MOODY'S
INVESTORS SERVICE

CREDIT OPINION
11 December 2020

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 following sovereign downgrade of South Africa

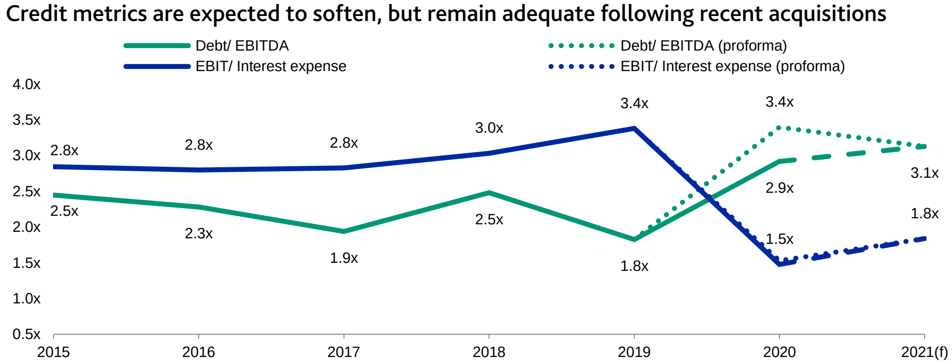
Summary

On 26 November 2020, we downgraded the rating of Barloworld Limited (Barloworld) to Ba2 from Ba1 and affirmed the National Scale rating of Aa2.za. The rating action is a consequence of the downgrade of the Government of South Africa to Ba2 from Ba1 and reflects Barloworld's material exposure to South Africa's political, legal, fiscal, social and economic environment, with 85% of revenue and 61% of operating profit generated in southern Africa (which is primarily driven by South Africa) for the fiscal year ending September 2020.

The ratings recognise (1) Barloworld's leading competitive position as an equipment supplier to the mining and construction industries in southern Africa and Russia and as an automotive distributor in South Africa; (2) its balanced product mix, spanning sale of new mining equipment and cars as well as offering aftermarket care, used car trading and car rentals, that can act as a counter-cyclical buffers to otherwise cyclical industries.

The ratings also take into account (1) the company's exposure to cyclical end markets including mining, construction, automotive and logistics; (2) 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 (A3 stable); (3) increased leverage of 2.9x Moody's adjusted for the year ending in September 2020 and 3.4x pro forma for the acquisition of Ingrain, combined with execution risk related to expansion outside of its core business and uncertainty around future strategic direction.

Exhibit 1
Credit metrics are expected to soften, but remain adequate following recent acquisitions



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.
Pro forma includes acquisition debt and Moody's expected full year EBITDA contribution of Ingrain and Caterpillar Mongolia, as if they were acquired on 1 October 2019.
Source: Moody's Financial Metrics™

Credit strengths

» Leading market positions supported by strong brand offerings

» Diversification along the value chain provides some mitigation to cyclical demand patterns of its products

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

Credit challenges

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

» Concentration to Sub-Saharan African and Russian markets

» Key supplier risks mitigated by long term relationships and close strategic alignment

» Execution risk related to strategic realignment

Rating outlook

The negative outlook reflects Barloworld's close linkages with the Government 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 Government of South Africa's rating outlook is changed to stable. Subject to an upgrade of the South African government bond rating, an upgrade could be considered if Debt/ EBITDA were to reduce below 3.0x and EBIT/ interest increases above 3.5x 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 sovereign 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. Pressure could also arise if the company's business profile weakened as a result of the strategic changes to Barloworld's portfolio of activities.

