CREDIT OPINION
16 May 2024

Update

Send Your Feedback

RATINGS

Barloworld Limited

Domicile	South Africa
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
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.

Contacts

Lisa Jaeger +971.4.237.9659
VP-Senior Analyst
lisa.jaeger@moodys.com

Ali Amin, CFA +971.4.237.9524
Sr Ratings Associate
ali.amin@moodys.com

Rehan Akbar, CFA +971.4.237.9565
Senior Vice President
rehan.akbar@moodys.com

Barloworld Limited

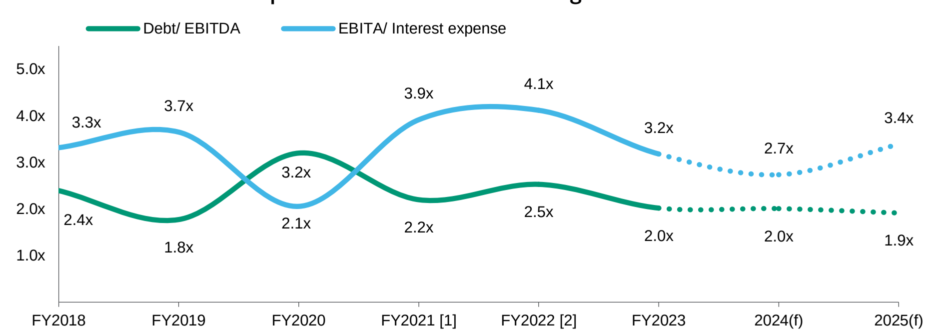
Update to credit analysis

Summary

Barloworld Limited's (Barloworld) Ba2 corporate family rating (CFR) and national scale rating (NSR) of Aa2.za recognise (1) Barloworld's competitive position as a leading equipment supplier to the mining and construction industries in southern Africa and Mongolia; (2) its diversified product mix that provides some protection against cyclicality, including aftermarket servicing for heavy equipment and consumer products under its Ingrain business; and (3) 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 ratings also take into account (1) the company's exposure to Russia, which accounted for 12% of revenue and 16% of EBITDA in FY2023, and likely long lasting severe disruptions to this business, which will increase Barloworld's geographic concentration to South Africa; (2) the company's exposure to cyclical end markets including mining and construction; and (3) its reliance on Caterpillar Inc. (A2 stable) as its key supplier because Barloworld is acting as the company's principal agent in southern Africa, Mongolia (B3 stable) and Russia.

Exhibit 1
Credit metrics remain well positioned at the current rating level



[1] The FY2021 metrics presented above do not reflect the restated FY2021 accounts as published in the FY2022 Annual Report. Restated FY2021 accounts exclude Car Rental and Leasing earnings from the income statement but include the related debt on the balance sheet.
[2] Barloworld completed the disposal of its discontinued operations after its fiscal year ending on 30 September 2022. As such, FY2022 Debt/EBITDA is shown above on a pro forma basis and excludes debt reported under discontinued operations which we normally include in our Moody's adjusted debt. Moody's adjusted EBITDA also does not include any earnings from discontinued operations.
All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
Source: Moody's Ratings

Credit strengths

» Leading supplier of industrial equipment to the mining and construction industries in South Africa, with operations in Mongolia and Russia

» Recurring equipment servicing revenue and expansion to consumer products provide some protection against cyclicality

» Good credit metrics through the cycle underpinned by balanced financial policies

Credit challenges

» High exposure to cyclical end markets, tied to commodity price volatility

» Concentration in Sub-Saharan Africa

» Operational disruptions and uncertainty regarding sustainability of Russian operations

» Key supplier risk, partially mitigated by long term relationships and close strategic alignment

Rating 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

Barloworld's ratings are capped at the sovereign rating of South Africa and therefore 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 rating if debt/EBITDA remains below 3.0x and EBITA/interest expense is well above 3.5x, both on a sustained basis and without material contribution from the Russian business while there remains uncertainty over the business' sustainability.

