

Rating Actions Taken On Seven South Africa Corporate And Infrastructure Issuers Following Outlook Revision To Sovereign

December 2, 2019

JOHANNESBURG (S&P Global Ratings) Dec. 2, 2019--S&P Global Ratings said today that it has taken rating actions on corporate and infrastructure issuers that are either government-related entities (GREs) or rated above the South Africa sovereign under its criteria, "General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013.

This followed our outlook revision on the sovereign to negative from stable (for more information, see "South Africa Outlook Revised To Negative On Worsening Fiscal And Debt Trajectory; Ratings Affirmed," published Nov. 22, 2019, on RatingsDirect). We also affirmed our ratings on the sovereign, including our 'BB/B' long- and short-term foreign currency sovereign credit ratings, and 'BB+/B' long- and short-term local currency sovereign credit ratings. The transfer and convertibility (T&C) assessment is 'BBB-'. We also affirmed our 'zaAAA/zaA-1+' long- and short-term national scale ratings on the sovereign.

Specifically, we took the following rating actions:

- Revised our outlook on GREs Rand Water and Telkom SA SOC Ltd. to negative from stable, while affirming our ratings on these; and
- Affirmed our ratings on MTN Group Ltd., Mobile Telephone Networks Holdings Ltd., MTN (Mauritius) Investments Ltd., Umgeni Water, and Super Group Ltd.

For full details on the rating actions, see the Ratings List below.

We revised our outlook to negative from stable, and affirmed our ratings on Rand Water. The outlook revision equalized the outlook on Rand Water with that on South Africa. This reflects our view of the almost certain likelihood of government support the utility would receive from the South African government. We do not see Rand Water's creditworthiness as insulated from that of the sovereign, and consequently would not rate it higher than the sovereign. We anticipate that the Department of Water and Sanitation (DWS) and the National Treasury will continue to act in concert to maintain the utility's financial viability.

If we lower our ratings on South Africa, we would likely take a similar rating action on Rand Water. In addition, we could lower the rating on the utility if government support weakens and we saw signs of diminishing strength in our assessment of Rand Water's stand-alone credit profile (SACP).

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We affirmed the South Africa national scale ratings on government-related entity Umgeni

Water. The rating action reflects our view of the almost-certain likelihood of government support of Umgeni Water by the South African government, which results in us equalizing the ratings on the utility with those of the sovereign. We do not see Umgeni Water's creditworthiness as insulated from that of the sovereign, and consequently would not rate it higher than the sovereign. We anticipate that the DWS and the National Treasury will continue to act in concert to maintain Umgeni Water's financial viability.

Our national scale ratings on Umgeni Water are likely to remain in line with those on South Africa. In addition, we could lower the ratings on the utility if government support weakens.

We revised our outlook on government-related entity Telkom SOC Ltd. to negative from stable.

The outlook revision considers Telkom's 'bbb-' SACP and our view that the ratings cannot exceed our long-term foreign currency rating on South Africa by more than one notch, given the company's predominantly domestic operations, and the government's significant minority ownership stake. We assess Telkom as having a low likelihood of government support given the company's largely commercial operations and listed status, among others. We conduct a stress test on Telkom to assess the company's resilience under a hypothetical sovereign default scenario, which includes a stress on earnings (20% haircut) and a 50% devaluation of the South African rand (ZAR), which Telkom passes. Therefore, we do not cap the rating on the company at the foreign currency rating on South Africa. However, because of Telkom's GRE status (under which it has several operational and reporting requirement exemptions granted by National Treasury), we limit the rating uplift to one notch.

If we lower our sovereign credit ratings on South Africa, we would likely take a similar rating action on the company. Telkom's ratings could also come under pressure if its SACP were to decline by more than one notch.

We affirmed our ratings on MTN Group Ltd., Mobile Telephone Networks Holdings Ltd., and MTN (Mauritius) Investments Ltd.

The affirmation reflects our view that the negative outlook already captures the company's economic exposure to South Africa. Overall, we base our ratings on MTN on the foreign currency ratings on South Africa and Nigeria. With economic exposures to South Africa (foreign currency long-term rating: 'BB') slightly outweighing exposures to Nigeria (foreign currency long-term rating 'B'), we apply our rating-above-the-sovereign test using the blended sovereign rating of 'BB-'. We view a two-notch difference between the potential sovereign cap and the 'BB+' issuer credit rating on MTN as appropriate, given the company's forecast liquidity exceeding uses during a sovereign stress.

The negative outlook reflects our view that the blended sovereign rating was trending lower largely because MTN's Nigerian business has been expanding faster than its South African business. The outlook also reflects the one-in-three possibility of a downgrade over the next 12 months. This could result from:

- MTN's earnings mix shifting materially and sustainably, leading to greater exposure to Nigeria, the lower-rated sovereign of its two main markets;
- A weaker operating performance, which reduces MTN's liquidity, limiting its ability to withstand our sovereign stress scenario for a 12-month period, such that we can no longer rate the company two notches higher than the blended sovereign rating; or
- We downgrade South Africa or Nigeria.

