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CREDIT OPINION
27 April 2023

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 to credit analysis

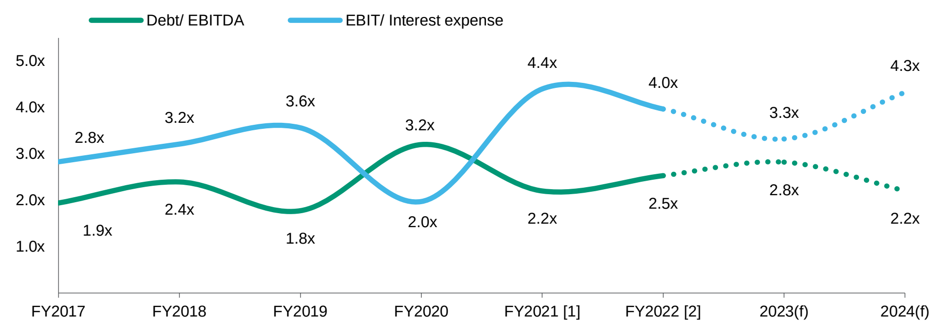
Summary

Barloworld Limited's (Barloworld) Ba2 corporate family rating (CFR) and national scale rating (NSR) of Aa2.za recognises (1) Barloworld's competitive position as a leading equipment supplier to the mining and construction industries in southern Africa, Russia and Mongolia; (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 23% of revenue and 22% of EBITDA in FY2022, and likely long lasting severe disruptions to this business, which will increase Barloworld's geographic concentration to South Africa; (2) the company's exposure to cyclical end markets including mining and construction; and (3) its reliance on 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 2023, due to disruptions to Russian business, but will stay at adequate levels



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

Credit strengths

» Leading market positions supported by strong brand offerings

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

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

Credit challenges

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

» Concentration in Sub-Saharan Africa

» Operational disruptions and uncertainty regarding 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 expense remains above 3.5x, both on a sustained basis. 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 expense remained below 2.25x on a sustained basis.

Key indicators

Exhibit 2
Key Indicators for Barloworld Limited[1]

	FY2018	FY2019	FY2020	FY2021 [2]	FY2022 [3]	2023(f)	2024(f)
Revenue (USD Billion)	$4.6	$4.2	$2.1	$2.8	$2.5	$2.1	$2.2
EBITA Margin %	7.3%	7.8%	6.2%	10.7%	10.8%	10.1%	11.0%
Debt / EBITDA	2.4x	1.8x	3.2x	2.2x	2.5x	2.8x	2.2x
EBITA / Interest Expense	3.3x	3.7x	2.1x	4.6x	4.1x	3.5x	4.5x
RCF / Net Debt	71.2%	66.4%	27.3%	120.5%	45.4%	30.1%	104.8%

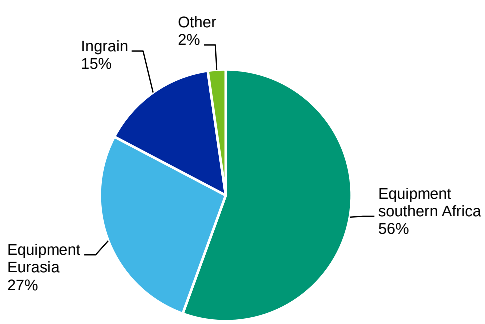
[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
[2] The FY2021 metrics presented above do not reflect the restated FY2021 accounts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

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 83% of Barloworld's revenue and 82% of operating profit for FY2022 (excluding discontinued operations). The company also has a consumer products division that was established in FY2021 following the acquisition of starch and glucose producer Ingrain.

