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CREDIT OPINION
28 June 2018

Update

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RATINGS

Kagiso Tiso Holdings Proprietary 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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Kagiso Tiso Holdings Proprietary Limited

Update to Discussion of Key Credit Factors

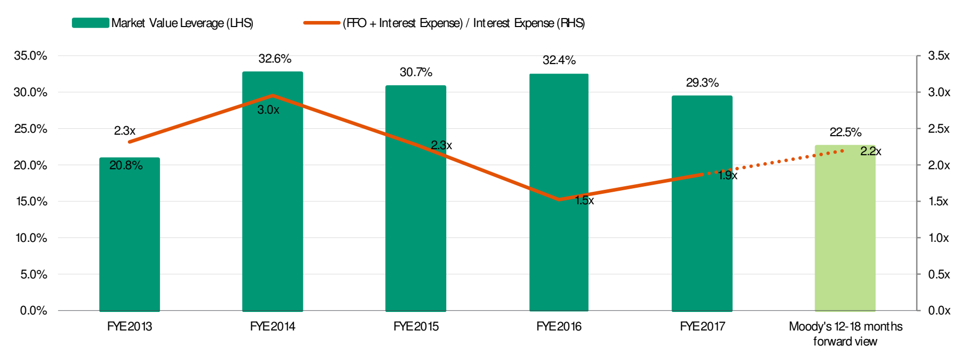
Summary

Kagiso Tiso Holdings Proprietary Limited's (KTH's) Ba2 global Corporate Family Rating (CFR) and A2.za national scale CFR are supported by (1) the scale of its investment portfolio with a combined gross total portfolio value of around ZAR9.6 billion, as at 31 December 2017; (2) its moderate level of market value leverage (MVL defined as: net debt / estimated market value of portfolio of assets) of approximately 26.2%; (3) its increased influence and control of key investments; (4) the track record that KTH has developed in pursuing a conservative approach to its investment strategy and financial policies; and (5) black ownership credentials driving future value accretive transactions.

KTH's ratings also factor (1) its high concentration of investments within South Africa, which are exposed to a challenging macro-economic environment; (2) high asset concentration and limited business sector diversification; (3) a weak interest coverage of 1.9x (calculated as: (funds from operations at the holding company + interest expense) / interest expense) and the risk that, in a liquidity constrained environment, debt serviceability of the debt at the centre could be adversely impacted if investee companies reduce or discontinue dividend payments; and (4) KTH's complex shareholding structure of individual investments.

We expect the MVL to reduce to around 22.5% given further debt reductions and more stable investment values supported by improved operating performance as a result of the more positive macro environment in South Africa.

Exhibit 1
MVL to improve following expected debt repayments



Source: Moody's Investors Service

Credit strengths

- » Increased influence and control of key investments
- » Evolving track record of sound governance and investment transparency
- » Moderate market value leverage assessment

Credit challenges

- » High concentration of investments within South Africa
- » Asset and sector concentration
- » Market value leverage exposed to portfolio volatility
- » Complex shareholding structure

Rating outlook

The stable outlook is based on our expectation that KTH will continue to build a track record of sound corporate and financial governance, accompanied by transparent monitoring and reporting. The outlook also assumes that there will be no material change in KTH's market value leverage, asset concentration and business diversity. In addition, the outlook assumes KTH's liquidity profile does not deteriorate.

Factors that could lead to an upgrade

Positive pressure on KTH's rating could build over time as a result of:

- » a decrease in market value leverage closer to 30%, on a sustained basis, accompanied with the removal of BEE lock-in clauses from its larger investments and a simplification of some of the more complex investment structures;
- » improved interest coverage above 2.5x, on a sustained basis;
- » a consistent track record of prudent financial policies;
- » improved corporate governance standards in terms of more frequent and transparent reporting of third-party independent investment valuations and overall investment strategy; and
- » prudent investment strategy over the longer term without significant volatilities or spikes in market-value based leverage.

Moody's would also view positively a staggered debt maturity profile accompanied by a diverse funding mix.

