

CREDIT OPINION

1 May 2017

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

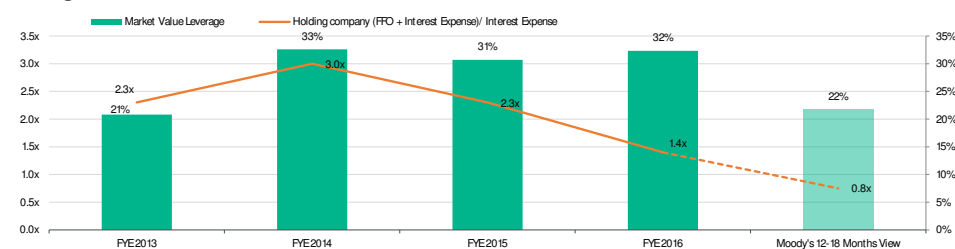
Summary Rating Rationale

Kagiso Tiso Holdings Proprietary Limited's (KTH's) Ba2 global Corporate Family Rating (CFR) and Baa1.za national scale CFR are supported by (1) the scale of its investment portfolio with a combined gross total portfolio value of around ZAR13.9 billion, as at 30 June 2016; (2) its moderate level of market value leverage (defined as: net debt / estimated market value of portfolio of assets) of approximately 32.3% for financial year ending (FYE) 30 June 2016; (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 (Baa2 rating under review downgrade), which are exposed to a challenging macro-economic environment; (2) our expectation that KTH's asset concentration will remain constrained as it focuses on key pillar investments, which could also begin to limit its business sector diversification; (3) a weakening interest coverage of 1.4x as of 30 June 2016 (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.

Exhibit 1

Ratings can accommodate some deterioration in credit metrics



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.

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.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Kagiso Tiso Holdings Proprietary Limited - Private

	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Portfolio Value (ZAR)	13.9	13.4	13.6	11.7
Market Value Leverage	32.3%	30.7%	32.6%	20.8%
(FFO + Interest Expense) / Interest Expense [2]	1.4x	2.3x	3.0x	2.3x

[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

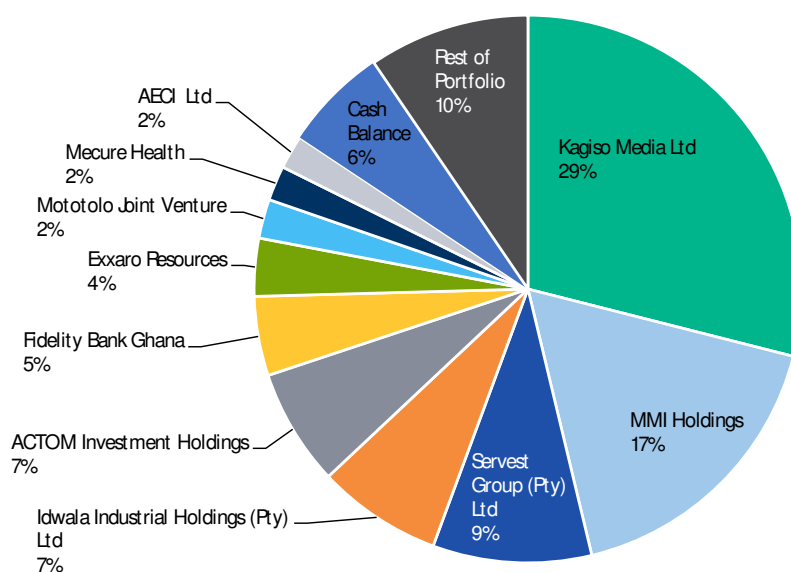
Detailed Rating Considerations

Reducing Asset and Business Diversification as KTH Pursues Pillar Strategy

KTH continues to pursue its asset pillar strategy, which aims to acquire significant holdings in a limited number of investments. 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 Limited (29%); (2) MMI Holdings Limited (17%) and; (3) Servest Group (Pty) Ltd (9%), less cash balance representing 49.5% of its total gross portfolio value plus cash balance. KTH's largest sector exposure is to the media, insurance, mining and business & consumer services industries. Over time we expect KTH's asset concentration and business diversification to become more concentrated as management pursues its pillar asset strategy. While the rating accommodates some flexibility for higher concentration exposures by sector and individual investments, we will assess the diversity implications as and when key changes occur on the portfolio.

