

CREDIT OPINION

28 March 2018

Update

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RATINGS

Imperial Group Ltd

Domicile	Johannesburg, South Africa
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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 Conclusion of Sovereign Review

Summary

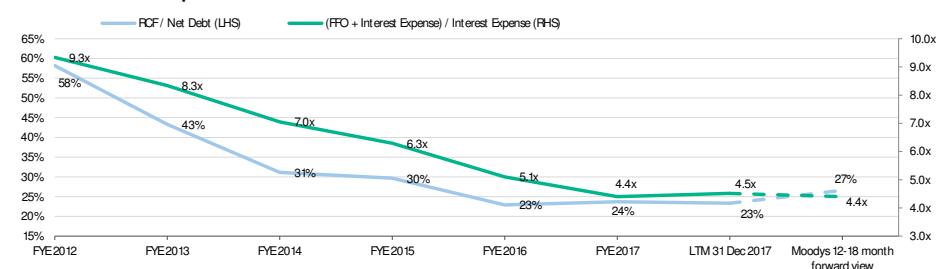
On 27 March 2018, the outlook on [Imperial Group Ltd's](#) ("Imperial" or "Group") Baa3 global scale ratings was changed to stable after being placed under review for downgrade on 29 November 2017. As a result we no longer see Imperial's Baa3 as being constrained by the government of South Africa credit rating.

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 and are expected to improve in the next 12-18 months.

Exhibit 1

Credit metrics expected to stabilise



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

We note management's proposal to potentially separate the Motus division and the Logistics division. Given the materiality of the split, it may have rating implications. As per standard practice, Moody's will review Imperial's rating position should the proposal be implemented.

Credit strengths

- » Strong brand and market presence in South Africa
- » Diversified operations by product offering and geography

Credit challenges

- » Concentration to South Africa and Africa and cyclical vehicle related businesses
- » Operating margins exposed to foreign exchange volatility, cost pressures and vehicle production disruptions
- » Declining financial flexibility to accommodate strategic initiatives including debt funded acquisitions

Rating outlook

The stable outlook on the ratings of Imperial Group Ltd reflects Moody's expectation that Imperial will continue to operate within its stated financial policies.

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

	6/30/2014	6/30/2015	6/30/2016	6/30/2017	12/31/2017(L)	2018-proj.	2019-proj.
Revenue (ZAR Billion)	100.7	107.5	115.8	116.8	123.6	123.8	130.0
Operating Margin	5.5%	5.2%	4.8%	4.5%	4.4%	4.4%	4.4%
FFO / Debt	35.5%	33.9%	27.7%	25.8%	26.2%	23.5%	26.6%
EBITA / Avg. Assets	10.1%	9.3%	8.7%	8.1%	8.0%	8.6%	8.9%
Debt / EBITDA	2.3x	2.4x	2.6x	2.8x	2.7x	2.8x	2.6x
EBIT / Interest Expense	4.4x	3.6x	3.0x	2.5x	2.7x	2.4x	2.7x

[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.

For the last twelve months to December 2017 (LTM Dec 2017), Imperial reported revenues of ZAR123.6 billion (\$9.3 billion) and Moody's adjusted EBITDA of ZAR10.6 billion (\$0.8 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 (42% of Group revenues) and (2) Motus Corporation (58% 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 56% 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 35% of revenue and 24% of operating profit (33% and 24% respectively for FYE 2017). Africa (excluding South Africa) contributed around 9% of revenue and 13% of operating income (10% and 13% respectively, for FYE 2017). 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 challenging operating environment in South Africa

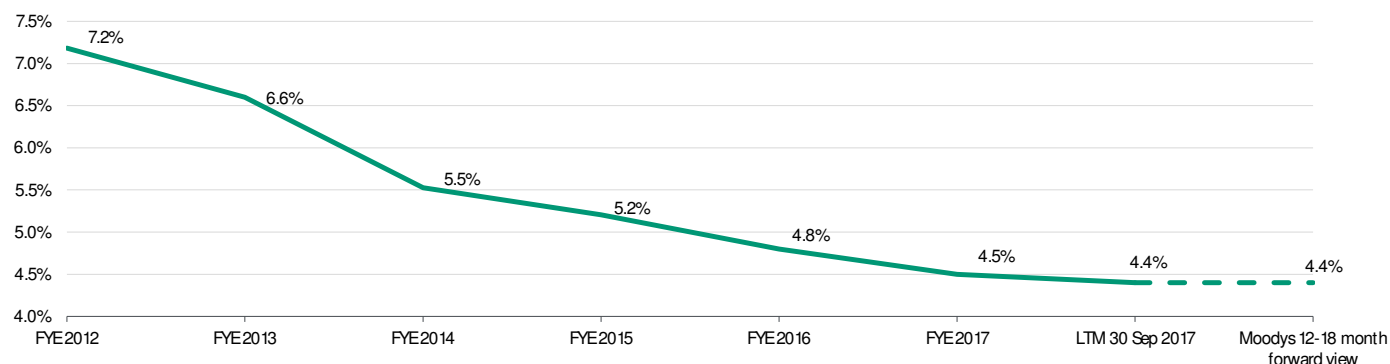
The trading environment in South Africa continues to remain challenging given the weak South African economy, which has led to softer volume growth on new vehicle sales which is expected to continue over the next 12 months. The weaker demand is expected to intensify competition and limit pricing power 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 10% to the US dollar over the past 12 months to 31 December 2017) and has strengthened further to around ZAR12 to the US dollar post December 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. While the Rand

strength will result in lower cost of vehicle imports, Imperial has hedged at higher exchange rates on committed orders for the next 6 to 8 months which will take time to unwind before the full cost benefit is felt. The Rand strength will also result in negative translations impacts when foreign operational financials are converted into Rand for reporting purposes.