Factors that could lead to a downgrade

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 EBITA/interest expense trends below 2.5x on a sustained basis.

Key indicators

Exhibit 2

Key Indicators for Barloworld Limited[1]

(in $ billions)	2019	2020	2021	2022	2023	2024 (f)	2025 (f)
Revenue	4.2	2.1	2.8	2.5	2.5	2.5	3.1
EBITA Margin %	7.8%	6.2%	10.7%	10.8%	11.4%	9.8%	10.2%
Debt / EBITDA [2]	1.8x	3.2x	2.2x	2.5x	2.0x	2.0x	1.9x
EBITA / Interest Expense	3.7x	2.1x	4.6x	4.1x	3.2x	2.7x	3.4x
RCF / Net Debt	66.4%	27.3%	120.5%	45.4%	117.8%	100.0%	150.0%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
[2] The FY2021 and FY2022 Debt/EBITDA metric excludes earnings and debt from the discontinued Car Rental and Leasing business. Barloworld completed the disposal of its Car Rental and Leasing business in December 2022.
Source: Moody's Ratings

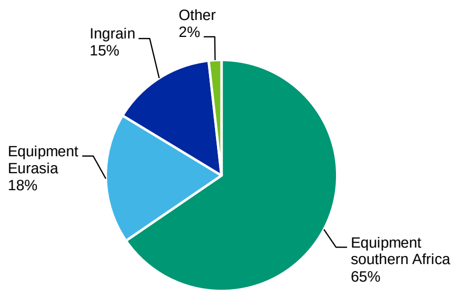
Profile

Barloworld, headquartered in South Africa, is the exclusive distributor and after-sales support provider of Caterpillar heavy equipment for the mining and construction industries across southern Africa and Mongolia. Equipment sales and servicing accounted for 84% of Barloworld's revenue and 90% of operating profit for FY2023. The company also has a consumer products division that was established in FY2021 following the acquisition of starch and glucose producer Ingrain.

Over the course of FY2021 to FY2023, Barloworld completed a number of noncore business disposals in line with its portfolio realignment strategy that aimed at pivoting to less asset intensive, more cash flow generative and less cyclical businesses. In December 2022, Barloworld unbundled and listed its Car Rental and Leasing business Zeda Limited (Ba3 stable) on the Main Board of the Johannesburg Stock Exchange (JSE). It also successfully divested its automotive and logistics businesses. Barloworld remains focused on its core verticals of Industrial Equipment and Services and Consumer Industries.

Exhibit 3

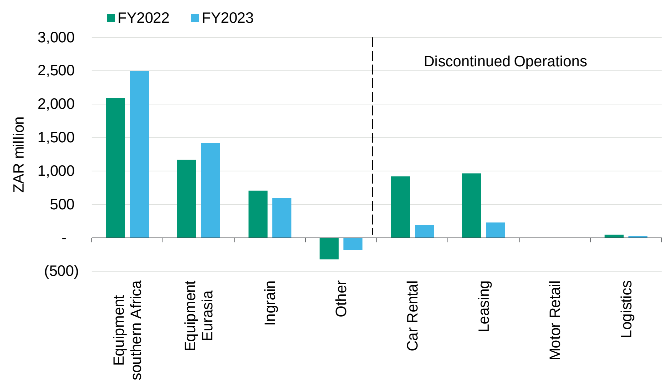
Revenue breakdown by segment FY2023 [1]



[1] Excludes revenue from discontinued operations.
Sources: Company information, Moody's Ratings

Exhibit 4

Operating Profit breakdown by segment
in ZAR million



Note: Barloworld completed the disposal of all discontinued operations by the end of 2022.
Sources: Company information, Moody's Ratings

