

**Credit Opinion: Imperial Group (Pty) Ltd**

Global Credit Research - 30 Oct 2012

Johannesburg, South Africa

**Ratings**

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Bkd Sr Sec MTN -Dom Curr	(P)Baa3
Bkd Senior Unsecured -Dom Curr	Baa3
Bkd Subordinate MTN -Dom Curr	(P)Ba1
NSR Senior Unsecured -Dom Curr	A2.za
NSR LT Issuer Rating -Dom Curr	A2.za
NSR BACKED Senior Secured MTN -Dom Curr	A2.za
NSR BACKED Senior Unsecured -Dom Curr	A2.za
NSR ST Issuer Rating -Dom Curr	P-1.za

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**Key Indicators**

**Imperial Group (Pty) Ltd [1][2][3]**

	2012	2011	2010	2009	2008	2007
EBITA Margin %	7.49%	7.70%	6.80%	5.90%	7.10%	7.50%
(FFO + Interest Expense) / Interest Expense	6.4x	5.5x	3.5x	3.3x	4.7x	7.7x
FCF/Debt	9.45%	14.00%	4.30%	10.90%	-3.40%	3.60%
Debt/EBITDA	2.1x	1.8x	2.4x	3.1x	3.1x	3.2x
RCF/Net Debt	35.51%	39.40%	21.30%	22.20%	28.40%	26.90%

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Source: Moody's Financial Metrics. [3] Y/E 30 June

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

**Opinion**

**Rating Drivers**

- Strong brand and market presence in South Africa
- Diversified operations with concentration in South Africa

- Strong credit metrics incorporate financial flexibility to accommodate strategic initiatives including debt funded acquisitions

### **Corporate Profile**

Imperial Holdings Limited ("Imperial") is the largest private sector transport and mobility group in South Africa. Established in 1948, Imperial operates in Africa, the UK, Europe and Australia.

Imperial's core activities include services relating to transportation and mobility in their broader context, such as logistics, car rental and tourism, motor vehicle dealerships and distributorships, as well as insurance. For FYE 2012 Imperial reported revenues of ZAR80.8 billion (USD 10.8 billion) and Moody's-adjusted EBITDA of ZAR8.6billion (USD 1.2 billion).

### **Rating Rationale**

Imperial's Baa3 rating continues to be based on Moody's perception of the group's business risk profile, combined with its level of debt protection ratios, its diversified business structure which mitigates its complex organization structure and its high concentration in one single market (South Africa) -- close to 74% of revenues and operating profit. Imperial's long history and solid reputation in South Africa, its track record of growth, its strong market position, quality of management, and the fact that the group has successfully weathered South Africa's currency volatility risk for many years also support its Baa3/A2.za rating.

### **DETAILED RATING CONSIDERATIONS**

#### **STRONG BRAND AND MARKET POSITION COMBINED WITH DIVERSIFIED AND INTEGRATED MIX OF RELATED BUSINESSES SUPPORT RATING**

Imperial is the largest private sector transport and mobility group in South Africa. Imperial holds sole or joint market leadership positions in South Africa in all of its core businesses with the exception of its insurance operations. Imperial's two most important business segments are logistics and distributorships, which together account for more than two thirds of revenues and operating profits.

Although nearly 74% of Imperial's revenues are derived from South Africa, it also has commercial interests in Continental Europe, the UK, Australia and Southern Africa, thereby creating a geographically diversified business. Contribution from Continental Europe will increase further as FYE 12 only included 6 months Income Statement consolidation of its' recent Lehnkering Holdings GmbH acquisition.

The diversification renders Imperial's combination of activities relatively resilient to external factors such as global economic downturns and currency volatility, although it remains exposed to the South African economy.

Imperial is structured around three business pillars: (i) logistics; (ii) car rental & tourism and (iii) vehicle retail and distribution together with related financial services, which includes insurance. The business model comprises a mix of mostly related businesses operating in a common value chain around the transport and mobility sectors. Imperial's strategy is to extract the maximum value from the cross-selling of different business solutions available across this mobility value chain.

#### **RATING INCORPORATES BOLT ON ACQUISITIONS AND HIGHER LEVERAGE GOING FORWARD**

Imperial's stated growth plans include a number of strategic acquisitions, similar to the recent Lehnkering logistics acquisition in Germany, as well as increased levels of capital expenditures. Moody's current rating has some flexibility for further strategic acquisitions that might increase its current leverage. However, each acquisition would be evaluated on a case-by-case basis in order to determine strategic fit, cash flow and margin contribution and integration risks.

#### **ACQUISITION APPETITE AND GROWTH PLANS ARE TEMPERED BY MANAGEMENT'S PRUDENT FINANCIAL POLICIES**

To the extent further acquisitions are considered, it is our expectation that management will continue to follow its prudent financial policies and maintain a solid focus on cash flow generation, capital management and liquidity management at all times. Shareholder remuneration is also expected to be approached in a prudent manner.

### **Liquidity**

Imperial's liquidity position is sufficient to meet near term obligations, supported by the large availability under committed facilities of approximately ZAR 3.3 billion, with sufficient covenant headroom, together with a substantial cash position (ZAR 3.5 billion as of 30 June 2012) and cash generation capabilities. The company also has a large part of its ZAR13.5 billion domestic medium-term note programme available.

In the longer term, the company's debt maturity profile comprises a well staggered tenor of repayments.

### **Structural Considerations**

Imperial's euro-denominated senior unsecured banking facility is issued from Imperial Mobility Finance B.V. and guaranteed by both Imperial Mobility International B.V. (an offshore holding company - wholly owned by Imperial - established for its international operations) and Imperial Holdings Limited.

Compared to all other existing debt at the Imperial Group, the new banking facility benefits from an additional upstream guarantee from Imperial Mobility International B.V., which in our view is not deemed a strong enough difference in terms of guarantee package to consider any notching implications.

### **Rating Outlook**

The stable outlook on the ratings of Imperial Group (Pty) Ltd and Imperial Mobility Finance B.V. reflects Moody's expectation that Imperial's credit profile will continue to be well positioned within the Baa3 rating category despite the group's growth plans.

### **What Could Change the Rating - Up**

Upward pressure could be exerted on the ratings or outlook of Imperial's subsidiaries if Imperial were able to (i) maintain an RCF/net debt ratio above 25%, on a sustainable basis; (ii) maintain stable and improving operating margins; and (iii) achieve increased debt protection levels, such that Imperial's (FFO)+interest expense)/interest expense were to exceed 4.0x on a sustainable basis. Moody's notes that the current metrics were achieved in Imperial's latest financial year, ended 30 June 2012. However, the credit metrics incorporates flexibility to accommodate a range of strategic initiatives including debt funded acquisitions. Any debt funded acquisitions would nevertheless have to be assessed in terms of its impact on Imperial's business risk profile, overall capital structure and how it fits strategically in the group. All metrics are according to Moody's standard adjustments and definitions.

### **What Could Change the Rating - Down**

Negative pressure could be exerted on the ratings or outlook of Imperial's subsidiaries as a result of (i) weakness in Imperial's operating performance, resulting in lower debt protection measures, with (FFO + interest expense)/interest expense sustainably below 4.0x, or lower operating margins; (ii) an average RCF/net debt ratio that trends below 20% on a prospective basis, considering past and expected future performance; (iii) debt protection measures weakening, and a failure to adjust financial policies and cost structure such that Imperial generates positive free cash flow on a sustained basis through conservative capex spend and adjusted shareholder remuneration policies.



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