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CREDIT OPINION

12 April 2022

Update

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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.

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Barloworld Limited

Update following affirmation of Ba2 rating and change of outlook to stable

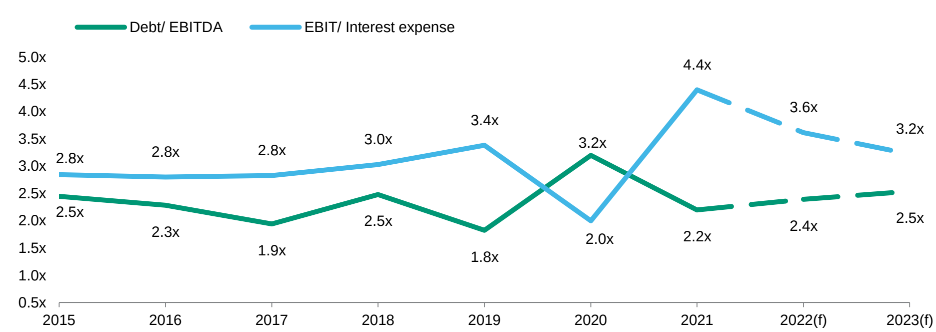
Summary

On 6 April we affirmed Barloworld Limited's (Barloworld) Ba2 corporate family rating (CFR) and national scale rating (NSR) of Aa2.za, the outlook was changed to stable from negative. The rating action directly follows the affirmation of the sovereign rating of South Africa at Ba2 and change of the outlook to stable from negative on 1 April and reflects the company's operational concentration in the country, which accounted for around 70% of revenue generation for the financial year ending September 2021 (FY 2021). Barloworld's ratings recognise (1) Barloworld's competitive position as a leading equipment supplier to the mining and construction industries in southern Africa, Russia and Mongolia and as a leading car rental and leasing company in South Africa; (2) its diversified product mix that provides some protection against cyclicality, including aftermarket servicing for heavy equipment and expansion into consumer products; and (3) conservative financial policies and low leverage.

Apart from the operational concentration in South Africa, 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 20% of revenue and EBITDA in FY 2021, 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, construction and automotive; and (3) its reliance on key suppliers, as the business is based on maintaining its position as the principal agent for a number of high profile companies such as Caterpillar (A2 stable)

Exhibit 1

Credit metrics expected to weaken in 2022 and 2023, due to disruptions to Russian business, but will stay at adequate levels



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 Financial Metrics™

Credit strengths

» Leading market positions supported by strong brand offerings

» Recurring equipment servicing revenue provides buffer to cyclical new equipment sales

» 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 full impact on Barloworld's Russian business of western sanctions on Russia

» 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 in case of prolonged or permanent severe disruptions to Barloworld's Russian operations, Barloworld's credit metrics will remain commensurate with the current rating level.

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 EBIT/ interest remains above 3.5x, both on a sustained basis. We expect that Barloworld's credit metrics will weaken over financial years 2022 and 2023 as a result of severe operational disruptions to its Russian business. While we expect credit ratios will remain adequate, an upgrade is unlikely as long as there remains uncertainty over the full financial impact on the Barloworld group of the changed operating environment of its Russian business.

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 EBIT/ interest remained below 2.25x on a sustained basis.

Key indicators

Exhibit 2

	30/09/2016	30/09/2017	30/09/2018	30/09/2019	30/09/2020	30/09/2021	2022(f)	2023(f)
Revenue (USD Billion)	$4.2	$4.6	$4.6	$4.2	$2.1	$2.8	$2.6	$2.5
EBITA Margin %	7.0%	7.0%	6.9%	7.4%	6.4%	10.7%	10.8%	10.1%
Debt / EBITDA	2.3x	1.9x	2.5x	1.8x	3.2x	2.2x	2.4x	2.5x
EBITA / Interest Expense	2.9x	2.9x	3.1x	3.5x	2.1x	4.6x	3.9x	3.4x
RCF / Net Debt	35.1%	46.9%	71.2%	66.4%	27.3%	120.5%	56.6%	119.5%

