

**Rating Action: Moody's takes action on five South African corporates following sovereign downgrade and outlook change**

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Global Credit Research - 13 Jun 2017

London, 13 June 2017 -- Moody's Investors Service has taken rating actions on five South African corporates.

Today's rating actions on five South African corporates follow the weakening of the South African government's credit profile, as captured by Moody's similar rating action on the sovereign rating on 9 June 2017. For further information, refer to the sovereign press release [https://www.moodys.com/research/-PR\\_367769](https://www.moodys.com/research/-PR_367769).

Moody's downgraded to Baa3 from Baa2 the senior unsecured ratings and change the outlook to negative from ratings under review of:

- Transnet SOC Ltd.

Moody's has affirmed the Baa3 long-term issuer ratings and changed the outlook to negative from stable of:

- Imperial Group Ltd
- Redefine Properties Limited

Moody's has affirmed the Baa3 long-term issuer rating and maintained the stable outlook:

- Naspers Limited

The respective national scale ratings assigned to the above corporates as well as Anglo American SA Finance Limited were affected by the revised national scale mapping table for South Africa.

A complete list of rating actions can be found at the end of this press release.

#### RATINGS RATIONALE

-- DOWNGRADE TO Baa3 THE SENIOR UNSECURED RATINGS OF TRANSNET; CHANGE OF OUTLOOK TO NEGATIVE FROM RATING UNDER REVIEW

The downgrade of the senior unsecured ratings and change of outlook on the ratings of Transnet SOC Ltd. (Transnet) follows the downgrade and change of outlook on the South African government sovereign rating to Baa3/ negative and reflects the credit linkages of Transnet with the South African economy and its material exposure to the domestic operating environment.

The negative outlook reflects the uncertainty surrounding political developments in South Africa that has translated into depressed consumer and business confidence which flows through to lower growth prospects for Transnet.

#### TRANSNET SOC LTD.

Transnet SOC Ltd.'s ("Transnet" or "company") Baa3 rating comprises Moody's view of the fundamental credit quality of Transnet represented by a Baseline Credit Assessment ("BCA") of baa3, combined with the strong linkage between Transnet and the South African government as reflected by our assumptions of "very high" dependence on and "high" support from government. Transnet's ratings and outlook are in line with the government of South Africa's bond rating of Baa3 with a negative outlook.

The BCA of baa3 reflects (1) Transnet's monopoly ownership and operation of the South African railway infrastructure and freight services, which are consistently profitable; (2) its ownership of South Africa's eight seaports and operations of a large part of South Africa's stevedoring services, together with its operation of the strategically important hydrocarbon pipelines; (3) its significant medium term capital expenditure programme, required to maintain and upgrade its infrastructure assets; (4) good profitability but weakening credit metrics as

reflected by increasing debt leverage and interest coverage ratios; and (5) management's track record of executing on its capital investment strategy.

Against the backdrop of Transnet's significant capital expenditure programme, we will continue to closely monitor the impact of current economic conditions on the company, particularly if volumes decelerate or decline. In our view, the key credit factors that will impact Transnet's standalone credit profile over the next few years are (1) the execution of its capital expenditure programme in the context of maintaining conservative financial discipline; (2) potential increase in debt that will be needed to meet the large capital expenditure plans outside of its Market Demand Strategy (MDS); and (3) tariffs that Transnet will be able to charge to recover the cost of such increased capital spending. Moody's expects that Transnet will only commit to capital expenditure that will earn the company a sufficient return on assets to support its funding requirements.

#### -- AFFIRMATION OF Baa3 ISSUER RATINGS OF IMPERIAL GROUP AND REDEFINE PROPERTIES WITH A NEGATIVE OUTLOOK

The change of outlook on the ratings of Imperial Group Ltd and Redefine Properties Limited follows the change of outlook on the Baa3 sovereign rating of South Africa and reflects the credit linkages of these corporates with the South African economy and their material exposure to the domestic operating environment. The negative outlook reflects the uncertainty surrounding political developments in South Africa that has translated into depressed consumer and business confidence which flows through to lower growth prospects for these corporates that operate within South Africa.

