MOODY'S INVESTORS SERVICE

CREDIT OPINION

21 December 2021

Update

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RATINGS

Barloworld Limited

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

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 to credit analysis

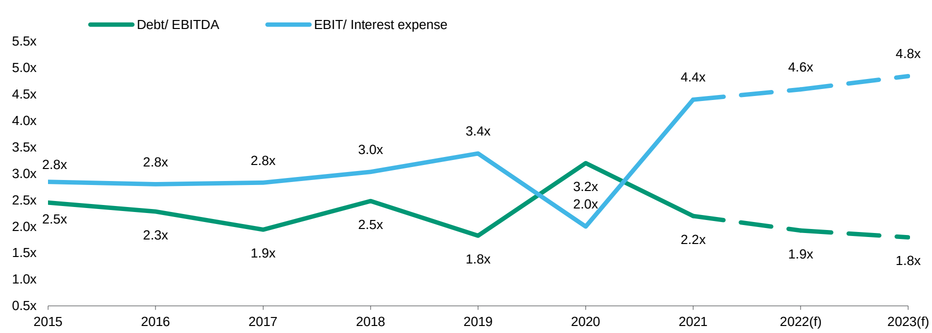
Summary

Barloworld Limited's (Barloworld) corporate family rating (CFR) of Ba2 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, 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

The ratings also take into account (1) Barloworld's operational concentration in South Africa (Ba2 negative); the company generated 74% of revenue and operating profit for the year that ended September 2021 (FY2021) in southern Africa, whereof the vast majority in South Africa, which exposes the company to the economic, political, social, legal and regulatory environment of the country; (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 have rebounded strongly in FY2021



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 and Russia

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

Rating outlook

The negative outlook reflects the close link of Barloworld's rating to the government bond rating of South Africa. Therefore the outlook is aligned with that of the sovereign.

Factors that could lead to an upgrade

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if the outlook on the government bond rating of South Africa is changed to stable. Subject to an upgrade of the South African government bond rating, an upgrade could be considered if debt/ EBITDA remains below 3.0x and EBIT/ interest remains above 3.5x, both on a sustained basis.

Factors that could lead to a downgrade

Barloworld's ratings are likely to be downgraded in case of a further downgrade of South Africa's government bond rating, although Moody's will continue to monitor the company' geographical diversification. 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	$3.0	$3.2
EBIT / Interest Expense	2.8x	2.8x	3.0x	3.4x	2.0x	4.4x	4.6x	4.8x
RCF / Net Debt	35.1%	46.9%	71.2%	66.4%	27.3%	120.5%	69.5%	132.4%
Debt / EBITDA	2.3x	1.9x	2.5x	1.8x	3.2x	2.2x	1.9x	1.8x

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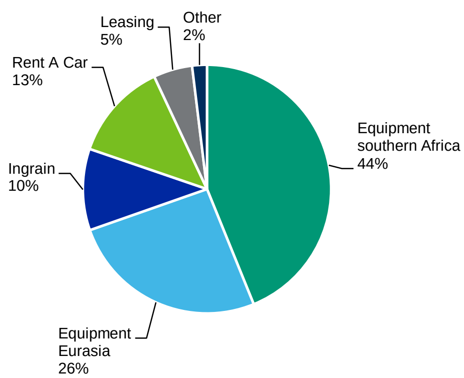
Source: Moody's Financial Metrics™

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.

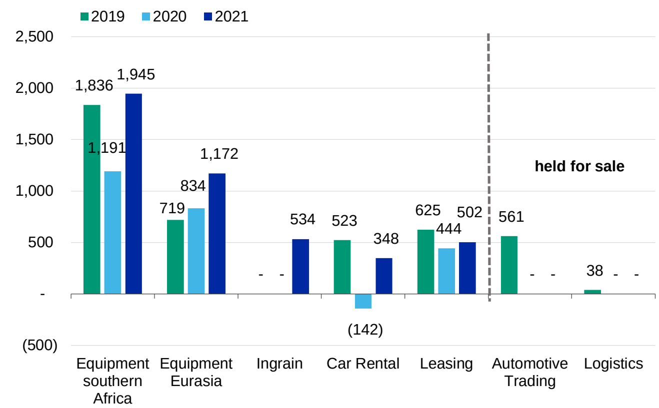
In FY2021, the company sold its motor retail business, which distributes luxury and mid-range car brands in South Africa and Botswana to NMI-DSM, an associate in which Barloworld holds a 50% join venture interest; this business is now deconsolidated and was re-branded as Beyond Mobility. Barloworld also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

Exposure to the South African economy is a credit constraint

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. The South African economy declined by 6.4% in 2020 amid the pandemic and we expect a relatively slow recovery of 4.1% in 2021 and 1.8% in 2022. Even prior to the pandemic, the economic environment in South Africa was weak and public finances continue to be under pressure, while social and political divisions slow progress on economic reforms. Barloworld's sales and profitability are strongly correlated to macroeconomic and commodity cycles. We positively view the share of revenue and operating profit generated in Eurasia, comprising of Russia (Baa3 stable) and Mongolia (B3 negative), which accounted for 26% of revenue and operating profit for FY 2021. Geographic diversification is credit enhancing as it reduces Barloworld's exposure to sovereign risks in South Africa. At the same time however, it introduces different country risks associated with Mongolia, which we consider a weaker sovereign than South Africa.

