

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Barloworld's Ba2 rating and upgrades national scale rating to Aa1.za; outlook stable

10 Feb 2025

DIFC - Dubai, February 10, 2025 -- Moody's Ratings (Moody's) has today affirmed Barloworld Limited's (Barloworld) long term corporate family rating (CFR) of Ba2 and upgraded its national scale CFR (NSR) to Aa1.za from Aa2.za. At the same time, the Not Prime (NP) short term issuer rating and the P-1.za national scale short-term issuer rating were also affirmed. The outlook remains stable.

RATINGS RATIONALE

Today's rating action reflects that Barloworld has maintained, and we expect will continue to maintain, adequate credit metrics despite a downturn in the commodity cycle, which has caused a decline in demand for heavy equipment in its main market of southern Africa. At the same time, the upgrade of the NSR reflects that Barloworld's CFR is solidly positioned at the Ba2 global scale rating level.

We also assume that there will be no material change to the company's strategy, capital structure and financial policy should the transaction to take Barloworld private proceed. On 11 December 2024, a consortium of investors comprising Entsha Proprietary Limited and Gulf Falcon Holding Limited (a wholly owned subsidiary of the Zahid Group), announced a firm intention to acquire Barloworld. The consortium has made an offer to Barloworld shareholders to acquire all Barloworld shares other than those already held by the consortium members and the Barloworld Empowerment Foundation Trust.

Barloworld's Ba2 CFR continues to recognize (1) Barloworld's competitive position as a leading equipment supplier to the mining and construction industries in southern Africa and Mongolia (B2 stable) which are its key markets; (2) its diversified product and customer mix that provides some protection against cyclicity, including aftermarket servicing for heavy equipment and consumer products under its Ingrain business; and (3) its prudent financial policies and low leverage.

Apart from the operational concentration in South Africa (Ba2 stable) which exposes the company to the economic, political, social, legal and regulatory environment of the country, the rating also takes into account (1) the company's exposure to cyclical end markets including mining and construction; (2) its reliance on Caterpillar Inc. (A2 positive) as its key supplier because Barloworld is acting as the company's principal agent in southern Africa and Mongolia; and (3) the company's exposure to Russia, which accounted for 10% of revenue and 12% of EBITDA in FY2024, a severely disrupted and declining business whose cash flows remain inaccessible to the wider group.

STABLE OUTLOOK

The stable outlook reflects the stable outlook on the sovereign bond rating of South Africa, where Barloworld generates the majority of its revenue and cash flow. The stable outlook also reflects our expectation that Barloworld will maintain adequate credit metrics through the commodity cycle.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Barloworld's rating is at the same level as the sovereign rating of South Africa and because of its operational concentration in the country, an upgrade is unlikely in the absence of an upgrade of the sovereign bond rating of South Africa. Subject to an upgrade of the South African government bond rating, we would consider an upgrade of Barloworld's ratings if its debt/EBITDA remains below 3.0x and EBITA/interest expense improves to 3.5x (all metrics are Moody's-adjusted), both on a sustained basis and without material contribution from the Russian business while there remains uncertainty over the business' sustainability.

Barloworld's ratings are likely to be downgraded in case of a downgrade of South Africa's government bond rating. In addition, downward pressure could arise if the company's liquidity profile weakened or if debt/EBITDA increased above 4.0x while at the same time EBITA/interest expense trends below 2.5x on a sustained basis (all metrics are Moody's-adjusted).

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at <https://ratings.moodys.com/rmc-documents/356424>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the

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