MOODY'S

Rating Action: **Moody's places Transnet's ratings on review for downgrade**

10 Nov 2023

London, November 10, 2023 -- Moody's Investors Service (Moody's) has today placed Transnet SOC Ltd.'s ("Transnet" or "the company") corporate family rating (CFR) of Ba3 and the probability of default rating (PDR) of Ba3-PD on review for downgrade. Transnet's Baseline Credit Assessment (BCA) of b2, a measure of standalone credit quality prior to any assessment of potential extraordinary government support, was also placed on review for downgrade. At the same time, Moody's has also placed the global and national scale senior unsecured MTN programme (Medium-Term Note) ratings of (P)Ba3/A2.za, the global and national scale subordinated MTN programme ratings of (P)B1/Baa2.za, the senior unsecured and the backed senior unsecured ratings of Ba3 and the national scale other short-term rating of P-1.za on review for downgrade. The non-Prime (NP) short term issuer rating, the (P)NP other short term ratings and NP commercial paper rating are unaffected. Previously, the outlook was stable.

RATINGS RATIONALE

Today's decision reflects Moody's increasing concern about Transnet's weakening liquidity profile. Available liquidity, which comprises of cash balances, expected free cash flow generation and undrawn committed debt facilities, has reduced substantially since April 2023 which was the beginning of the 2023/24 financial year. This is because the company did not refinance upcoming maturities well in advance as the rating agency expected it would do, following the successful issuance of a $1 billion international senior unsecured bond in February 2023. In addition, as of June 2023 its available liquidity facilities have reduced to R4.1 billion because R7.2 billion of the previously R13.3 billion facilities have become uncommitted. Moody's expects this has reduced further following the repayment of a R7 billion local bond on 6 November, which was only partially refinanced with a new short-term bond of R4.6 billion.

Transnet has additional debt maturities of around R10 billion from December 2023 to March 2024 (including the R4.6 billion short-term bond issued to refinance the 6 November maturity). Moody's expects existing sources of liquidity will only marginally cover these maturities and therefore the company is dependent on raising new financing in short order. The company also has a concentrated maturity profile in the following years with a total of R96 billion of debt maturing until March 2028.

Moody's views weakened liquidity as a governance related risk. After the resignation of the company's former CEO and CFO in October, Transnet also remains without a permanent top management team, which further weakens governance, although the appointment processes for these two critical positions has commenced.

Moody's understands the company is working on several new financing initiatives but believes it will become increasingly difficult to access new financing without government support. Transnet's operational performance has continued to weaken in financial year 2022/23 and the turn-around plan that was submitted to the government in October explicitly requires an equity injection to fund the company's capex backlog and sustainably improve operations.

Moody's continues to expect that Transnet will benefit from a degree of government support. This has been reinforced by the finance minister's statement in parliament during the medium-term budget policy statement (MTBPS) speech that the government will work with the company to ensure it can meet its immediate debt obligations. However, there has been no tangible support framework announced thus far, and the uncertainty around the materiality and timeliness of the support has heightened liquidity and refinancing risk for Transnet.

Transnet falls under Moody's Government-Related Issuers Methodology given its 100% government ownership and importance to the South African economy. The strong link between Transnet and the Government of South Africa (Ba2 stable) is reflected by Moody's assumptions of 'Very High' default dependence with the Government of South Africa and 'Strong' extraordinary support from the government, which supports a two-notch uplift from the b2 BCA.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The review will focus on Transnet's progress in securing new financing as well as assessing the likelihood and materiality of any government support. The review will also be used to reassess the positioning of Transnet's BCA in light of its deteriorating operating and financial performance. Moody's will look to conclude the review within the coming weeks. Factors that could lead to an upgrade or downgrade of the rating will be updated following the conclusion of the review.

The methodologies used in these ratings were Surface Transportation and Logistics published in December 2021 and available at https://ratings.moodys.com/rmc-documents/360641, and Government-Related Issuers Methodology published in February 2020 and available at https://ratings.moodys.com/rmc-documents/64864. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

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The local market analyst for this rating is Lisa Jaeger, +971 (423) 796-59.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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