Factors that could lead to a downgrade

Negative pressure on KTH's ratings could arise should:

- » market value leverage trend towards 40%;
- » the interest coverage ratio sustainably weaken towards 1.5x and/or does not remain supported by solid liquidity for meeting debt maturities and committed cash outlays;
- » any general deterioration in KTH's current disclosure standards; and
- » a change in investment strategy towards capital allocation to more volatile investments with greater underlying business and liquidity risk.

Key indicators

Exhibit 2
Kagiso Tiso Holdings Proprietary Limited [1]

	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	Moody's 12-18 months forward view
Portfolio Value (ZAR Billion)	11.7	13.6	13.4	13.8	11.4	8.8
Market Value Leverage	20.8%	32.6%	30.7%	32.4%	29.3%	22.5%
(FFO + Interest Expense) / Interest Expense [2]	2.3x	3.0x	2.3x	1.5x	1.9x	2.2x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] Represents holding company level interest coverage
Source: Moody's Investors Service

Profile

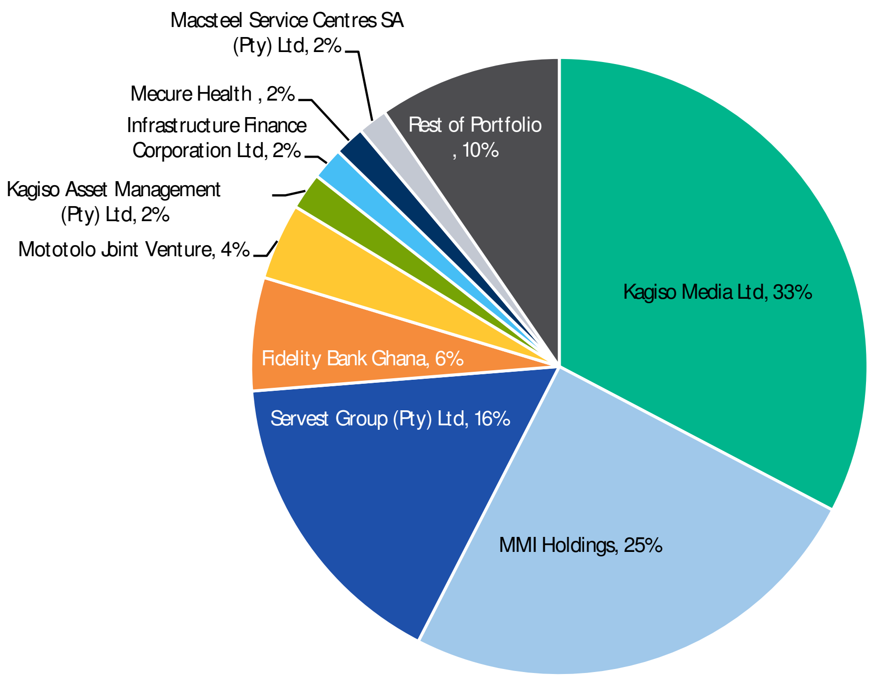
Headquartered in Johannesburg, South Africa, Kagiso Tiso Holdings Proprietary Limited is an investment holding company that manages a portfolio of listed and unlisted investments mostly in South Africa, with a growing investment exposure to the rest of Africa. KTH has a combined gross total portfolio value of around ZAR9.6 billion, as of 31 December 2017.

Detailed credit considerations

Reducing Asset and Business Diversification as KTH Pursues Pillar Strategy

KTH continues to pursue its asset pillar strategy, which aims to hold significant stakes in a few investments. This has resulted in the gross asset value of KTH's portfolio reducing to ZAR9.6 billion (31 December 2017) from ZAR13.8 billion since 30 June 2016. Although we recognise that this strategy provides KTH with greater influence and control over its investments, it limits its diversification across different industries which exposes KTH to potential cash flow volatility. KTH has high asset concentration with its three largest investments, (1) Kagiso Media (Pty) Ltd; (2) MMI Holdings Limited and; (3) Servest Group (Pty) Ltd representing 67% of its total gross portfolio value plus cash balance as of 31 December 2017. KTH's largest sector exposure is to the media, insurance and business & consumer services industries. We consider KTH to have a high asset, sector and business concentration which constrains the rating. This is to some extent offset by the reduced debt outstanding and resultant lower market value leverage.