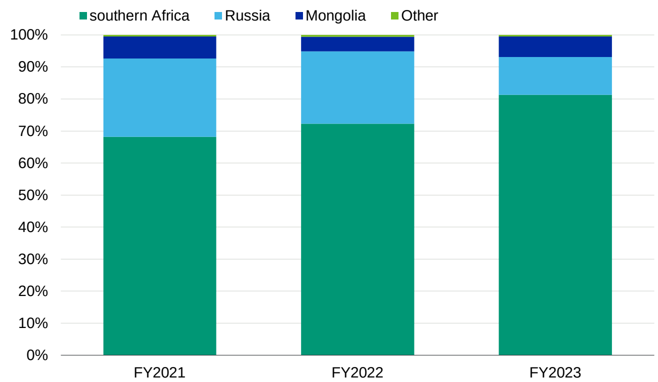
Detailed credit considerations

Geographic concentration in South Africa

With 81% of revenue derived from southern Africa, which is primarily driven by revenue from South Africa, Barloworld is intrinsically linked to the macroeconomic environment of the country. Growth of the South African economy remains structurally weak and constrained by a high unemployment rate, decaying infrastructure leading to unreliable power supply and slow progress on economic and social reforms. We expect GDP growth of 1.3% and 1.6% in 2024 and 2025, respectively, up from 0.6% in 2023. Barloworld's sales and profitability are strongly correlated to macroeconomic and commodity cycles.

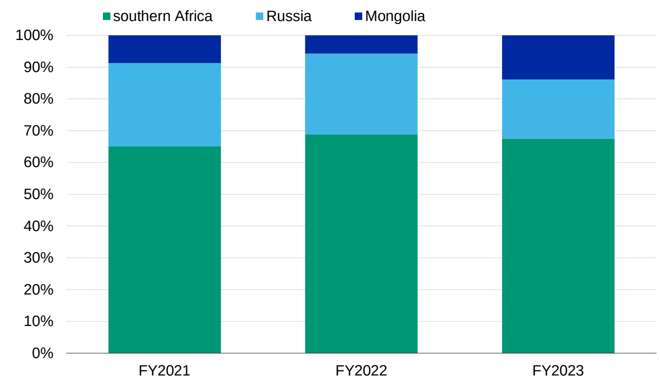
Prior to the Russian invasion of Ukraine in February 2022, we viewed diversification into Russia as a partial credit mitigant to the concentration on South Africa, especially since the Russian business used to grow faster and was less cyclical than the South African business. Following the invasion, Barloworld's Russian business has however been severely disrupted, increasing the reliance on the South African business. In FY2023, the company generated 12% of its revenue and 19% of its operating profit from Russia compared to 24% and 27% in FY2021, respectively (see Exhibit 5). While Barloworld's operations in Mongolia remain small and accounted for only 6% of FY2023 revenue, the strong growth and high margins in Mongolia following the reopening of borders with China have partially offset negative results from Russia and also help with geographical diversification (see Exhibit 6).

Exhibit 5
Disruption of Russian operations lead to higher concentration in South Africa
Revenue breakdown by geographical segment



Source: Company financials

Exhibit 6
High margin operations in Mongolia partially offset lost Russian business
Operating profit breakdown by geographical segment [1]



[1] Excludes immaterial results from the United Kingdom and Australia
Source: Company financials, Investor Presentations

Leading market positions supported by strong brand offerings

Barloworld holds dominant market positions in heavy machinery and continues to have a JV investment in a leading South African retail car distribution business. The company's leadership positions, strong brand representation and broad customer coverage throughout its markets provide high barriers to entry given the significant investments involved. While there is some concentration risk associated with its key principal suppliers and limited long term fixed term contracts in place, we note long term relationships and close strategic alignment between the parties and a track record of maintaining dominant and stable market positions over time.

Barloworld has the sole distribution rights for Caterpillar heavy equipment and machinery and its aftercare servicing across Sub-Saharan Africa, Mongolia and Russia. It holds leading market positions across various heavy machinery categories throughout southern Africa, supported by a strong dealership network with on-site customer support and aftercare services. The company's relationship with Caterpillar dates back more than 90 years and the distribution agreement is for an indefinite period. Even though the agreement can be terminated with 6 months' notice as is standard for Caterpillar distribution agreements, we view it as a remote risk that the agreement would effectively be terminated on such short notice. Caterpillar maintains a close strategic alignment with its distributors and there is precedent for it providing product support to struggling distributors in other jurisdictions when needed.