#### IMPERIAL GROUP LTD

Imperial Group Ltd's ("Imperial" or "Group") 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 high concentration to South Africa, contributing 56% of revenues and 63% of operating profit for the last 12 months (LTM) to 31 December 2016. 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 anticipate that management will respond and take measures to stabilise the decline in the credit metrics.

#### REDEFINE PROPERTIES LIMITED

Redefine Properties Limited's ("Redefine" or the company) Baa3/Aa1.za long-term issuer ratings are underpinned by a material growth of its property portfolio over the past 18 months within South Africa as well as more recently into Europe and Australia. The sizable portfolio of predominantly directly held South African properties (80% of property assets) has moderate and relatively stable occupancy rates of 94.5%, that produced high EBITDA margins. The rating is also supported by a well-diversified property portfolio across key sectors in office, industrial and retail with local and offshore property (direct and indirect) exposures in South Africa, United Kingdom, Poland and Australia.

The rating is however constrained by (1) the portfolio's predominant exposure to South Africa; (2) the more complex organisational and reporting structure; (3) a moderate fixed charge cover of 2.9x; and (4) increasing total debt to gross assets ratio (leverage) of 37.4%, which is anticipated to increase towards 40%. Further key constraints on the ratings include the large proportion of secured debt in the company's capital structure, which represents 68% of total debt; and the high level of encumbered assets to gross assets. All data points and credit metrics are as of last 12 months to 28 February 2017 and are according to Moody's standard definitions and adjustments.

#### -- AFFIRMATION OF Baa3 ISSUER RATINGS OF NASPERS WITH A STABLE OUTLOOK

#### NASPERS LIMITED

Naspers Limited's (Naspers or the Group) Baa3 global, local currency issuer rating reflects its leading market positions across a range of diversified media subsectors and geographies. The rating also takes into account the Group's dominant video entertainment market position in South Africa. Moreover, the rating is underpinned by the financial flexibility provided by Naspers' holdings in publicly quoted entities such as Tencent Holdings Limited (A2 positive); Mail.ru Group (not rated) and MakeMyTrip (not rated), whose material value and dividend streams are a key source of cash flow and liquidity.

Naspers' rating is supported by financial policies that include (1) ensuring it has sufficient cash flows from its listed investments, profitable e-commerce operations and South African video entertainment and print businesses to meet the Group's debt and operating expenditures; (2) maintaining a strong liquidity profile; and (3) active portfolio optimisation through disposals and a disciplined approach to investments.

However, the Baa3 rating is constrained by (1) the Group's high asset concentration given Tencent's material value; (2) execution risks associated with its ecommerce investment strategy; and (3) its business risks arising from its position as an emerging market operator. In addition, Naspers' rating is constrained by its complex organisational structure as debt service is predominantly reliant on cash flows generated by entities that have other shareholders.

The stable outlook reflects our view that Naspers operations are globally diversified with 77% of economic revenues derived outside of its home market South Africa and over 90% of its asset value comes from Tencent in China (A1 stable). The stable outlook reflects our expectation that Naspers will continue to hold dominant market positions across video entertainment and classified operations; its ecommerce business will continue to report improving profitability and there is no material devaluation of its listed investments. Furthermore, we expect the Group to pursue prudent investment and financial policies and maintain its strong liquidity profile.

-- RAISED TO (P)Aa2.za NATIONAL SCALE RATINGS OF ANGLO AMERICAN SA FINANCE DMTN PROGRAMME; WITH A POSITIVE OUTLOOK

#### ANGLO AMERICAN SA FINANCE LIMITED

Anglo American SA Finance Limited is an indirect 100% owned financial subsidiary of Anglo American plc (Ba1 positive). The (P)Ba1/(P)NP global scale rating assigned to the debt issuance programme of the South African subsidiary reflect its position as an issuer under the South African DMTN programme of the group, guaranteed by the holding company Anglo American plc. The programme's NSR was raised to (P)Aa2.za from (P)A1.za. The outlook remains positive.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

##### TRANSNET SOC LTD.

An upgrade is unlikely at this time given the credit linkages that exist between the government of South Africa's sovereign creditworthiness and that of Transnet; and our expectations that Transnet's capital expenditure programme and sizable funding needs will result in a sustained high level of leverage as defined by debt/EBITDA and negative free cash flow. Over the medium-term, the key requirements for positive rating pressure would be a clear path towards positive free cash flow generation and material deleveraging.