Key indicators

Exhibit 2

	30/09/2016	30/09/2017	30/09/2018	30/09/2019	30/09/2020 [1]	2021(f)
Revenue (USD Billion)	$4.2	$4.6	$4.6	$4.2	$3.1	$3.7
EBIT / Interest Expense	2.8x	2.8x	3.0x	3.4x	1.5x	1.8x
RCF / Net Debt	35.1%	46.9%	71.2%	66.4%	24.7%	32.8%
Debt / EBITDA	2.3x	1.9x	2.5x	1.8x	2.9x	3.1x

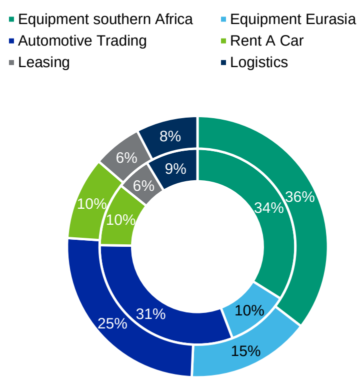
[1] FYE2020 Proforma EBIT / Interest Expense is 1.5x and Proforma Debt / EBITDA is 3.4x.
All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics™

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Profile

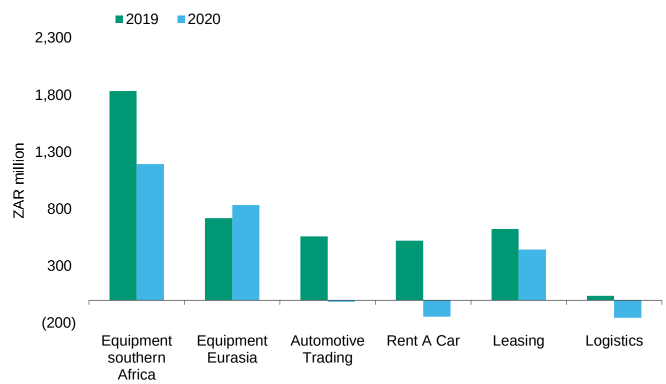
Barloworld, headquartered in South Africa, is a leading distributor and after-sales support provider of heavy equipment and motor vehicles for leading international brands across southern African markets and Russia. It also provides integrated rental, fleet management, product support and logistics solutions. The core divisions of the group comprise: (1) Equipment which provides end to end solutions across the value chain on behalf of Caterpillar Inc. to the mining, construction, industrial sectors; (2) automotive which operates the motor trading, car rental and fleet management services; and (3) logistics which provides logistics management transport and supply chain optimisation.

Exhibit 3
Revenue breakdown by segment
Inner to outer circle: 2019 and 2020



Source: Company Reports

Exhibit 4
Operating Profit breakdown by segment



The chart above excludes real estate and corporate segments
Source: Company Reports

Detailed credit considerations

Exposure to the South African economy is a credit constraint

With 85% 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 slowdown in South Africa's economic growth and low consumer and business confidence was already creating a difficult operating environment before the outbreak of COVID-19 but has been worsened by the pandemic. We expect South Africa's GDP to decline by 6.5% in 2020 before recovering by 4.5% in 2021. This is likely to have a direct impact on Barloworld's sales and profitability as its businesses are strongly correlated to macroeconomic 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 15% of revenue and 39% of operating profit as of 30 September 2020. When factoring in a full year of contribution from Caterpillar Mongolia, which was acquired on 1 September 2020 the share of proforma revenue generated in Eurasia increases to 18% and the share of proforma operating profit to 43%. While the increased geographic diversification partially mitigates exposure to South Africa, it also introduces 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 trading, motor vehicle rental and fleet businesses. The company's leadership positions, strong brand representation and broad customer coverage throughout its markets provides 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 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 participates in the franchised dealer market for key premium and volume automotive brands in South Africa. These include BMW, Audi, Mercedes-Benz, Volkswagen and Toyota, which have mature and stable market positions. Barloworld's dealership strategy in high density metropolitan areas enables economies of scale and has proved to be more resilient to economic downturns.

Within its motor 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 was planning to divest 50% of this business, but reversed its plan because of lower achievable valuations as a result of the COVID-19 pandemic.

Exposure to cyclical end markets, partially mitigated by diversification along the value chain

Barloworld's two main segments, Automotive and Equipment, are both exposed to cyclical end markets. Automotive sales are strongly correlated to macro economic cycles, driven by corporate activity and consumer confidence, while equipment sales are mainly toward the mining and construction industries and driven by commodity cycles.