Exhibit 3
Top three investments account for a significant portion of KTH's total investment portfolio
As of 31 December 2017



Source: Company information

KTH's diversification is further limited to investments mostly concentrated in South Africa. This exposes KTH to the macro-economic challenges in South Africa, such as weak GDP growth prospects (we forecast a 1.6% GDP growth rate for 2018 and 2.1% for 2019). Management has broadened its footprint of investments into the rest of Africa (particularly West Africa), as demonstrated by its direct investments in Ghana (B3 stable) (16.94% investment in Fidelity Bank Ghana Limited) and Nigeria (B1 stable) (30% investment in Me Cure Healthcare Limited). KTH's direct exposure outside of South Africa accounts for around 8% of its total gross portfolio value as at FYE 2017 but also has indirect exposure to the rest Africa through its investments. This reduces KTH's current geographical concentration of the portfolio away from South Africa but in our view is not material. However, we are aware of the unique risks inherent in investing into these markets, such as regulatory and political pressures as well as currency volatility and challenges faced in repatriating cash out of these countries. We do also recognise the opportunities that these markets offer, mainly higher economic growth rates relative to South Africa (we forecast Ghana's 2018 GDP growth rate to be 8.2% and Nigeria's to be 3.3%). We take some comfort in KTH's approach to investing in these markets, which include, amongst others, partnering with local players who understand and have experience in these markets.

Track Record of Sound Governance and Transparency Continues to be Built

KTH continues to build upon its track record with regards to its financial policies and conservative investment strategy. We expect KTH to maintain financial policies that balance the interest of its creditors and shareholders, with dividend payout policies remaining conservative, in accordance with the company's dividend policy of not less than 30% of the consolidated after tax profit of the company (excluding unrealised gains and losses) for the respective financial year, subject to solvency and liquidity requirements and board approval.

We view KTH's investment transparency as improving but still limited particularly given the higher weighting and growing number of unlisted investments (75% of gross total portfolio value), for which public information around these investments is not easily accessible. We therefore continue to rely upon the annual third party independent valuations, which over the financial period ended 30 June 2017 declined in value largely due to the weak trading environment in South Africa as well as a number to non core disposals.

Market Value Leverage and Interest Coverage Exposed to Portfolio Volatility

KTH's market value leverage (MVL) has declined to 26.2% (31 December 2017) from 32.4%, at FYE 2016 and as adjusted by Moody's. The decline in MVL was due to the decline in debt at both the centre and SPV levels which more than offset the reduction of KTH's portfolio value from ZAR13.8 billion to ZAR9.6 billion. In our analysis of MVL we take into account the organisational complexity associated with KTH's investment structure given many of its investments are held through special purpose vehicles ("SPV") with some of these SPV's partially funded by debt. Combining this quantitative and qualitative analysis, we consider KTH's MVL as moderately positioned.

KTH's MVL could be adversely impacted by (1) a deterioration in total portfolio value; or (2) an increase in debt levels, which is not accompanied by similar growth in total portfolio value. This is of particular focus, given our tempered GDP growth forecast of around 1.6% for South Africa in 2018, which is likely to limit the growth of a number of KTH's investments operating in this economy. KTH's MVL has headroom to accommodate additional acquisitions and /or additional debt. KTH's debt capacity is determined by the net asset value of the portfolio plus cash over KTH's debt at centre being greater than 4.1x (Actual 4.27x FYE 2017). While KTH has capacity to increase debt, we do not expect KTH to make debt funded acquisitions and expect it to use its cash balances of ZAR810 million and dividend income as liquidity support for existing investments and repay approaching debt maturities. As a result we expect KTH's MVL to fall towards 22.5% over the next 12-18 months.