Barloworld acquired Ingrain from Tongaat Hulett in September 2020. Ingrain is the only manufacturer of starch and glucose products in South Africa and holds a dominant local market share, serving large consumer product companies. Its products have a diverse range of applications, including alcoholic beverages, convenience foods, confectionary, paper making and pharmaceuticals.

After disposing of its motor retail business, Barloworld still owns a 50% JV stake in the business through NMI-DSM. The motor retail business is a franchised dealer for key premium and volume automotive brands in South Africa, including BMW, Audi, Mercedes-Benz, Volkswagen and Toyota.

Exposure to cyclical mining and construction industries

The Equipment segment, which generates most of Barloworld's revenue and operating profit, is exposed to the cyclical mining and construction industries that are mainly driven by global commodity cycles and, in the case of construction, the state of the South African macroeconomic environment, as well as demand for grid power alternatives. Miners increase investment, including purchases of new equipment, in times of high commodity prices and are quick to reduce new purchases when commodity cycles turn.

Barloworld reduces some of the cyclicality in sale of new equipment through diversification across the equipment lifecycle, by offering aftermarket servicing. Aftermarket revenues are generally more recurring, higher margin and can also benefit in times of lower new sales as older equipment requires more intense servicing to extend its life span. For its southern African operations, Barloworld has managed to steadily improve the share of revenue from aftermarket servicing. Since 2015 aftermarket revenue has consistently accounted for more than 50% of total Equipment revenue.

The sale of new equipment is inherently cyclical, as it is driven mainly by the mining sector which is highly influenced by commodity markets and miners' capex budgets. From 2015 to 2020 demand for new equipment was on a declining trend in southern Africa and overall reduced by c. 20% over the period. As commodity prices improved and reached peak levels over 2022-23, demand for new equipment increased again. New equipment sales in southern Africa increased by 46% and 69% in FY2022 and FY2023, respectively.

With commodity prices having started to decline since 2023 however, Barloworld's southern Africa order book declined 25% in FY2023 compared to a year earlier and stood at ZAR3.6 billion as of 30 September 2023 and ZAR3.0bn as of 29 February 2024. We expect machine sales to decline during FY2024 but to be partially offset by higher aftermarket revenue and growth in the energy and transportation segment. Despite this slowdown in southern Africa, the Eurasia order book demonstrated strong growth, expanding more than fourfold to reach $109 million by September 2023 and we expect it will continue to compensate for some of the declines in southern Africa.

Ongoing severe disruption of Russian business

Barloworld's business in Russia has been continuing to operate since the Russian invasion of Ukraine in February 2022. The business has however been severely disrupted by sanctions on imports of products as well as customers. While Barloworld was initially able to source inventory remaining at Caterpillar's Russian factory when it stopped operations, and then from other Caterpillar dealers that exited the country, inventories are expected to run low going forward and replacements through import is generally prohibited under sanctions of heavy machinery. Operations have therefore mainly reduced to servicing of existing equipment, which made up 74% of revenue for the 5 months ending February 2024. Overall sales have continued to decline steadily and we estimate these were around 55% lower in FY2023 than in FY2021 before the invasion.

In FY2023 the business remained profitable, accounting for 16% of Barloworld's EBITDA. Barloworld is however unable to upstream any profits out of Russia and we expect revenue and profits to continue to decline further as the company has to gradually wind down any new equipment sales. We therefore believe that consolidated Barloworld EBITDA some what overstates the company's profitability and that to assess debt to EBITDA leverage it is adequate to remove EBITDA generated in Russia (note there is no local debt in Russia). We estimate that Moody's adjusted EBITDA excluding Russia amounts to ZAR5.1 billion against consolidated Moody's adjusted EBITDA of ZAR6.1 billion, leading to debt to EBITDA excluding Russian operations of 2.4x against consolidated debt to EBITDA leverage of 2.0x for FY2023. Our projections for FY2024 and FY2025 prudently assume that EBITDA contribution from Russia will trend towards zero.