Barloworld achieves some mitigation through diversification across the value chain, by selling new cars, but also offering car rentals, fleet management and trading in used cars and by selling new equipment while also offering aftermarket servicing. This diversification into servicing and sale of used products provides a buffer to volatility in sales of new cars and equipment. Servicing 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.

In the Equipment division, which accounted for 54% of total EBITDA in the fiscal year ending 30 September 2020 (FY 2020), Barloworld has managed to steadily improve diversification away from selling new equipment to miners in southern Africa. Selling new equipment is an inherently volatile activity, driven by less frequent, large orders from a relatively concentrated client base and demand for its new products has been gradually declining in the region by c. 50% since 2013. To offset this, the company has expanded the share of revenue generated outside of southern Africa by growing sales to Russia and Mongolia (30% as of FY 2020) where demand for new equipment has held up better than in southern Africa. It has also grown the share of more resilient revenue generated from aftermarket services to over 50% from mid-30% in 2013. In addition, its customers are active in a range of relatively uncorrelated commodities, mainly coal, gold, platinum, copper and diamonds, with coal mining activity less driven by commodity price cyclicality. Mining operations in South Africa remained largely unaffected by COVID related lock downs, and with gold and platinum group metal prices performing well, we expect the Equipment segment to remain resilient over the next 12-18 months.

We view the Automotive and Logistics business (46% of group EBITDA as of FY 2020) as more structurally challenged. EBITDA of the division declined by 30% over FY 2020, mainly driven by a severe decline in car rental and motor sales activities, which were particularly affected by the lockdown in April and May as well as by reduced discretionary spending by consumers and businesses. We expect that EBITDA for car rentals and sales will remain subdued by ongoing travel restrictions and lower travel activity until the end of FY 2021.

Barloworld has announced the establishment of a new Food & Agricultural division, centered around the newly acquired Ingrain business. 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, but note the execution risk associated with the strategic realignment.

Execution risk from strategic realignment

Barloworld is in the process of undergoing significant strategic changes, following two material acquisitions, Wagner Asia Equipment, the Caterpillar distributor in Mongolia for ZAR 2.8 billion, which completed on 1 September 2020 and the acquisition of Tongaat Hulett Starch (THS), rebranded as Ingrain for ZAR 5.0 billion, which closed at the end of October 2020. In September 2019, the company also announced the sale of 50% of its Avis fleet management business, moving the segment into held for sale, which has been reversed in

FY 2020. The company is also conducting a full strategic review of the Automotive and Logistics business, which could lead to further disposals in the segment.

We view the Ingrain acquisition as introducing some execution risk as the business sits outside of Barloworld's core competencies of motor/ equipment distribution and servicing and fits instead into Barloworld's new and unproven strategy of focusing on food, healthcare and education across Africa. Ingrain is a leading African starch and glucose producer, whose products are mainly used in the food and beverage industry and with no obvious potential for synergies or sharing of competencies with its existing businesses.

The acquisition of Caterpillar Mongolia was funded by existing cash balances, while the acquisition of Ingrain was financed by ZAR 5.35 billion bridging debt. Combined with lower EBITDA during the pandemic, the acquisitions have resulted in a higher, albeit still moderate leverage profile of 3.4x as of FY 2020, proforma for the acquisition of Ingrain and Caterpillar Mongolia if both had happened on 1 October 2019. This compares to Moody's adjusted leverage of 1.9x as of September 2019. EBIT/ Interest expense has weakened to 1.5x in September 2020 from 3.4x as of September 2019. We expect credit metrics to improve again slightly over 2021 to 3.1x leverage and 1.8x EBIT interest coverage. While we expect credit metrics to remain at relatively weaker levels over the next years compared to previous periods, we expect Barloworld will maintain the prudent financial policy management it has demonstrated in the past.

ESG considerations

We take into account the impact of environmental, social and governance (ESG) factors when assessing companies' credit quality.