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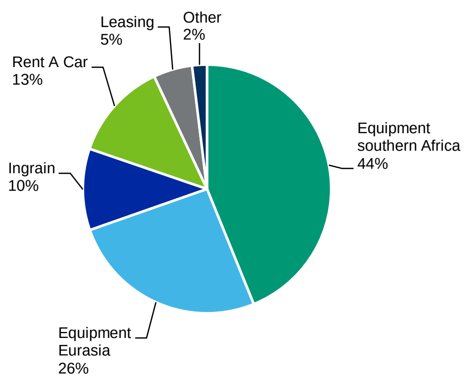
Source: Moody's Financial Metrics™

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, Russia and Mongolia. Equipment sales and servicing accounted for 70% of Barloworld's revenue and 69% of operating profit for FY2021. The company also has car rental and leasing operations under the Avis and Budget brands in southern Africa and a consumer products division that was established in FY2021 following the acquisition of starch and glucose producer Ingrain.

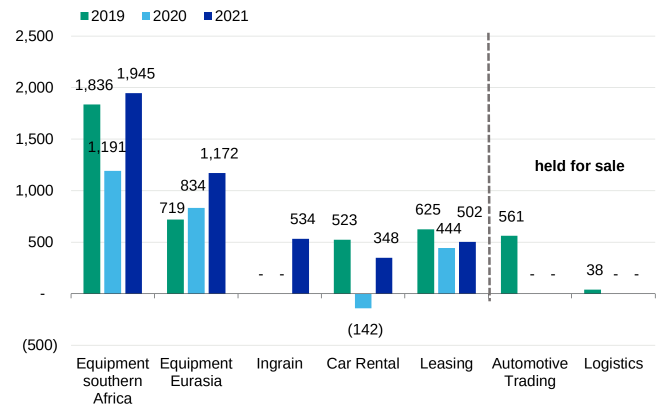
In FY2021, the company sold its motor retail business, which distributes luxury and mid-range car brands in South Africa and Botswana to NMI-DSM, an associate in which Barloworld holds a 50% join venture interest; this business is now deconsolidated and was re-branded as Beyond Mobility. Barloworld also announced its intention to divest its logistics business and moved it to discontinued operations for FY2021.

Exhibit 3
Revenue breakdown by segment FY2021



Sources: Company information, Moody's Investors Service

Exhibit 4
Operating Profit breakdown by segment FY2019 - FY2021
in ZAR million



Note: Excludes real estate and corporate segments. Automotive Trading and Logistics were restated as discontinued operations from FY2020, previously these operations reported a small operating loss in FY2020
Sources: Company information, Moody's Investors Service

Detailed credit considerations

Geographic concentration in South Africa

With 74% 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, despite some recovery from the pandemic in 2021. We expect medium term growth of only about 1.5% due to constraints from a malfunctioning labour market, decaying infrastructure and slow progress on economic and social reforms. Barloworld's sales and profitability are strongly correlated to macroeconomic and commodity cycles. As of FY2021, the company generated 20% of revenue and operating profit from Russia. 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 has grown faster and has been less cyclical than the South African business. Following the Russian invasion of Ukraine, we expect Barloworld's Russian business to be severely disrupted and in a worst case, cease operations completely, on a temporary or permanent basis. This would increase concentration to South Africa to around 90% of revenue going forward. Barloworld's operations in Mongolia (B3 stable) remain small, accounting only for 6% of FY2021 revenue.

Severe disruption of Russian business following the Russian invasion of Ukraine

As a distributor for Caterpillar, a US manufacturer, Barloworld's Russian subsidiary is reliant on the continued supply of Caterpillar products to Russia. In March 2022 Caterpillar announced it had ceased manufacturing in its Russian plants and we expect that because of sanctions and supply chain disruptions the import of Caterpillar products from other countries will also be severely restricted for a prolonged period of time. We also expect increased payment defaults from customers who may not be able to meet the US dollar indexed payments after the depreciation of the rouble.