Moody's could consider downgrading Transnet's ratings in the event of a downgrade of the government of South Africa's bond rating, given the rating agency's assessment of the strong linkage between the two. Moody's could also lower Transnet's BCA if the company does not deliver sufficient growth in funds from operations (FFO) to offset its debt-funded capital expenditures, such that consolidated FFO/debt is sustainably below 10%; or (FFO + interest expense)/interest expense is below 2.0x on a sustained basis.

Such a failure to deliver could arise if Transnet's volumes were to fall due to the return of poor trade conditions that tariff rises were unable to offset; and/or Transnet were to embark on a debt-financed capital expenditure programme that was not matched by accompanying demand and growing operating cash flows.

Furthermore, Transnet's financial policies and operating performance may be challenged in the next 12 to 18 months by government policies to support or stimulate economic growth and address high unemployment; and a continued weak economic environment, which could constrain Transnet's revenue growth.

##### IMPERIAL GROUP LTD

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 (1) materially grow its offshore operations into markets with stronger credit profiles relative to South Africa; (2) maintain a retained cash flow to net debt ratio above 25%, on a sustainable basis; (3) maintain

stable and improving operating margins; and (4) 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.

Negative pressure could be exerted on the ratings or outlook of Imperial as a result of (1) downgrade of the government of South Africa's bond rating; (2) 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; (3) an average retained cash flow/net debt ratio that trends below 20% on a prospective basis, considering past and expected future performance; (4) debt protection measures weakening; and (5) 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.

#### REDEFINE PROPERTIES LIMITED

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

Any positive rating action would further depend on strengthening financial metrics such that (1) portfolio size and diversification materially improves; (2) good track record as a rated entity; (3) consistent credit metrics, maintaining leverage, defined as adjusted total debt/gross assets, sustainably below 35% and fixed charge coverage above 3.0x on a sustained basis; and (4) ratio of secured debt/property assets falls below 25%.

Downward pressure may result if (1) the government of South Africa's credit rating is downgraded; (2) adjusted total debt/gross assets exceeds 40% on a sustained basis; (3) fixed charge coverage trends below 2.5x; (4) ratio of secured debt/property assets remains above 30%; (5) unexpected difficulties integrating acquisitions arise, having a negative impact on the operational performance or cash flows of the company and (6) Deterioration of Redefine's liquidity risk profile.

#### NASPERS LIMITED

Upward pressure on Naspers' rating is limited given its high investment concentration and dependency on Tencent. However, we could consider an upgrade based on (1) broader diversification of portfolio in terms of value and income streams from its investments; (2) clarity on financial policies that support higher ratings; and (3) improvement in interest cover, such that (FFO + Interest expense)/ Interest expense is above 3.0x on a sustainable basis.

Negative pressure on the rating could develop if (1) the value of Naspers' stake in Tencent Holdings Limited and Mail.ru (or similar associate investments) weakens materially or the ability of these investments to declare dividends in line with historical trends is adversely impacted; (2) credit quality of core holdings weakens to the extent operating cash flows are adversely impacted; (3) failing to maintain a strong liquidity profile and cash buffer to meet approaching interest and principal payments; and (4) in the absence of a strong liquidity profile a (FFO + Interest expense)/Interest expense is below 2.0x.

#### ANGLO AMERICAN SA FINANCE LIMITED

The ratings of Anglo American plc could be upgraded following a (1) sustained improvement in the leverage profile, with debt/EBITDA at or below 2.5x and (CFO-Dividend) / debt in high-20s percentage level; (2) strong liquidity position; or (3) strong financial position, backed by a financial policy which supports an expectation of positive FCF generation amid a number of commodity price scenarios.