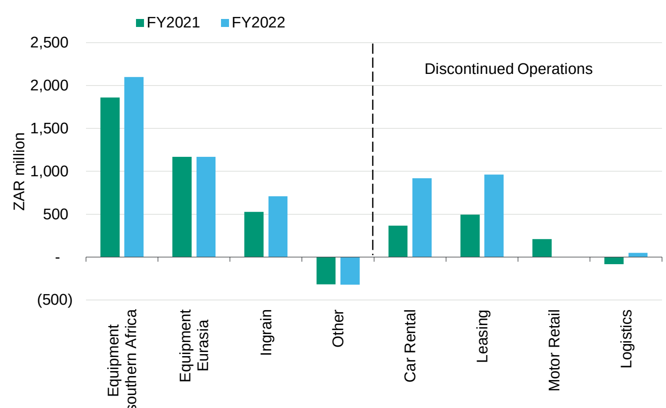
Over the course of FY2022 and FY2021, Barloworld completed a number of noncore business disposals in line with its portfolio realignment strategy which aims to become less asset intensive, more cash flow generative and less exposed to earnings cyclicality. Barloworld remains focused on its core verticals of Industrial Equipment and Services and Consumer Industries. In December 2022, Barloworld unbundled and listed its Car Rental and Leasing business (Avis) on the Main Board of the Johannesburg Stock Exchange (JSE). It also successfully divested its automotive and logistics businesses.

Exhibit 3
Revenue breakdown by segment FY2022 [1]



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

Exhibit 4
Operating Profit breakdown by segment
in ZAR million



Note: Car Rental and Leasing were restated as discontinued operations in FY2021.
Barloworld completed the disposal of all 'discontinued' business units by the end of 2022.
Sources: Company information, Moody's Investors Service

Detailed credit considerations

Geographic concentration in South Africa

With 72% 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 FY2022, the company generated 23% of its revenue and 26% of its 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 5% of FY2022 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.

With a reduced product line and constrained supply chain in Russia, Barloworld's management implemented measures to align its Russian business cost base with reduced trading levels and aim to breakeven in 2023. Revenue for the first five months of FY2023 in Russia decreased 53% year-over-year to $116 million from c. $250 million a year earlier. Furthermore, with diminishing inventory levels, Russia's order book has reduced to $16 million at the end of FY2022 from $197 million a year earlier. Management believes that the Russian operations are self-sufficient in terms of funding and will not need financial support from the group.

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 2023 and 2024 are based on the assumption that Barloworld will lose all revenue and EBITDA from Russia from March 2023 onwards (we reflect the actual revenue and EBITDA realized in the first five months of FY2023).

Leading market positions supported by strong brand offerings

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

Barloworld has the sole distribution rights for Caterpillar heavy equipment and machinery and its aftercare servicing across Sub-Saharan Africa, 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.

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.

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. New equipment sales in southern Africa decreased by 8% in FY2021 and increased by 46% in FY2022 as supply chain bottlenecks gradually resolved. New equipment sales are supported by a strong order book which grew by 47% and 40% year-on-year in FY2022 and FY2021, respectively. As of 28 February 2023, Barloworld's order book stood at ZAR5.7 billion.

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

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

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

Barloworld established a new consumer industries division, centered around the Ingrain business that was acquired in October 2020 and may pursue further acquisitions globally in the consumer products space. 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. Ingrain performed well in FY2022 on the back of increased volumes and higher starch and glucose prices. Ingrain's revenue in FY2022 increased by 35% to ZAR5.9 billion and EBITDA increased by 27% to ZAR974 million.

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

Conservative financial management and good credit metrics

Following a strong recovery in FY2021 that reduced Debt/EBITDA back in line with the company's historical average in years prior to the pandemic, Barloworld's credit metrics slightly weakened in FY2022 on the back of disruptions to its Russian business. Moody's adjusted Debt/EBITDA increased to 2.5x in FY2022 from 2.2x a year earlier but remains at an adequate level.

The company follows a dividend policy of maintaining at least 2.5x to 3.0x normalised headline earnings to dividend cover but does distribute special dividends on an adhoc basis. 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 ZAR3.6 billion on the back of its FY2021 results. Similarly, following a number of business disposals in FY2022 and FY2023, the company declared ZAR1.0 billion of special dividends in addition to ZAR0.9 billion of ordinary dividends. We expect management to continue following the conservative financial management it has demonstrated in the past.