Dollar shortages and Russia's prohibition of transferring foreign currency out of the country will further restrict Barloworld's ability to repatriate any funds held in Russia to South Africa and therefore any cash flow generated in Russia will not be available for Barloworld's debt service.

Our projected credit metrics for 2022 and 2023 are based on the assumption that Barloworld will lose all revenue and EBITDA from Russia from March 2022 onwards. We expect that the loss of its Russian business will however partially be mitigated by stronger demand from South African miners who benefit from increased commodity prices.

Leading market positions supported by strong brand offerings

Barloworld holds dominant market positions in heavy machinery, motor vehicle rental and leasing 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, Russia and Mongolia. 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.

Within its car rental operations, Barloworld holds the Avis and Budget brands, which combined, hold the number 1 market position in the South African motor rental market. The Avis fleet business is the market leader in the South African car leasing market. The business has an established customer base comprising of government and corporate long term fleets, including blue chip companies with contract durations averaging five years.

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 its associate entity 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 driven by global commodity cycles and, in the case of construction, the state of the South African macroeconomic environment. 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. Aftercare 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 servicing has consistently accounted for more than 50% of total Equipment revenue and reached a high of 57% in FY2021.

The sale of new equipment is inherently cyclical, as it is driven by few, large orders from a relatively concentrated client base and depends on miners' capex budgets. From 2013 to 2020 demand for new equipment was on a declining trend in southern Africa and overall reduced by c. 50% over the period. As commodity prices improved in FY2021, demand for new equipment has increased again, but Barloworld was faced with global supply chain problems and product shortages and therefore unable to meet the full extent of the increased demand. This was partially compensated by growth in the sale of parts and servicing and we expect that as supply chain bottlenecks gradually resolve over the next year, Barloworld's sale of new equipment will grow again in southern Africa. This is supported by Barloworld's strong order book of ZAR3.2 billion as of 30 September 2021, up 40% from a year earlier.

Portfolio realignment towards more defensive industries will lead to less cyclical earnings but bears some execution risks

Barloworld is in the process of realigning its portfolio of businesses with the aim 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 and announced its intention to sell the logistics business. These businesses accounted for a substantial 40% of FY2020 revenue. Both businesses were severely affected by the recession and are cyclical in nature, as consumers reduce discretionary spending on new cars in economic downturns. We view the disposal of these businesses as credit positive as it will reduce some of the cyclicality the group is exposed to. The remaining car rental business has recovered quickly during FY2021 after an initial decline during lockdown and is more exposed to business spending and tourism rather than domestic consumer spending.

Barloworld established a new consumer industries division, centered around the Ingrain business that was acquired in October 2020 and may pursue further acquisitions in the food, health-care and education space across Africa. We expect this division to add a further stream of defensive earnings going forward as the food industry is generally a more stable end market. For the 11 months that Ingrain was consolidated into Barloworld's FY2021 accounts performance was strong and we see further upside once supply chain squeezes are resolved.

The realignment strategy however also brings some execution risks as consumer products are a new and unproven industry for Barloworld with no synergies to its existing equipment and car rental businesses. 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.