While unlikely in the short term, a reversal of the deleveraging trend, resulting in Anglo American plc sustaining higher level of leverage with debt/EBITDA sustainably higher than 3.5x, would put a negative pressure on the Ba1 ratings.

List of affected ratings:

Raised:

..Issuer: Anglo American SA Finance Limited

....NSR Backed Senior Unsecured Medium-Term Note Program, Raised to (P)Aa2.za from (P)A1.za

....NSR Backed Senior Unsecured Regular Bond/Debenture, Raised to Aa2.za from A1.za

..Issuer: Imperial Group Ltd

.... NSR Backed LT Issuer Rating, Raised to Aa1.za from Aa3.za

.... NSR Backed Subordinated Medium-Term Note Program, Raised to (P)Aa3.za from (P)A2.za

.... NSR Backed Senior Unsecured Medium-Term Note Program, Raised to (P)Aa1.za from (P)Aa3.za

.... Backed Senior Unsecured Regular Bond/Debenture, Raised to Aa1.za from Aa3.za

..Issuer: Redefine Properties Limited

.... NSR LT Issuer Rating, Raised to Aa1.za from Aa2.za

.... NSR Senior Unsecured Medium-Term Note Program, Raised to (P)Aa1.za from (P)Aa2.za

Affirmations:

..Issuer: Naspers Limited

.... LT Issuer Rating, Affirmed Baa3

..Issuer: Myriad International Holdings B.V.

....Backed Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

..Issuer: Imperial Group Ltd

.... Backed ST Issuer Rating, Affirmed P-3

.... Backed LT Issuer Rating, Affirmed Baa3

.... NSR Backed ST Issuer Rating, Affirmed P-1.za

.... Backed Subordinated Medium-Term Note Program, Affirmed (P)Ba1

.... Backed Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa3

.... Backed Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

..Issuer: Redefine Properties Limited

.... ST Issuer Rating, Affirmed P-3

.... LT Issuer Rating, Affirmed Baa3

.... NSR ST Issuer Rating, Affirmed P-1.za

....Senior Secured Conv./Exch. Bond/Debenture, Affirmed Baa3

....NSR Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1.za

....Senior Unsecured Medium-Term Note Program, Affirmed (P)P-3

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa3

..Issuer: Transnet SOC Ltd.

....NSR Subordinated Medium-Term Note Program, Affirmed (P)Aa3.za

....NSR Senior Unsecured Medium-Term Note Program, Affirmed (P)Aa1.za

....NSR Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1.za

Downgrades:

..Issuer: Transnet SOC Ltd.

....ST Issuer Rating, Downgraded to P-3 from P-2, on review for downgrade

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)P-3 from (P)P-2, on review for downgrade

....Subordinated Medium-Term Note Program, Downgraded to (P)Ba1 from (P)Baa3, on review for downgrade

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa3 from (P)Baa2, on review for downgrade

....Senior Unsecured Bank Credit Facility, Downgraded to Baa3 from Baa2, on review for downgrade

....Senior Unsecured Commercial Paper, Downgraded to P-3 from P-2, on review for downgrade

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2, on review for downgrade

....Backed Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2, on review for downgrade

Outlook Actions:

..Issuer: Anglo American SA Finance Limited

....Outlook, Remains Positive

..Issuer: Naspers Limited

....Outlook, Remains Stable

..Issuer: Myriad International Holdings B.V.

....Outlook, Remains Stable

..Issuer: Imperial Group Ltd

....Outlook, Changed To Negative From Stable

..Issuer: Redefine Properties Limited

....Outlook, Changed To Negative From Stable

..Issuer: Transnet SOC Ltd.

....Outlook, Changed To Negative From Rating Under Review

#### PRINCIPAL METHODOLOGIES

The principal methodology used in rating Anglo American SA Finance Limited was Global Mining Industry published in August 2014.

The principal methodology used in rating Redefine Properties Limited was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010.

The principal methodology used in rating Imperial Group Ltd was Global Surface Transportation and Logistics Companies published in May 2017.

