MOODY'S
INVESTORS SERVICE

Credit Opinion: Kagiso Tiso Holdings Proprietary Limited

Global Credit Research - 19 Mar 2015

South Africa

Ratings

Category	Moody's Rating
Outlook	Stable
NSR LT Issuer Rating -Dom Curr	Baa2.za
NSR ST Issuer Rating -Dom Curr	P-2.za

Contacts

Analyst	Phone
Dion Bate/Johannesburg	27.11.217.5470
Douglas Rowlings/DIFC - Dubai	971.42.37.9536
David G. Staples/DIFC - Dubai	

Key Indicators

[1]**Kagiso Tiso Holdings Proprietary Limited**

	6/30/2014	6/30/2013	6/30/2012
Porfolio Market Value (ZAR billion)	13.6	11.7	11.2
Market Value Leverage	32.6%	20.8%	23.6%
Cash Coverage	3.0x	2.3x	1.6x
Adjusted Liquidity Ratio	332.3x	223.0x	13.2x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

>South African comprised investment portfolio with moderate asset and sector concentration

>Evolving track record of sound governance and investment transparency

>Moderate market value leverage assessment

>Good liquidity profile and limited refinancing in the next 18 months

Corporate Profile

Headquartered in Johannesburg, South Africa, Kagiso Tiso Holdings Proprietary Limited ("KTH" or the company) is an investment holding company that manages a portfolio of listed and unlisted investments mostly in South Africa, with a small investment exposure to the rest of Africa. KTH has a combined gross total portfolio value of around ZAR13.6 billion (USD1.3 billion), as of financial year ended 30 June 2014 (FYE 2014).

Rating Rationale

KTH's Baa2.za/P-2.za national scale issuer rating is supported by (1) scale of its investment portfolio with a combined gross total portfolio value of around ZAR13.6 billion, as at 30 June 2014; (2) a diverse portfolio ranging across a number of different sectors and comprising approximately 40% by gross total portfolio value of listed investments; (3) increased influence and control of key investments; and (4) black ownership credentials driving future value accretive transactions.

KTH's ratings also factor (1) high concentration of investments within South Africa, which are exposed to a challenging macro-economic environment; (2) moderate interest coverage of 3.0x as of 30 June 2014 (calculated as: (normalized dividends received + cash interest received) / gross interest at the centre) 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; (3) a moderate level of market value leverage (defined as: net debt / estimated market value of portfolio of assets) of approximately 32.6% for FYE 2014; and (4) KTH's complex shareholding structure of individual investments.

DETAILED RATING CONSIDERATIONS

MODERATE ASSET CONCENTRATION AND BUSINESS DIVERSITY BUT GEOGRAPHICALLY CONCENTRATED

KTH has moderate business diversity with investments of 10% or more of gross total portfolio value covering four business sectors. These sectors include media, financial services, industrial manufacturing and resources, of which its three largest investments by gross total portfolio value are (1) Kagiso Media Limited (diversified media, 26.5%); (2) MMI Holdings Limited (insurance, 20.1%); and (3) Exxaro Resources Limited (metals and mining, 10.0%). Kagiso Media Limited and MMI Holdings Limited exhibited strong performance over the 2014 financial year, however Exxaro Resources Limited continues to face cost pressures and a weak commodity environment which is likely to continue to pressure growth prospects. For asset concentration, we look at the top three investments as a percentage of total gross portfolio value, which in KTH's case represent approximately 57.3%. We consider KTH's asset concentration as moderate to high. We expect KTH's asset concentration and business diversification to become more concentrated as management pursues its strategy of acquiring significant influence and control over a few key investments. While the rating accommodates some flexibility to accommodate higher concentration exposures by sector and individual investments, we will assess the diversity implications as and when key changes occur on the portfolio.

KTH's diversification is weakened by the fact that the portfolio is 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 (Moody's is forecasting a 2% GDP growth rate for 2015); wage negotiations and potential labour unrest; and the country's ongoing power crisis. Management does however intend to broaden its footprint of investments into the rest of Africa (particularly East and West Africa), as demonstrated by the acquisition of a minority interest in Fidelity Bank Ghana Limited (not rated), in May 2014. This will reduce the current geographical concentration of the portfolio away from South Africa. While we are reticent of the unique risks inherent in investing into these markets, we also recognise a number of opportunities that they offer, mainly high economic growth rates. We take some comfort in KTH's approach to investing in these markets, which include, amongst others, partnering with local players who understand the markets.

TRACK RECORD OF SOUND GOVERNANCE AND TRANSPARENCY CONTINUES TO BE BUILT

KTH will need to continue to build upon its track record in the long term with regards to its financial policies, ongoing investment transparency (especially around its unlisted investments for which public information around these investments is not easily accessible). Successful investment management and corporate governance standards will be important rating drivers going forward. KTH continues to bed down its portfolio monitoring program and is still adapting its use to more unique investment structures, where we will continue to focus closely on its broader execution in this respect, and until such time will continue to rely solely upon the annual third party independent valuations prepared by KPMG, as well as KTH reporting its financials once a year.