Conservative financial management and good credit metrics

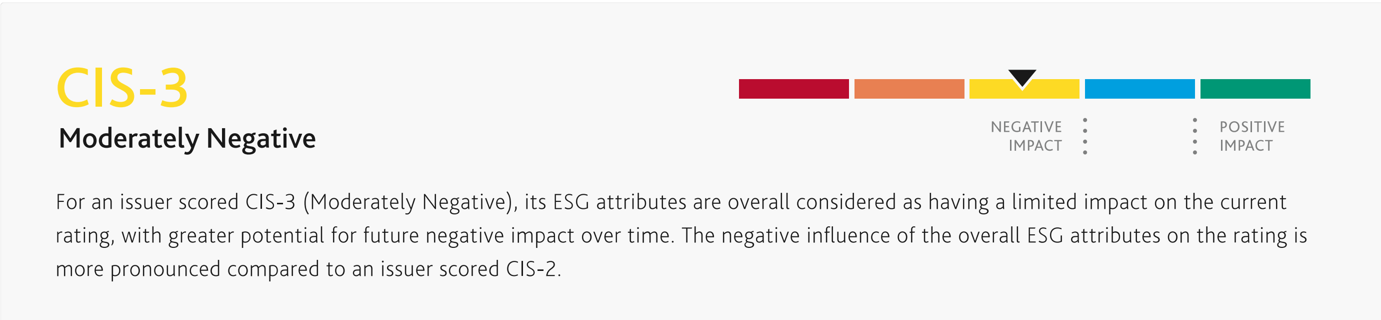
Barloworld's credit metrics recovered strongly over FY2021 with Moody's adjusted EBITDA reducing to 2.2x from 3.2x a year earlier. Debt/EBITDA reduced back in line with the company's historical average in the years prior to the pandemic, thanks to strong EBITDA recovery and exceptionally strong cash flow generation over FY2021. We expect that the disruptions to its Russian business will cause debt/ EBITDA leverage to increase to 2.4x in FY2022 and 2.5x in FY2023, which remains an adequate level.

After suspending dividend payments in 2020, the company declared a special dividend on top of its regular dividend, which leads to total dividend payments of ZAR1.6 billion in FY2022. This remains in line with the company's dividend policy of maintaining at least 2.5x to 3.0x normalised headline earnings to dividend cover and we expect management to continue following the conservative financial management it has demonstrated in the past.

ESG considerations

BARLOWORLD LIMITED's ESG Credit Impact Score is Moderately Negative CIS-3

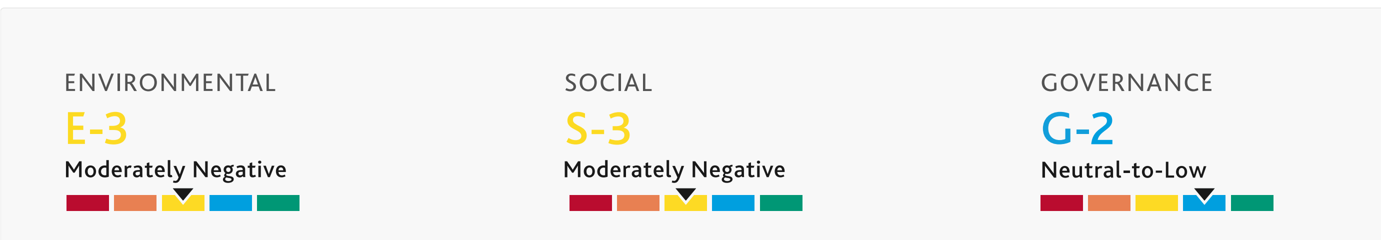
Exhibit 5
ESG Credit Impact Score



Source: Moody's Investors Service

Barloworld's ESG Credit Impact Score is Moderately Negative (**CIS-3**), reflecting moderate environmental and social risks and good governance characteristics and conservative financial policies.

Exhibit 6
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Barloworld faces moderate environmental risks in its main business 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

Barloworld faces moderate 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, mainly in its logistics business (which the company intends to sell) and 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 governance risks are neutral to low and reflect 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 adequate. As of 30 September 2021, Barloworld has sufficient liquidity sources to meet its upcoming debt maturities, dividends, investments and operating expenses for the next 12 months. Liquidity sources comprise an unrestricted cash balance of ZAR10.6 billion, ZAR3.2 billion of undrawn committed long term liquidity facilities and ZAR2.9 billion 365-day general banking facilities that banks have been routinely rolling over. This is sufficient to meet short term debt maturities, dividends of ZAR1.6 billion, capex of around ZAR2.5 billion and also provides sufficient buffer to absorb a larger than usual working capital build up in FY2022, which we expect to be required to grow inventory of the car rental business that was reduced during FY2021.