The methodologies used in rating Transnet SOC Ltd. were Global Surface Transportation and Logistics Companies published in May 2017, and Government-Related Issuers published in October 2014.

The principal methodology used in rating Naspers Limited and Myriad International Holdings B.V. was Investment Holding Companies and Conglomerates published in December 2015.

Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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 same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1060333](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1060333).

The Local Market analyst for Naspers Limited, Myriad International Holdings B.V., Imperial Group Ltd, Transnet SOC Ltd. and Redefine Properties Limited is Dion Bate, +27 (112) 175-472.

#### TRANSNET SOC LTD.

Transnet SOC Ltd. is a state-owned limited liability company, operating the main port capacity, the national rail network and freight railways, and the multi-product hydrocarbon pipeline network of South Africa. All activities for the LTM to 30 September 2016 were profitable, with rail activities accounting for 54% of group EBITDA as reported (excluding intercompany eliminations and specialist units), ports for 35%, and the pipeline business for 11%.

Transnet is wholly owned by the government of South Africa (Baa3 negative), and the company's Memorandum of Incorporation restricts Transnet from disposing of (1) the whole or substantially the whole of the undertaking of Transnet; or (2) the whole or the greater part of the assets of Transnet, without prior approval of the Minister of Public Enterprises. As long as the government of South Africa is the majority shareholder of the company, the Directors of Transnet are not entitled to apply for the winding up of Transnet without the approval of the Minister of Public Enterprises and the Minister of Finance.

#### IMPERIAL GROUP LTD

Imperial Holdings Ltd is the largest private sector transport and mobility group in South Africa. Established in 1948, Imperial operates in Africa, the UK, Europe, USA 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. Going forward Imperial will be restructuring its business into two groupings, Imperial Vehicles and Imperial Logistics.

#### REDEFINE PROPERTIES LIMITED

Redefine Properties Limited is one of the largest commercial real estate investment trust (REIT) listed on the Johannesburg Stock Exchange (JSE) in South Africa by total reported assets, ZAR91.9 billion (\$7 billion) as at 28 February 2017. Its activities include direct investments in property assets (ZAR68.8 billion or \$5.3 billion), as well as investments in the listed securities of other commercial property investment companies totalling ZAR15.3 billion (\$1.2 billion). Redefine's offshore property exposure is held through its investments in Redefine International Plc (RI Plc, 29.8%) in the UK; Cromwell Property Group (Cromwell, 25.5%) and Northpoint Tower (50% joint venture) in Australia; and its investment in Echo Polska Properties (39.5%).

#### NASPERS LIMITED

Naspers Limited is a diversified media company with a core focus on video entertainment, print media, ecommerce (classifieds, retail, marketplace, travel, payments and ventures) and internet (Tencent and Mail.ru) activities. By geography, the Group's main operations are located in South Africa, with a growing presence across Sub-Saharan Africa, Central and Eastern Europe and other emerging markets such as Brazil, Russia, India and China. Incorporated in 1915, Naspers has a 100-year history in the media industry and has recently expanded its focus to gradually bridge the gap between traditional and new media platforms.

#### ANGLO AMERICAN SA FINANCE LIMITED

Anglo American SA Finance Limited is a 100% owned subsidiary of Anglo American plc, which is headquartered in the UK and listed on the London and Johannesburg stock exchanges, Anglo American plc (Anglo is a global diversified mining company). In 2016, the group reported sales of \$21.5 billion (excluding

associates). Its mining portfolio comprises precious metals (platinum, diamonds), bulk commodities (coal, iron ore) and base metals (copper).

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The person who approved Naspers Limited, Myriad International Holdings B.V., Imperial Group Ltd, Transnet SOC Ltd. and Redefine Properties Limited credit ratings is David Staples, MD-Corporate Finance, Corporate Finance Group, Journalists 44 20 7772 5456, Subscribers 44 20 7772 5454.

The person who approved Anglo American SA Finance Limited credit ratings is Anke Richter, Associate Managing Director, Corporate Finance Group, Journalists 44 20 7772 5456, Subscribers 44 20 7772 5454.

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