GCR Global Credit Rating Co.
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## RATING ANNOUNCEMENT

## GCR affirms Omnia Holdings Limited's rating of A-$_{(ZA)}$; Outlook Stable

Johannesburg, 23 August 2017 - Global Credit Ratings has today affirmed the national scale Issuer ratings for Omnia Holdings Limited of A-$_{(ZA)}$ and A1-$_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Stable. Global Credit Ratings has concurrently affirmed the national scale Issuer ratings for Omnia Group Investments Limited of A-$_{(ZA)}$ and A1-$_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Stable.

**SUMMARY RATING RATIONALE**

Omnia Group Investments Limited ("Omnia Investments") is a wholly owned subsidiary of Omnia Holdings Limited ("Omnia" or the "Group"), the JSE-listed entity. In turn, Omnia Investments owns an effective 86.5% stake in Omnia Group (Pty) Limited, which is the holding company for the various operating businesses within the Group. In view of the direct and integral linkages that exist between the operating companies housed under Omnia Group (Pty) Limited, Omnia Investments and Omnia Holdings Limited, Omnia Investments' Issuer ratings are directly aligned to those assigned to the Group.

Global Credit Ratings ("GCR") has therefore accorded the above credit ratings to the Group and to Omnia Investments based on the following key criteria:

The ratings take cognisance of Omnia's well-established market position as a leading producer and supplier of agro-fertilizers, mining explosives, as well as mining and other speciality chemicals with wide-ranging industrial applications. This is supported by a vertically integrated operating model, continual investment in modernising/enhancing manufacturing capacity, and the Group's focus on maintaining a differentiated, client-focused offering.

Omnia is inherently exposed to the cyclicality of the agriculture and mining sectors. Accordingly, and against the backdrop of a fragile domestic economy and subdued commodity prices, top line performance has been restrained in recent years. Specifically, revenue declined by 3% to R16.3bn in FY17, despite strong sales volumes reported by the agriculture segment and relatively strong mining contract retention.

Pricing pressure persisted into FY17, with margin compression also arising from an overpriced core input (the subject of an ongoing legal dispute), and lower than planned uptake of raw materials from the nitric acid plants by the Group's mining segment (amongst other factors). The gross margin remained stable, at c.21% (albeit two basis points below the five-year high), reflective of production efficiencies. However, the normalised EBITDA margin eased further to a new low of 8.7% (FY16: 9.1%). Looking ahead, moderate revenue growth is expected to derive from the R780m Umongo Petroleum transaction and other acquisitions, as well as the R750m nitrophosphate facility, which will quadruple capacity, reduce reliance on external suppliers and drive material cost savings.

Omnia remained in a net ungeared position at FY17, while gross gearing and gross debt to EBITDA rose to 18% and 85% respectively, from the review period lows of 5% and 22% reported at FY16. Although facilities to fund the Umongo Petroleum acquisition and the new plant are expected to raise term debt well above the negligible levels reported historically, net debt to EBITDA and net debt to equity are projected to remain within management's comfort levels of 2x and 35-40% respectively.

Barring working capital variability and associated currency movements, Omnia's legacy operating entities have historically generated sound free cash flows (totalling R5.8bn over the review period), a trend which should be sustained in the medium term. Debt serviceability was sound at FY17, but a comfortable debt maturity profile will be required to ensure these metrics remain at adequate levels, and to absorb any earnings variability. GCR has also taken cognisance of ample untapped facilities available to the Group, and long-standing relationships with highly rated financial institutions.

Looking ahead, upward rating pressure could arise from the proven ability to achieve and sustain robust margins, on the back of operating efficiencies derived from capacity enhancement, the successful integration of acquired entities and improved plant reliability, supporting strong free cash flows through the cycle. Conversely, materially elevated gearing beyond internal comfort levels to fund strategic investments or arising from unforeseen territorial risks would be negatively viewed. Price volatility, adverse regulatory changes, and/or other environmental factors that materially curtail operating performance and debt serviceability metrics would also result in a downgrade. Any factors impacting the Group's Issuer ratings would have a direct and corresponding impact on the ratings accorded to Omnia Investments.

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## NATIONAL SCALE RATINGS HISTORY

**Omnia Holdings Limited**
Initial rating (March 2009)
Long term: BBB+(ZA); Short term: A2(ZA)
Outlook: Stable

Last rating (August 2016)
Long term: A-(ZA); Short term: A1-(ZA)
Outlook: Stable

**Omnia Group Investments Limited**
Initial/Last rating (November 2016)
Long term: A-(ZA); Short term: A1-(ZA)
Outlook: Stable

## ANALYTICAL CONTACTS

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## APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Corporate Entities, updated February 2017
Omnia Rating Reports, 2009-16

## RATING LIMITATIONS AND DISCLAIMERS



## GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

| | |
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| Cash Flow | The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities. |
| Commodity | Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils. |
| 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. |
| Downgrade | The assignment of a lower credit rating to a corporate or sovereign borrower's debt by a credit rating agency. Opposite of upgrade. |
| Equity | Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit. |
| Gearing | With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA. |
| Long-Term Rating | A long-term rating reflects an issuer's ability to meet its financial obligations over the following three to five-year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations. |
| Margin | A term whose meaning depends on the context. In the widest sense, it means the difference between two values. |
| Maturity | The length of time between the issue of a bond or other security and the date on which it becomes payable in full. |
| Risk | The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk. |
| Short-Term Rating | A short-term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12-month period, including interest payments and debt redemptions. |
| Working Capital | Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances. |

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## SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was 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 ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Omnia Holdings Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Omnia Holdings Limited with no contestation of the ratings.

The information received from Omnia Holdings Limited and other reliable third parties to accord the credit ratings included;

- Audited financial results per 31 March 2017 (plus four years of comparative, audited numbers)
- The results presentation and booklet for financial year ending 31 March 2017
- Announcements related to acquisitions and other market notifications

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.