Barloworld focusses on achieving at least break-even and ensuring that the business remains self-sufficient from a funding perspective.

Portfolio realignment towards more defensive industries has reduced cyclicality

Towards the end of 2022, Barloworld completed realigning its business portfolio in line with its strategy to become less asset intensive, more cash flow generative and to reduce earnings cyclicality.

In this context, the company disposed of its motor retail and trading business during FY2021, completed the disposal of its logistics business in FY2022, and unbundled its Car Rental and Leasing business by listing it on the Main Board of the JSE in December 2022. These businesses accounted for a substantial 49% of FY2020 revenue. The motor retail and trading businesses were severely affected by the Covid pandemic and are cyclical in nature, as consumers reduce discretionary spending on new cars in economic downturns. Furthermore, the car leasing and rental business is working capital intensive in nature and is more exposed to business spending and tourism rather than domestic consumer spending. We view the disposal of these businesses as credit positive as it reduces some of the cyclicality the group is exposed to.

Barloworld established its consumer industries division in 2020, centered around the Ingrain business that it acquired in October of the same year and may pursue further acquisitions globally in the consumer products space. Even though earnings are exposed to the prices of glucose and starch, earnings are relatively defensive, as the food industry is generally a stable end market. Between FY2021 to FY2023, Ingrain has contributed between 14% to 18% of total operating profit. In FY2023, Ingrain's revenue increased 11% YoY to ZAR6.6 billion while EBITDA decreased 12% to ZAR858 million on the back of higher input costs and efficiency losses.

The realignment strategy however also brings some execution risks as consumer products are a new and unproven industry for Barloworld. While the integration of Ingrain has been successful, execution risks will increase again if Barloworld pursues further acquisitions, although we expect management to remain within its conservative financial policy targets when pursuing acquisitions.

Prudent financial management and good credit metrics

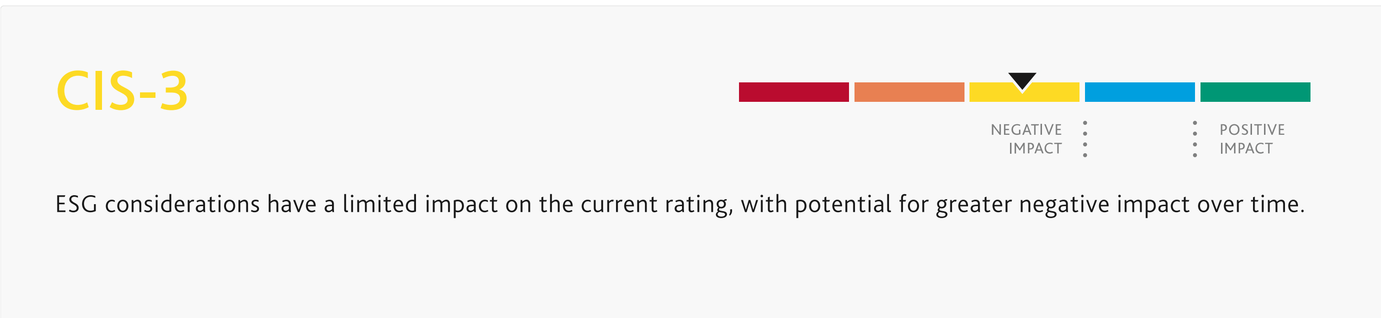
Following strong performance in FY2023 and reduced debt levels due to the disposal of Zeda, Barloworld's Debt/EBITDA decreased to 2x in FY2023 from 2.5x a year earlier and remains strong at the current rating level. Excluding EBITDA generated from Russia, Debt/EBITDA increases to 2.4x for FY2023 which also remains adequate for the rating.