Exhibit 3

Top three investments account for a significant portion of KTH's total investment portfolio



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 1.1% GDP growth rate for 2017 and 1.7% for 2018) and political uncertainty. Management is broadening its footprint of investments into the rest of Africa (particularly East and West Africa), as demonstrated by its direct investments in Ghana (B3 stable) (16.4% investment in Fidelity Bank Ghana Limited) and Nigeria (B1 stable) (30% investment in Me Cure Healthcare Limited). KTH's exposure outside of South Africa accounts for around 7% of its total gross portfolio value as at FYE 2016. Management is also looking to increase its African exposure indirectly, using its pillar assets as gateways, as seen in September 2015 through Kagiso Media Limited's investment in Ghana's Global Media Alliance Broadcasting Company Ltd. This reduces KTH's current geographical concentration of the portfolio away from South Africa. 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 2017 GDP growth rate to be 6.8% and Nigeria's to be 2.5%). 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 fair value adjusted net profit subject to liquidity and solvency 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 prepared by KPMG, which have shown positive growth over the past few years. Successful investment management and corporate governance standards will continue to be important rating drivers.

Market Value Leverage and Interest Coverage Exposed to Portfolio Volatility

KTH's market value leverage (MVL) is 32.3%, at FYE 2016 and as adjusted by Moody's. In our analysis of MVL we take into account qualitative considerations around Black Economic Empowerment (BEE) lock-in provisions, along with the organisational complexity associated with KTH's investment structure. Many of its investments consist of multiple holding entities between KTH itself and the direct investment that has been made, often with a mix of debt instruments at each of these entities. Combining this quantitative and qualitative analysis of MVL, KTH is moderately positioned in its Ba2/Baa1.za global scale and national scale ratings categories.

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 1.1% for South Africa in 2017, which is likely to limit the quantum of value added to 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 KTH's gearing policies of 40%-60% debt to equity (41.7% as at FYE 2016) and asset cover ratio measured by investment assets (net of debt) and cash at the centre to debt being greater than 4.1x (4.7x, as of FYE 2016). Based on current covenant levels, KTH had approximately ZAR500 million of additional debt capacity at the centre as at 30 June 2016. We expect KTH's MVL to decrease below 30% over the next 12-18 months as it pursues its strategy of disposing of non-core investments and we expect the proceeds could be used to pay down debt.

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 2016 was weakly positioned at 1.4x, 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 remain weakly positioned for the rating category, at around 0.5x- 1.0x over the next 12-18 months, driven by the higher debt serviceability requirements at the centre (holding company level) and lower dividend income. We will continue to monitor KTH's dividend income particularly given the challenging macro-economic environment its investments are trading in, which could put pressure on dividend declaration across its portfolio of investments, notably those in which it does not have significant influence over. We do 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 general state of the respective economic and industry environment. We remain comfortable with KTH's weakly positioned interest coverage given (1) its sizable cash balances (ZAR787 million at the centre as at 31 December 2016) and undrawn credit facilities of ZAR135 million with adequate covenant headroom; (2) its strategy to dispose of non-core assets of which proceeds could be used to pay down debt thus reducing its interest expense and; (3) its ability to upstream cash to the holding company level from investments where it has control (Kagiso Media Limited (100%)), or significant influence over (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 ZAR787 million as of 31 December 2016; (2) undrawn committed facilities of ZAR135 million as of 31 December 2016; and (3) listed investments totalling ZAR3.4 billion as of 30 June 2016. KTH has sizable bond maturities over the next 12 months (namely the two bonds expiring in August and November 2017, totalling ZAR850 million). KTH has sufficient funds, including cash balance and listed investments, which it could use to repay the bonds if they are not refinanced. We estimate that cash balances and committed credit facilities will cover upcoming debt maturities for the next 1-2 years, which is considered weakly positioned.

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 upstreamed 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).

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 ZAR13.9 billion, as of FYE2016.

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.

The grid indicated Global Scale Rating (GSR), as of 30 June 2016, is Ba1 with a 12-18 month forward view of Ba2, which is in line with the assigned GSR, which factors the expected reduced asset and business diversification as KTH pursues its pillar strategy. The ratings also factors KTH's expansion into Africa, which may also expose the company to additional risks, which are not captured in the grid.

Exhibit 4

Rating Factors			Moody's 12-18 Month Forward View As of 4/19/2017 [3]	
Kagiso Tiso Holdings Proprietary Limited - Private Investment Holding Companies Industry Grid [1][2]			Current FY 6/30/2016	
Factor	Measure	Score	Measure	Score
Factor 1 : Investment Strategy (10%)				
a) Investment Strategy	Baa	Baa	Baa	Baa
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	Baa	Baa	Ba	Ba
b) Geographic Diversity	B	B	B	B
c) Business Diversity	Ba	Ba	B	B
d) Investment Portfolio Transparency	Ba	Ba	Ba	Ba
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	Baa	Baa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	1.4x	B	0.5x - 1x	Caa
b) Liquidity	B	B	B	B
Rating:				
a) Indicated Rating from Grid		Ba1		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 30/06/2016. [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
ST Issuer Rating -Dom Curr	NP
NSR Corporate Family Rating	Baa1.za
NSR ST Issuer Rating	P-2.za

Source: Moody's Investors Service

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