We could also downgrade MTN if the adjusted debt-to-EBITDA ratio rises above 3x, or if

discretionary cash flow fails to turn sustainably positive by 2021.

We affirmed the South Africa national scale ratings on Super Group Ltd. The affirmation reflects our view that the group will likely maintain sufficient liquidity to cover its commitments, even in the event of a hypothetical default stress event on the sovereign. We think Super Group's solid balance sheet and substantial off-shore earnings will protect the company's liquidity in a stress scenario. Nevertheless, we assess the group's sensitivity to country risk as high, given that its operations in the transportation industry are exposed and correlated to domestic economic conditions. We therefore believe that the company's credit quality might be affected should the sovereign's credit quality continue to deteriorate (for more information, see "South Africa-Based Super Group Ltd. 'zaAAA/zaA-1+' Ratings Affirmed Amid Challenging Trading Conditions," published Oct. 28, 2019).

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings:

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Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- South Africa Outlook Revised To Negative On Worsening Fiscal And Debt Trajectory; Ratings Affirmed, Nov. 22, 2019
- South Africa-Based Super Group Ltd. 'zaAAA/zaA-1+' Ratings Affirmed Amid Challenging Trading Conditions, Oct. 28, 2019
- Research Update: South Africa-Based Telecom Group MTN 'BB+' Ratings Affirmed; Outlook Remains Negative, Oct. 22, 2019
- Telkom SA SOC Ltd., Aug. 23, 2019
- Research Update: Rand Water 'BB' Rating Affirmed On Solid Financial Metrics And Government Support; Outlook Stable, April 1, 2019
- Summary: Umgeni Water, Nov. 28, 2018

Ratings List

***** MTN Group Ltd. *****

Affirmed

MTN Group Ltd.

Mobile Telephone Networks Holdings Ltd.

Issuer Credit Rating	BB+/Negative/--
South Africa National Scale	zaAAA/--/--

MTN (Mauritius) Investments Ltd.

Mobile Telephone Networks Holdings Ltd.

Senior Unsecured	BB+
Recovery Rating	3(65%)

***** Rand Water *****

Ratings Affirmed; Outlook Action

	To	From
Rand Water		
Issuer Credit Rating		
Foreign Currency	BB/Negative/--	BB/Stable/--
Local Currency	BB+/Negative/--	BB+/Stable/--

Ratings Affirmed

Rand Water

Issuer Credit Rating	
South Africa National Scale	zaAAA/--/--
Senior Unsecured	BB+

*****Super Group Ltd.*****

Ratings Affirmed

Super Group Ltd.

Issuer Credit Rating	
South Africa National Scale	zaAAA/--/zaA-1+

*****Telkom SA SOC Ltd.*****

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Telkom SA SOC Ltd.		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--

*****Umgeni Water*****

Ratings Affirmed

Umgeni Water

Issuer Credit Rating	
South Africa National Scale	zaAAA/--/zaA-1+

Regulatory Disclosures

Mobile Telephone Networks Holdings (Pty) Ltd.

- Primary credit analyst: Omega Collocott, Director
- Chairperson: G. Andrew Stillman
- Date initial rating assigned: Oct. 8, 2014
- Date of previous review: Oct. 22, 2019

MTN Group Ltd.

- Primary credit analyst: Omega Collocott, Director
- Chairperson: G. Andrew Stillman
- Date initial rating assigned: Oct. 8, 2014
- Date of previous review: Oct. 22, 2019

Rand Water

- Primary credit analyst: Omega Collocott, Director
- Chairperson: G. Andrew Stillman

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- Date initial rating assigned: May 9, 1997
- Date of previous review: April 1, 2019

Super Group Ltd.

- Primary credit analyst: Rishav Singh, Associate
- Chairperson: G. Andrew Stillman
- Date initial rating assigned: Aug. 20, 2013
- Date of previous review: Oct. 28, 2019

Telkom SA SOC Ltd.

- Primary credit analyst: Omega Collocott, Director
- Chairperson: G. Andrew Stillman
- Date initial rating assigned: Nov. 20, 1995
- Date of previous review: Aug. 1, 2019

Umgeni Water

- Primary credit analyst: Omega Collocott, Director
- Chairperson: Matan Benjamin
- Date initial rating assigned: Jan. 28, 2016
- Date of previous review: Nov. 15, 2019

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used in The Credit Rating Process

Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

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Glossary

- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- Creditworthiness: Ability and willingness of a company to meet its debt and debtlike obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- Government-related entity: An entity that could, under stress, benefit from extraordinary government support in order to meet its financial obligations; or conversely an entity controlled by a government that could be subject to negative extraordinary government intervention if the government is under stress.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Rating above the sovereign assessment: Our assessment of whether an entity can be rated above the sovereign rating on a jurisdiction it has a material exposure to.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.
- Transfer and convertibility assessment: S&P Global Ratings' view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations.

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