The company follows a dividend policy of maintaining at least 2.5x to 3.0x normalised headline earnings to dividend cover but does distribute special dividends on an adhoc basis. Following a number of business disposals in FY2022 and FY2023, the company declared ZAR1.0 billion of special dividends in addition to ZAR0.9 billion of ordinary dividends. We expect management to continue following the prudent financial management it has demonstrated in the past.

ESG considerations

Barloworld Limited's ESG credit impact score is CIS-3

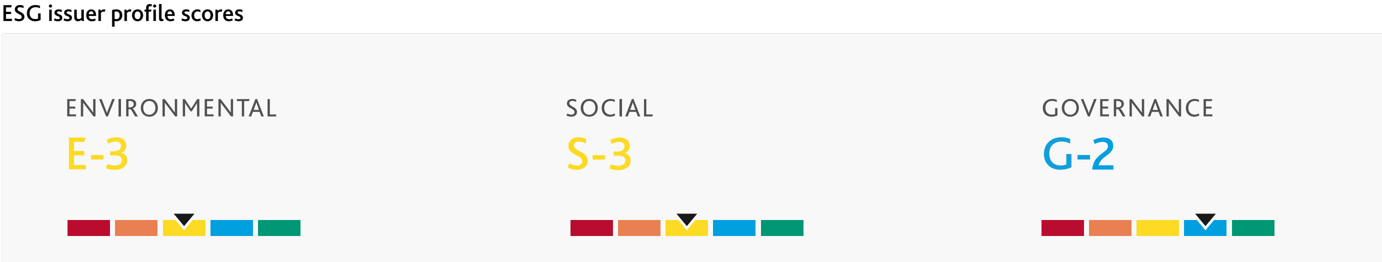
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

Barloworld's ESG Credit Impact Score of **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time, reflecting moderate environmental and social risks and good governance characteristics and conservative financial policies.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The **E-3** reflects environmental risks as a distributor of Caterpillar heavy equipment. This includes carbon transition risks that will require reducing emissions from heavy machinery, but likely over a more extended timeframe than for manufacturers of diesel-powered transportation equipment. Risk related to waste and pollution is also moderately negative, in line with the broader manufacturing industry.

Social

The **S-3** reflects social risks, primarily related to human capital risks from potential disruptions to the availability of highly skilled labour, wage or benefits demands and entrenched labour unions in South Africa. The company faces some health & safety risks in its industrial equipment business given the handling of heavy machinery. These risks are partially offset by the company's focus on health and safety standards with the aim of minimizing accidents in the working environment. As primarily a distributor to commercial clients, the company has neutral to low exposure to customer relations risks.

Governance

Barloworld's **G-2** score reflects the company's conservative financial strategy and risk management as well as the high credibility and strong track record of its management. We note some risks related to the company's corporate structure with operational exposure across multiple southern African countries, as well as Russia and Mongolia that have different regulations and laws that can expose it to adverse changes or potential penalties for non-compliance.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Barloworld's liquidity is good. As of 30 September 2023, Barloworld has sufficient liquidity sources to meet its upcoming debt maturities, dividends, investments and operating expenses for the next 12 to 18 months. Liquidity sources comprise an unrestricted cash balance of ZAR10.3 billion and ZAR5.1 billion of undrawn committed facilities (consisting of long term liquidity facilities and 365-day general banking facilities that banks have been routinely rolling over).

Rating methodology and scorecard factors

The forward looking scorecard-indicated outcome of Baa3 is two notches above the actual rating assigned. This difference is mainly explained by Barloworld's exposure to cyclical industries, as well as its high exposure to South Africa and uncertainty around the sustainability of its Russian operations.