Rating methodology and scorecard factors

Moody's has changed the primary rating methodology applied to Barloworld to Business and Consumer Services from Retail. The change reflects the changing business mix of Barloworld and the fact that the Equipment business now contributes the greatest share of revenue and cash flow as of September 2021. The disposal of the logistics business and medium-term planned disposal of the car rental and fleet management businesses will further increase the share of contribution to Barloworld's revenue and cash flow from businesses that are better suited for analysis under the Business and Consumer Services methodology.

The forward looking scorecard-indicated outcome of Baa3 is two notches above the actual rating assigned.

Exhibit 7

Scorecard Factors				
Barloworld Limited				
Business and Consumer Service Industry Scorecard [1][2]	Current FY 09/30/2021		Moody's 12-18 Month Forward View As of 4/7/2022 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.8	Ba	$2.5 - $2.6	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	10.7%	B	10% - 11%	B
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	2.2x	Baa	2.4x - 2.5x	Baa
b) EBITA / Interest	4.6x	Ba	3.4x - 3.9x	Ba
c) RCF / Net Debt	120.5%	Aaa	55% - 120%	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 9/30/2021; Source: Moody's Financial Metrics™
[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 Financial Metrics™

Appendix

Exhibit 8

Peer comparison table

(in USD millions)	Barloworld Limited Ba2 Stable FYE Sep-19	FYE Sep-20	FYE Sep-21	Caterpillar Inc. A2 Stable FYE Dec-19	FYE Dec-20	FYE Dec-21	Bidvest Group Limited, The Ba2 Stable FYE Jun-20	FYE Jun-21	LTM Dec-21
Revenue	$4,202	$2,106	$2,806	$50,755	$39,022	$48,188	$4,929	$5,759	$6,371
EBITDA	$550	$273	$459	$9,424	$6,183	$9,124	$504	$706	$805
Total Debt	$950	$836	$998	$12,651	$14,483	$12,150	$1,977	$1,771	$1,869
Cash & Cash Equiv.	$469	$350	$707	$7,299	$8,822	$8,428	$538	$483	$574
EBITDA Margin	13.1%	13.0%	16.3%	18.6%	15.8%	18.9%	10.2%	12.3%	12.6%
EBIT / Int. Exp.	3.4x	2.0x	4.4x	13.4x	7.4x	13.3x	3.4x	4.8x	5.3x
Debt / EBITDA	1.8x	3.2x	2.2x	1.3x	2.3x	1.3x	4.4x	2.3x	2.5x
RCF / Net Debt	66.4%	27.3%	120.5%	117.0%	60.3%	136.1%	14.3%	39.2%	34.0%
FCF / Debt	15.7%	16.3%	36.5%	24.9%	6.1%	31.2%	1.8%	23.1%	9.6%

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.
Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

(in RAND Millions)	FYE Sep-16	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21
As Reported Debt	**11,044**	**9,678**	**11,169**	**8,369**	**11,723**	**13,799**
Pensions	2,884	2,236	1,753	2,111	1,916	173
Operating Leases	3,573	2,952	2,961	3,468	0	0
Non-Standard Adjustments	0	33	279	458	308	1,049
Moody's-Adjusted Debt	**17,501**	**14,899**	**16,162**	**14,406**	**13,947**	**15,021**

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown

(in RAND Millions)	FYE Sep-16	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21
As Reported EBITDA	**6,494**	**6,537**	**5,531**	**6,826**	**3,931**	**6,966**
Pensions	14	11	14	99	17	18
Operating Leases	1,191	984	868	1,156	0	0
Unusual	-36	142	100	-193	452	-192
Moody's-Adjusted EBITDA	**7,663**	**7,674**	**6,513**	**7,888**	**4,400**	**6,792**

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

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 Investors Service

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CLIENT SERVICES

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

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