



Credit Rating Announcement

GCR places Trustco Group Holdings Limited's long and short-term national scale ratings of CCC_(NA)/C_(NA) respectively on Rating Watch Evolving

Rating Action

30 November 2021 - GCR Ratings ("GCR") has placed the national scale long and short-term issuer ratings of Trustco Group Holdings Limited of CCC_(NA)/C_(NA) on Rating Watch Evolving.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Trustco Group Holdings Limited	Long Term Issuer	National	CCC _(NA)	Rating Watch Evolving
	Short Term Issuer	National	C _(NA)	

Rating Rationale

The Ratings Watch Evolving balances Trustco Group Holdings Limited's ("Trustco" or "the group") currently fragile financial profile with a potential equity transaction, which could materially improve the issuers financial profile in the short to medium-term.

On a current state basis, we consider the financial profile of the group to be weak. Whilst the group is very diversified, currently the two core operating businesses are the consolidated student lending unit and property development. The former hasn't yet gained sufficient scale to significantly improve earnings (despite much improved performance year-on-year), while the latter continues to face tough operating conditions. As a result, net losses are likely to be reported in the 2021 financial year (on the back of a net loss of NAD343.2m in FY20). The lack of meaningful earnings and cash flow traction has eroded existing group reserves, raising medium term liquidity concerns. Furthermore, inherent longer-term vulnerabilities in the leverage and cash flow structure remain, given the quantum of debt (NAD1.5bn at March 2021). Without an external cash injection, we expect the very high gearing levels and strained liquidity (sources versus uses of less than 1x) to continue until the resources segment (mainly extraction and sales of diamond) starts to contribute more meaningfully.

Positively, Trustco is considering material cash and equity transactions (monetising part of Trustco's ownership stake in the resources business) which could result in substantially improved liquidity levels and growth capital in the short-term.

Outlook Statement

We expect to resolve the Rating Watch Evolving (bi-directional, up or down) in the short-term. Currently, there is significant pressure on the group's financial profile. Further net losses are expected in FY21, while cash flow and liquidity are expected to remain highly constrained in the absence of a significant shift in the earnings trajectory. This, coupled with high leverage, presents near-term liquidity risk that, if not remedied over the next 6-12 months, could result in another potential debt restructuring or inability to pay upcoming obligations. However, unlocking value from the resources segment could materially change the financial profile and viewed positively.

Rating Triggers

Should Trustco successfully conclude the planned corporate transactions, the rating could be upgraded as this could have an immediate positive impact on balance sheet strength through stronger liquidity and potentially lower debt. Furthermore, should revenue expectations from the resources business be realised in the 2022 financial year, this could also lead to further upward rating migration given the nature of the mining business and potential to transform earnings.

Conversely, should the aforementioned transformational transaction not be concluded, or if earnings, cash flow and liquidity don't improve materially in the short-term, we could lower the ratings, as we may see the debt profile as unsustainable in the medium-term.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Services Companies, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Rating Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, October 2021
GCR Financial Institutions Sector Risk Scores, September 2021

Ratings History

Trustco Group Holdings Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB _(NA)	Stable	July 2012
	Last	National	CCC _(NA)	Evolving	October 2020
Short Term Issuer	Initial	National	A3 _(NA)	N/a	July 2012
	Last	National	C _(NA)		October 2020

Risk Score Summary

Risk score summary not applicable at current rating levels.

Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have 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 ratings.

Trustco Group Holdings Limited participated in the rating process via management meetings and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information used to analyse and accord the credit ratings included:

- Audited financial results as at 30 September 2020 (and four years of comparative numbers);
- Budgets for 2021 and 2022; and
- Other relevant information;

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