Exhibit 9

Scorecard Factors

Barloworld Limited

Business and Consumer Service Industry Scorecard [1][2]	Current FY 09/30/2023		Moody's 12-18 Month Forward View	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.5	Ba	$2.1	Ba
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	Baa	Baa	Baa	Baa
b) Competitive Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability (10%)				
a) EBITA Margin	11.4%	B	9.8% - 10.2%	B
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	2.0x	Baa	1.9x - 2x	A
b) EBITA / Interest	3.2x	Ba	2.7x - 3.4x	Ba
c) RCF / Net Debt	117.8%	Aaa	100% - 150%	Aaa
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for nonfinancial Corporations.
[2] As of 9/30/2023
[3] 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 Ratings

Ratings

Exhibit 10

Category	Moody's Rating
BARLOWORLD LIMITED	
Outlook	Stable
Corporate Family Rating	Ba2
ST Issuer Rating -Dom Curr	NP
NSR Corporate Family Rating	Aa2.za
NSR ST Issuer Rating	P-1.za

Source: Moody's Ratings

Appendix

Exhibit 11
Peer comparison table [1]

	Barloworld Limited Ba2 Stable			Caterpillar Inc. A2 Stable			Bidvest Group Limited, The Ba2 Stable		
(in $ millions)	FY Sep-21	FY Sep-22	FY Sep-23	FY Dec-21	FY Dec-22	FY Dec-23	FY Jun-22	FY Jun-23	LTM Dec-23
Revenue	2,305	2,497	2,481	48,188	56,574	63,869	6,578	6,483	6,508
EBITDA	308	330	338	9,166	10,512	14,579	859	826	817
Total Debt	998	892	657	12,150	11,427	11,358	1,819	1,725	2,036
Cash & Cash Equivalents	715	521	545	9,392	7,522	9,956	678	469	370
EBITA Margin %	10.4%	10.8%	11.4%	16.0%	16.2%	20.8%	9.9%	9.7%	9.5%
EBITA / Interest Expense	3.9x	4.1x	3.2x	13.9x	17.4x	22.4x	5.8x	5.6x	5.7x
Debt / EBITDA [2]	2.2x	2.5x	2.0x	1.3x	1.1x	0.8x	2.3x	2.2x	2.5x
RCF / Net Debt	129.6%	45.4%	117.8%	183.6%	156.4%	663.9%	36.6%	31.8%	25.1%
FCF / Debt	36.5%	-1.8%	3.3%	31.2%	23.4%	66.3%	4.3%	-0.1%	1.5%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.
[2] For Barloworld, the FY2021 and FY2022 Debt/EBITDA metric excludes earnings and debt from the discontinued Car Rental and Leasing business. Barloworld completed the disposal of its Car Rental and Leasing business in December 2022.
Source: Moody's Ratings

Exhibit 12
Moody's-adjusted debt breakdown

(in RAND millions)	2019	2020	2021	2022	2023
As reported debt	**8,369.0**	**11,723.0**	**13,799.0**	**12,275.0**	**11,847.0**
Pensions	2,111.0	1,916.0	173.0	500.0	538.0
Leases	3,468.0	-	-	-	-
Non-Standard Adjustments	458.4	308.0	1,049.0	3,248.0	-
Moody's-adjusted debt	**14,406.4**	**13,947.0**	**15,021.0**	**16,023.0**	**12,385.0**

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.
FY2021 financials were restated to exclude discontinued operations from the Car Rental and Leasing business.
Moody's-adjusted debt includes debt from discontinued operations.
Source: Moody's Ratings

Exhibit 13
Moody's-adjusted EBITDA breakdown

(in RAND millions)	2019	2020	2021	2022	2023
As reported EBITDA	**7,057.0**	**3,888.0**	**4,728.0**	**5,215.0**	**6,116.0**
Pensions	99.0	17.0	18.0	(5.0)	15.0
Leases	1,156.0	-	-	-	-
Unusual Items - Income Statement	(193.0)	452.0	(188.0)	-	-
Moody's-adjusted EBITDA	**8,119.0**	**4,357.0**	**4,558.0**	**5,210.0**	**6,131.0**

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.
Source: Moody's Ratings

REPORT NUMBER 1401834

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454