GCR RATINGS

Credit Rating Announcement

Trustco Group Holdings ratings upgraded to B+(NA)/B(NA). Positive Outlook on Expected Improvement in Financial Performance.

Rating Action

Johannesburg, 26th September 2019 - GCR Ratings ("GCR") has upgraded the long and short-term Namibian national scale ratings on Trustco Group Holdings Limited, ("Trustco", "the group") to B+(NA)/B(NA) from CCC(NA)/C(NA). The outlook is Positive on the back of an expected improvement in Trustco's financial performance.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Trustco Group Holdings Limited	Issuer Long Term	National	B+(NA)	Positive Outlook
	Issuer Short Term	National	B(NA)	

GCR has reviewed the ratings on Trustco under the Criteria for Rating Financial Service Companies, May 2019. The ratings were placed "Under Criteria Observation", at the time of criteria publication. Subsequently, GCR has finalised the review under the new methodology, and the ratings have been removed from 'Under Criteria Observation'.

Rating Rationale

The Namibian national scale ratings on Trustco are supported by its relatively strong corporate profile in Namibia, the entity's sectoral diversification and burgeoning international exposure, as well as GCR's expectations that cash flow & earnings will improve materially over the next two years. This is, however, counterbalanced by expectations that liquidity will remain constrained by the short-dated weighted average debt maturity profile and modest cash flow, alongside the relatively high levels of leverage. GCR does not factor in external support to the ratings.

Trustco is the largest Namibian corporate by market capitalisation (USD1.1bn at Dec 31st 2018), it has achieved its scale largely by significantly diversifying its operations within the country and now selected exposures in the rest of Africa. The group includes education, insurance, banking and finance, land/ property and resource divisions, which are expected to account for approximately 19%, 11%, 19%, 31% and 20% of revenues respectively in 2020. However, given the anticipated superior growth of the resources division, we expect the revenue split to change in favour of that division (up to 50% of revenues) going forward. Whilst the majority of operations are in Namibia, we expect the Sierra Leone diamond mine to drive/underpin the improvement in cash flows and revenues going forward. While this mine introduces higher political and operating risk to the group, given its domicile, GCR is of the view that the global demand and international sale of the diamonds somewhat neutralises the impact of the exposure on country risk.

The complexity of group operations, the current reliance on non-cash land revaluations for earnings, and the entrepreneurial family ownership does add management and governance risks to the group, although it has not impacted the ratings at this level. GCR understands the group is looking to simplify the structure and bring in additional shareholders over the next 12-24 months. Transparency and disclosure by the entity is considered to be adequate.

Although they have improved materially since the last review, the two-year forward-looking leverage and cash flow levels of the group remain a restraint to the ratings. In 2018, Trustco and its key funding partners agreed a creditor standstill, under which there were at least two skipped payments of originally contracted principal, due to a breach of covenants and acceleration of debt. Since then, all of the legacy debt has now been restructured, without a haircut on the original principal, or settled early at an appropriate discount. Less positively, the weighted average maturity ("WAM") of the restructured debt (making up the lion's share of total debt) is less than two years, which pressurises the group into finding other sources of capital in the next 12-18 months. GCR has forecast an additional NAD1.1bn of equity will be introduced over the next two years, either through new shareholder(s) or other treasury operations. Nevertheless, the group will have to find sources of longer-term, stable funding to support its operations and liquidity going forward.

Over the next two years, GCR anticipates that the group's leverage (net debt to EBITDA) and debt serviceability will both range around 3x, which is broadly in line with previous years. However, a significant improvement in the group's cash flow is anticipated. Funds from operations ("FFO") are expected to improve to close to 20% of net debt in the next two years, from the negative number in 2018 & 2017. Largely, this improvement will be due to the increasing contribution of cash earnings from the mining operations, instead of the margin/equity enhancement derived from land/ property revaluations. Over the next two years, we are anticipating a strong earnings profile of the group, with EBITDA margins over 50%.

Regardless of the improvement in FFO and earnings, we still expect the free operating cash flow of the group to be negative for the next couple of years, as capital expenditure bolsters operations (particularly in the mining division).

Liquidity remains a ratings weakness. We anticipate that the sources of liquidity will be less than 1x the anticipated uses over the next year, and just over 1.25x thereafter, which reflects the short WAM of the debt and high capital expenditure requirements, versus moderate free cash flows and anticipated equity raises. Positively, the new debt structure is much less restrictive, with covenants only applicable to new facilities.

Outlook Statement

The outlook is positive, balancing expectations of improving cash flow and earnings with the tight liquidity due to the short weighted average maturity of the funding profile. We also expect the group to timeously refinance debt maturities, raise more equity, improve earnings and cash flow over the next two years, but this is already factored into the ratings.

Rating Triggers

A national scale ratings improvement could arise from improved cash flow, presumably from the diamond mine and a material lengthening of the debt profile, both of which would bring about improvements in the liquidity of the entity. Going forward, we may restrain until we have further proof of the strong earnings rigour and consistent cash generative ability of diamond mining operations. The management and governance shortfalls listed above may limit uplift to the ratings at higher levels, if the planned improvements are not adopted/take time to implement. GCR could lower the ratings if any of forward-looking opinions on cash flow, leverage or earnings do not materialise.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Service Companies, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, June 2019
GCR Financial Institutions Sector Risk Score, July 2019

Ratings History

Trustco Group Holdings Ltd					
Rating class	Review	Rating scale	Rating symbol	Outlook/Watch	Date
Issuer Long Term	Initial	National	BBB-(NA)	Stable Outlook	July 2012
	Last	National	CCC(NA)	Evolving Outlook	Dec 2018
Issuer Short Term	Initial	National	A3(NA)	n/a	July 2012
	Last	National	C(NA)	n/a	Dec 2018

Risk Score Summary

Risk score	
Operating environment	**9.5**
Country risk score	5.0
Sector risk score	4.5
Business profile	**1**
Competitive position	1.0
Management and governance	0.0
Financial profile	**-4**
Leverage & Cash Flow	-2.5
Earnings & Risk	0.0
Liquidity	-1.5
Comparative profile	**0.0**
Group support	0.0
Peer analysis	0.0
Total Score	**6.5**

Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Trustco Group Holdings Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Trustco Group Holdings Limited participated in the rating process via face-to-face management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Retail Capital Proprietary Limited and other reliable third parties to accord the credit rating included:

- Audited financial results of Trustco Group Holdings Limited as at 31 March 2019;
- Latest internal and/or external audit report to management;
- Industry comparative data.