Exhibit 3

Group's operating margins expected to gradually improve



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 however the positive political developments, while still early to dimension, could translate into an improved operating environment in South Africa. We also expect the non-vehicle businesses to perform well, 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, strategically non-core as well as certain properties sales; 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 42% 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. 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 ZAR8.2 billion (\$662 million), with sufficient covenant headroom, together with a unrestricted cash of ZAR2.8 billion (\$223 million) as of 31 December 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 LTM 31 December 2017 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			Moody's 12-18 Month Forward View As of 3/19/2018 [3]	
Imperial Holdings Ltd				
Surface Transportation and Logistics Industry Grid [1][2]				
Current LTM 12/31/2017				
Factor	Measure	Score	Measure	Score
Factor 1 : Business Profile (15%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 2 : Scale (20%)				
a) Revenue (USD Billion)	\$9.3	Baa	\$9.5 - \$10	Baa
Factor 3 : Profitability, Cash Flow, and Returns (20%)				
a) Operating Margin	4.4%	B	4.4% - 4.5%	B
b) FFO / Debt	26.2%	Baa	23% - 27%	Baa
c) EBITA / Avg. Assets	8.0%	Ba	8.6% - 9%	Ba
Factor 4 : Leverage and Coverage (30%)				
a) Debt / EBITDA	2.7x	Baa	2.6x - 2.8x	Baa
b) EBIT / Interest Expense	2.7x	Ba	2.4x - 2.7x	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 12/31/2017; [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™

Appendix

Exhibit 5

Peer Comparison Table

(in US millions)	Imperial Group			Bidvest Group Limited, The			Barloworld Limited		
	Baa3 Stable			Baa3 Stable			Baa3 Stable		
	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Sep-16	FYE Sep-17	FYE Sep-17
Revenue	\$8,042	\$8,597	\$9,301	\$4,739	\$5,224	\$5,633	\$4,216	\$4,634	\$4,634
EBITDA	\$737	\$769	\$797	\$596	\$649	\$689	\$535	\$590	\$590
Total Debt	\$1,916	\$2,198	\$2,310	\$1,013	\$1,234	\$1,553	\$1,273	\$1,101	\$1,101
Cash & Cash Equiv.	\$158	\$343	\$223	\$224	\$354	\$381	\$178	\$265	\$265
Operating Margin	4.8%	4.5%	4.4%	8.4%	8.3%	8.2%	6.9%	6.9%	6.9%
EBIT / Int. Exp.	3.0x	2.5x	2.7x	5.3x	4.7x	4.8x	2.9x	3.0x	3.0x
FFO / Debt	27.7%	25.8%	26.2%	50.7%	39.6%	34.2%	34.6%	41.1%	41.1%
EBITA / Avg. Assets	8.7%	8.1%	8.0%	7.8%	11.3%	11.0%	8.9%	9.2%	9.2%
Debt / EBITDA	2.6x	2.8x	2.7x	1.7x	1.8x	2.1x	2.2x	1.9x	1.9x

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = financial year. LTM = Last 12 months.

Source: Moody's Investors Service

Exhibit 6

Imperial Group - Moody's Debt breakdown

(in RAND Millions)	FYE Jun-13	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	LTM Ending Dec-17
As Reported Debt	10,568	14,544	16,157	18,396	19,146	19,566
Pensions	1,014	1,083	1,157	1,531	1,229	1,229
Operating Leases	5,028	5,223	5,640	5,997	6,675	6,675
Hybrid Securities	110	110	110	110	110	110
Non-Standard Adjustments	151	1,154	1,793	2,024	1,633	1,014
Moody's-Adjusted Debt	16,871	22,114	24,857	28,058	28,793	28,594

All figures are calculated using Moody's standard adjustments

Source: Moody's Investors Service

Exhibit 7

Imperial Group - Moody's adjusted EBITDA breakdown

(in RAND Millions)	FYE Jun-13	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	LTM Ending Dec-17
As Reported EBITDA	8,396	8,198	8,329	9,094	8,280	8,409
Pensions	32	30	30	26	24	24
Operating Leases	1,676	1,741	1,880	1,999	2,225	2,225
Unusual	-45	-94	74	-368	32	42
Non-Standard Adjustments	-86	-78	-33	-138	-103	-110
Moody's-Adjusted EBITDA	9,973	9,797	10,280	10,613	10,458	10,590

All figures are calculated using Moody's standard adjustments

Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
IMPERIAL GROUP LTD	
Outlook	Stable
Bkd Issuer Rating	Baa3
Bkd Senior Unsecured -Dom Curr	Baa3
Bkd Subordinate MTN -Dom Curr	(P)Ba1
NSR BACKED Senior Unsecured	Aa1.za

Source: Moody's Investors Service

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