Barloworld has indirect exposure to environmental risks because of the relatively high proportion of its revenue that is generated from supplying mining equipment and equipment servicing to companies in the coal mining industry. We view this as an indirect risk only as equipment could be used for other mining or construction activities and Barloworld could over time build an alternative client base.

Management has a track record of good governance and conservative financial policies. However, the acquisitions closed this year are sizeable, outside of the company's core business and have contributed to higher leverage.

Liquidity analysis

As of 30 September 2020, Barloworld's liquidity is sufficient to meet its debt obligations within the next 12 months, supported by largely undrawn committed facilities totaling ZAR 8.8 billion and an unrestricted cash balance of ZAR 5.8 billion. Together with expected funds from operations generated over the period, these liquidity sources are sufficient to cover the ZAR 5.35 billion bridge facility due May 2021 (incurred to fund the acquisition of Ingrain) as well as ZAR 2.3 billion other upcoming debt maturities, capital spending, working capital and dividends. The company's credit facilities are provided by a variety of leading South African banks.

Rating methodology and scorecard factors

The principal methodology used in rating the company was Moody's Retail Industry Methodology published in May 2018, as it captures the biggest portion of its businesses being the Equipment and Automotive retail operations, representing around 80% of total revenue. The two notch differential between the 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 09/30/2020		Moody's 12-18 Month Forward View As of 12/7/2020 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$3.1	B	$3.7	Ba
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	1.5x	B	1.8x	B
b) RCF / Net Debt	24.7%	Ba	32.8%	Baa
c) Debt / EBITDA	2.9x	Baa	3.1x	Baa
Factor 4 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Ba1		Ba1
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 9/30/2020; 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 6

Peer comparison table

	Barloworld Limited Ba2 Negative			Caterpillar Inc. A3 Stable			AutoNation, Inc. Baa3 Stable		
(in USD million)	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Dec-18	FYE Dec-19	LTM Sep-20	FYE Dec-18	FYE Dec-19	LTM Sep-20
Revenue	4,618	4,202	3,086	51,822	50,755	40,838	21,413	21,336	20,154
EBITDA	501	550	296	10,287	9,399	6,042	825	921	1,280
Total Debt	1,142	950	834	13,095	12,651	14,591	2,998	2,473	2,464
Cash & Cash Equivalents	547	469	350	6,968	7,299	8,512	49	42	351
EBITDA margin %	10.8%	13.1%	9.6%	19.9%	18.5%	14.8%	3.9%	4.3%	6.4%
EBIT / Interest Expense	3.0x	3.4x	1.5x	12.2x	13.4x	7.2x	4.4x	5.6x	9.2x
Debt / EBITDA	2.5x	1.8x	2.9x	1.3x	1.3x	2.4x	3.6x	2.7x	1.9x
RCF / Net Debt	71.2%	66.4%	24.7%	122.2%	117.0%	58.2%	20.7%	28.4%	35.7%
FCF / Debt	1.9%	15.7%	16.3%	31.8%	24.9%	8.2%	2.0%	11.7%	19.0%

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 7

Moody's-adjusted debt breakdown

(in RAND million)	FYE Sep-16	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20
As Reported Total Debt	**11,044**	**9,678**	**11,169**	**8,369**	**11,723**
Pensions	2,884	2,236	1,753	2,111	1,916
Leases	3,573	2,952	2,961	3,468	0
Non-Standard Public Adjustments	0	33	279	458	275
Moody's Adjusted Total Debt	**17,501**	**14,899**	**16,162**	**14,406**	**13,914**

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 EBITDA breakdown

(in RAND million)	FYE Sep-16	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20
As Reported EBITDA	**6,494**	**6,537**	**5,531**	**6,826**	**4,222**
Pensions	14	11	14	99	17
Leases	1,191	984	868	1,156	0
Unusual Items - Income Statement	(36)	142	100	(193)	526
Moody's Adjusted EBITDA	**7,663**	**7,674**	**6,513**	**7,888**	**4,765**

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 9

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

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