ESG considerations

Barloworld Limited's ESG Credit Impact Score is CIS-3

Exhibit 5
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT   POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

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

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

E-3. 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

S-3. 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 in its industrial equipment business given the handling of heavy machinery. These risks are partially offset by the company's focus on health and safety standards with the aim of minimizing accidents in the working environment. As primarily a distributor to commercial clients, the company has neutral to low exposure to customer relations risks.

Governance

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

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

Liquidity analysis

Barloworld's liquidity is adequate. As of 30 September 2022, 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 ZAR9.2 billion and ZAR8.7 billion of undrawn committed facilities (consisting of long term liquidity facilities and 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 ZAR800 million, and working capital outflows.

Rating methodology and scorecard factors

Moody's in 2022 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. The disposal of the logistics and leasing and car rental businesses further increases 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 09/30/2022**		**Moody's 12-18 Month Forward View As of 4/20/2023 [3]**	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.5	Ba	$2.1 - $2.2	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	10.8%	B	10% - 11%	B
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	3.1x	Ba	2.2x - 2.8x	Baa
b) EBITA / Interest	4.1x	Ba	3.5x - 4.5x	Ba
c) RCF / Net Debt	45.4%	A	30% - 100%	Aa
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Ba1		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. Moody's adjusted Debt/EBITDA used in the scorecard incorporates debt from discontinued operations in the numerator; EBITDA, the denominator, does not include any earnings from discontinued operations.
[2] As of 9/30/2022
[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 8

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

Appendix

Exhibit 9
Peer comparison table

	Barloworld Limited Ba2 Stable			Caterpillar Inc. A2 Stable			Bidvest Group Limited, The Ba2 Stable		
(in USD million)	FYE Sep-20	FYE Sep-21	FYE Sep-22	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Jun-21	FYE Jun-22	LTM Dec-22
Revenue	2,106	2,305	2,497	39,022	48,188	56,574	5,759	6,578	6,561
EBITDA	271	308	331	6,212	9,166	10,512	715	859	867
Total Debt	836	998	892	14,483	12,150	11,427	1,771	1,819	1,899
Cash & Cash Equivalents	350	715	521	8,822	9,392	7,522	483	678	401
EBITA Margin %	6.2%	10.4%	10.8%	12.0%	16.0%	16.2%	8.7%	9.9%	10.1%
EBITA / Interest Expense	2.1x	3.9x	4.1x	8.0x	13.9x	17.4x	5.2x	5.8x	5.1x
Debt / EBITDA	3.2x	3.3x	3.1x	2.3x	1.3x	1.1x	2.3x	2.3x	2.3x
RCF / Net Debt	27.3%	129.6%	45.4%	60.3%	183.6%	156.4%	39.2%	35.5%	26.8%
FCF / Debt	16.3%	36.5%	-1.8%	6.1%	31.2%	23.4%	23.1%	3.6%	-5.8%

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 debt breakdown

(in RAND million)	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21	FYE Sep-22
As Reported Total Debt	9,678	11,169	8,369	11,723	13,799	12,275
Pensions	2,236	1,753	2,111	1,916	173	500
Leases	2,952	2,961	3,468	0	0	0
Non-Standard Adjustments	33	279	458	308	1,049	3,248
Moody's Adjusted Total Debt	14,899	16,162	14,406	13,947	15,021	16,023

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

Exhibit 11
Moody's-adjusted EBITDA breakdown

(in RAND million)	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21	FYE Sep-22
As Reported EBITDA	6,630	5,766	7,057	3,888	4,728	5,215
Unusual Items - Income Statement	142	100	(193)	452	(188)	(7)
Pensions	11	14	99	17	18	10
Leases	984	868	1,156	0	0	0
Moody's Adjusted EBITDA	7,767	6,748	8,119	4,357	4,558	5,225

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

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