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. In Eurasia, revenue from aftermarket support has been steadily increasing since 2009, providing a strong revenue base to new equipment sales that have over time been more volatile than in southern Africa.

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. This is supported by our expectation of continued elevated metals prices throughout 2022 and by Barloworld's strong order book of ZAR3.2 billion as of 30 September 2021, up 40% from a year earlier.

Geographic diversification into Russia and, since September 2020 Mongolia, through the acquisition of Wagner Asia, also helps to smooth some of the cyclicality Barloworld is exposed to in southern Africa. In its Eurasia region, new equipment sales held up better during FY2020, while sales in southern Africa dropped significantly at the start of the pandemic. Geographic diversification also diversifies Barloworld's indirect commodity exposure. While the company's mining clients in southern Africa are mainly extracting coal, platinum, diamonds and manganese, its clients in Eurasia are mainly gold miners. Barloworld also has a significant number of coal mining clients in Mongolia, however about half of the production is coaking coal, rather than thermal coal, which is a key input to steel production and is therefore driven by different pricing dynamics.

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 is now back in line with the company's historical average in the years prior to the pandemic and at a conservative level, thanks to strong EBITDA recovery and exceptionally strong cash flow generation over FY2021. After suspending dividend payments in 2020, the company declared a special dividend on top of its regular dividend, which will lead 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 is indirectly exposed to credit risk from environmental risks because of the relatively high proportion of its revenue that is generated from supplying mining equipment and aftermarket care services to companies that are extracting coal and other natural resources. We view coal mining as one of only two industries that are exposed to very high credit risk from environmental considerations. This is because growing global demand and policy support for clean energy is detrimental to the carbon-intensive coal industry. Mining companies extracting resources other than coal are also exposed to high credit risk from environmental risks. We estimate that Barloworld generated around 40% of its FY2021 revenue from sales to mining companies and a deterioration of their credit profiles due to environmental risks would be detrimental for Barloworld.

The company is partially mitigating the exposure to environmental risks through its track record of good governance and conservative financial policies.

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, announced 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

The principal methodology used in rating the company was Moody's Retail Industry Methodology published in November 2021, as it captures the biggest portion of its businesses being the Equipment retail operations, representing 70% of total revenue. The three notch differential between the forward looking scorecard-indicated outcome and the actual rating assigned is due to the constrain of the sovereign rating.

Exhibit 5

Barloworld Limited				
Retail Industry Scorecard [1][2]	Current FY 09/30/2021		Moody's 12-18 Month Forward View As of 12/15/2021 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.8	B	$3 - $3.1	B
Factor 2 : Business Profile (30%)				
a) Stability of Product	Ba	Ba	Ba	Ba
b) Execution and Competitive Position	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (45%)				
a) EBIT / Interest Expense	4.4x	Baa	4.6x - 4.7x	Baa
b) RCF / Net Debt	120.5%	Aaa	70% - 100%	Aa
c) Debt / EBITDA	2.2x	A	1.8x - 1.9x	A
Factor 4 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa2
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™

Ratings

Exhibit 6

Category	Moody's Rating
BARLOWORLD LIMITED	
Outlook	Negative
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

Appendix

Exhibit 7
Peer comparison table

(in USD millions)	Barloworld Limited Ba2 Negative FYE Sep-19	FYE Sep-20	FYE Sep-21	Caterpillar Inc. A2 Stable FYE Dec-19	FYE Dec-20	LTM Sep-21	Bidvest Group Limited, The Ba2 Negative FYE Jun-19	FYE Jun-20	FYE Jun-21
Revenue	$4,202	$2,106	$2,806	$50,755	$39,022	$45,661	$5,368	$4,929	$5,759
EBITDA	$550	$273	$459	$9,424	$5,941	$8,483	$663	$504	$706
Total Debt	$950	$836	$998	$12,651	$14,483	$13,123	$1,396	$1,977	$1,771
Cash & Cash Equiv.	$469	$350	$707	$7,299	$8,822	$8,554	$423	$538	$483
EBITDA Margin	13.1%	13.0%	16.3%	18.6%	15.2%	18.6%	12.3%	10.2%	12.3%
EBIT / Int. Exp.	3.4x	2.0x	4.4x	13.4x	7.0x	11.7x	5.0x	3.4x	4.8x
Debt / EBITDA	1.8x	3.2x	2.2x	1.3x	2.4x	1.5x	2.1x	4.4x	2.3x
RCF / Net Debt	66.4%	27.3%	120.5%	117.0%	60.3%	108.5%	39.2%	14.3%	39.2%
FCF / Debt	15.7%	16.3%	36.5%	24.9%	6.1%	27.9%	3.4%	1.8%	23.1%

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

Exhibit 8
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 9
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™

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