We assess KTH's interest coverage by looking at its ability to meet its interest expenses through holding company level funds from operations, as well as the number of years that cash balances and committed credit facilities cover upcoming debt maturities. KTH's interest coverage for FYE 2017 was weakly positioned at 1.9x, within the B sub factor rating category in our methodology grid (as measured by holding company FFO + Interest Expense)/ Interest Expense). We expect interest coverage to improve over the next 12-18 months, driven by the lower debt serviceability requirements at the centre (holding company level) and expected dividend income. We recognise that some of KTH's recent investments are still in a growth phase and once they do start paying dividends we would expect to see an improvement in interest coverage. This is however only expected in the next two years and will depend on the performance of these investments and the level of SPV debt. We remain comfortable with KTH’s weakly positioned interest coverage given (1) its sizable cash balances (ZAR810 million at the centre as at 31 December 2017) and undrawn credit facilities of ZAR135 million with adequate covenant headroom and its ability to upstream cash to the holding company level from investments where it has control (Kagiso Media (Pty) Ltd (100%)), or significant influence over (Servest (51.85%) and Kagiso Asset Management (Pty) Ltd (50.1%)) should the need arise. We would however expect management to prudently balance its growth investments with cash flow generating assets, in order to adequately meet its interest and central operating costs.

Liquidity analysis

KTH's liquidity over the next 12-18 months will be supported by (1) its sizeable cash balances at the centre of ZAR810 million as of 31 December 2017; (2) undrawn committed facilities of ZAR135 million; and (3) listed investments totalling ZAR2.0 billion (as of 25 June 2018 and net of SPV debt). KTH has sufficient funds in the form of cash balance and listed investments which it could use to repay the debt if they are not refinanced. We estimate that cash balances and committed credit facilities will cover upcoming debt maturities for the next 12 months and in case KTH is not able to refinance any debt it can liquidate some of its listed investment in MMI (7% equity stake) to repay the bond due in August 2020.

Structural considerations

The majority of KTH's investment portfolio is structured in such a way that each individual investment is contained in a special purpose vehicle (SPV) along with the debt that was used at the time to fund the investment, which is ring-fenced to the SPV. Cession and pledge agreements limit security to the investment assets held in each SPV. Dividend payments from an investment are strapped to the repayment of the debt in each SPV that initially funded the investment. As such, dividends from an investment cannot be up streamed to the holding company level (unless they exceed funding costs) until such time that all debt in its SPV has been repaid. KTH, for financial reporting purposes, consolidates the debt in its SPVs along with the debt held at the holding company level, which includes a mix of bonds, preference shares and term loans. Moody's uses both ring fenced debt and debt at the centre to calculate market value leverage and uses cash flows (dividends received from the various SPVs) to calculate the ability of KTH to fund its finance expenses on debt obligations at the holding company level (centre).

Rating methodology and scorecard factors

Moody's Global Investment Holding Companies and Conglomerates Methodology, published in December 2015, sets out how Moody's analyses the credit risk of investment holding companies and arrives at their ratings. The methodology examines the core factors that Moody's considers most relevant to investment holding companies, sets out the range of possible outcomes by factor, and maps these outcomes to a rating range. Each factor is appropriately weighted and, in combination, contributes to the rating output by the methodology grid.

Exhibit 4

Rating Factors				
Kagiso Tiso Holdings Proprietary Limited -Private				
Investment Holding Companies Industry Grid [1][2]	Current FY 6/30/2017		Moody's 12-18 Month Forward View As of 6/13/2018 [3]	
Factor 1 : Investment Strategy (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Investment Strategy	Baa	Baa	Baa	Baa
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	B	B	B	B
b) Geographic Diversity	B	B	B	B
c) Business Diversity	B	B	B	B
d) Investment Portfolio Transparency	B	B	B	B
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Baa	Baa	A	A
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	1.9x	B	2.0x-2.5x	Ba
b) Liquidity	B	B	B	B
Rating:				
a) Indicated Rating from Grid		Ba3		Ba2
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 30/06/2017. [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 Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
KAGISO TISO HOLDINGS PROPRIETARY LIMITED	
Outlook	Stable
Corporate Family Rating	Ba2
NSR Corporate Family Rating	A2.za
ST Issuer Rating -Dom Curr	NP
NSR ST Issuer Rating	P-1.za

Source: Moody's Investors Service

REPORT NUMBER 1125166