Ba
Factor 4 : Leverage and Coverage (30%)				
a) Debt / EBITDA	2.8x	Baa	2.5x - 2.7x	Baa
b) EBIT / Interest Expense	2.5x	Ba	2.4x - 2.8x	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa3		Baa3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 6/30/2017; [3] Ratios relate to Imperial Holdings Ltd, the guarantor of Imperial Group Ltd; [4] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 5

Category	Moody's Rating
IMPERIAL GROUP LTD	
Outlook	Rating(s) Under Review
Bkd Issuer Rating	Baa3[1]
Bkd Senior Unsecured -Dom Curr	Baa3[1]
NSR Bkd Senior Unsecured	Aa1.za
Bkd Subordinate MTN -Dom Curr	(P)Ba1[1]
Bkd ST Issuer Rating -Dom Curr	P-3[1]

[1] Placed under review for possible downgrade on November 29 2017
Source: Moody's Investors Service

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CLIENT SERVICES

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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