Dividend payout policies are expected to continue to be conservative under KTH's management with a dividend payout of approximately 1.5% of the net asset value per share of ZAR130 million for FYE 2014. This compares to a commitment of a maximum of 30% of fair value adjusted earnings per share subject to liquidity and solvency requirements.

MARKET VALUE LEVERAGE EXPOSED TO PORTFOLIO VOLATILITY

KTH's market value leverage (MVL), is 32.6% as FYE 2014, 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 positioned moderately in its Baa2.za rating category. However, 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 will be a particular focus going forward, given our tempered GDP growth forecast of around 2% for South Africa in 2015, 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 and asset cover ratio covenants providing additional debt capacity at the center of approximately ZAR1.4 billion. Baring any opportunistic acquisitions we expect its MVL to remain around current levels over the next 12 months.

Liquidity Profile

KTH's liquidity over the next 12-18 months will be supported by (1) its sizeable cash balances at the centre of ZAR558 million as of FYE 2014; (2) undrawn committed revolving facilities of ZAR135 million as of FYE 2014; and (3) stable dividend income from its investments. These sources will comfortably address KTH's low debt repayments and administrative head office costs.

Furthermore, KTH has a very strong adjusted liquidity ratio (as measured by: (liquid net assets + committed credit lines) / (short-term debt + current portion of long-term debt)) at over 300x and we expect this to remain strong (within the Aaa sub-factor rating category in our methodology grid) over the next 12 months. In calculating the liquidity ratio we apply a 50% haircut to KTH's unlisted investments compared to a 25% haircut to listed investments. This is based on our view that listed investments, which currently has a total net market value of ZAR4.2billion (USD397 million), as of FYE 2014, could be more easily sold should the company face a distressed liquidity situation.

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 SPV's along with the debt held at the holding company level, which includes a mix of bonds, preference shares and term loans. Moody's uses consolidated debt (including both ring fenced and debt at the centre) for calculating market value leverage and uses cash flows (dividends received from the various SPV's) to calculate the ability of KTH to fund its finance expenses on debt obligations at the holding level (centre).

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.

What Could Change the Rating - Up

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

(1) 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;

(2) improved interest coverage above 2.5x, on a sustained basis;

(3) a consistent track record of prudent financial policies;

(4) improved corporate governance standards in terms of more frequent and transparent reporting of third-party independent investment valuations and overall investment strategy; and

(5) 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.

What Could Change the Rating - Down

Negative pressure on KTH's ratings could arise should:

(1) market value leverage trend towards 40%;

(2) 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;

(3) any general deterioration in KTH's current disclosure standards; and

(4) a change in investment strategy towards capital allocation to more volatile investments with greater underlying business and liquidity risk.

Other Considerations

MAPPING TO THE METHODOLOGY

Moody's Global Investment Holding Company Methodology, published in October 2007, 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 2014, is Ba1. The assigned National Scale Rating of Baa2.za corresponds to a Ba2 or Ba3 GSR. The ratings assigned take into account the future expectations for KTH, whereas the grid indicated rating is reliant on historic numbers. The lower corresponding GSR also factors KTH's expansion into Africa, which may also expose the company to additional risks, which are not captured in the grid.

Rating Factors

Kagiso Tiso Holdings Proprietary Limited

Global Investment Holding Companies Industry Grid [1][2]	**Current FY 6/30/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 3/11/2015**	
Factor 1: Asset Quality (30%)	**Measure**	**Score**	**Measure**	**Score**
a) Asset Concentration	57.3%	Baa	60%-70%	Ba
b) Geographic Diversity	Caa	Caa	Caa	Caa
c) Business Diversity	4	Ba	4	Ba
Factor 2:Management Discipline & Group Transparency (10%)				
a) Management Discipline and Group Transparency	5.5	Ba	5.5	Ba
Factor 3: Market Valued Based Leverage (20%) [1][2]				
a) Portfolio Assets Market Value Leverage (2 year average)	26.7%	Baa	30%-35%	Baa
Factor 4: Cash Coverage (10%) [1][2]				
a) Interest Coverage	3.0x	Ba	2.5x-3.0x	Ba
Factor 5: Liquidity (15%) [1][2]				

a) Degree of Influence over Dividends of Investee	38.2%	Ba	35%-45%	Ba
b) Adjusted Liquidity Ratio	332.3%	Aaa	200x-300x	Aaa
Factor 6: Portfolio Risk (15%) [1][2]				
a) Portfolio Volatility Adjusted Leverage	Ba	Ba	Ba	Ba
Rating:				
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned				Baa2.za

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2014; Source: Moody's Financial Metrics [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.

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 http://www.moodys.com for the most updated credit rating action information and rating history.

are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.