



Credit Rating Announcement

GCR affirms National Scale Long term Issuer Rating on KAP at A+(ZA). Outlook Stable.

Rating Action

Johannesburg, 21 November 2019 – GCR Ratings ("GCR") has affirmed the national scale long term and short term Issuer ratings accorded to KAP Industrial Holdings Limited ("KAP" or "the group") of A+(ZA) and A1(ZA), with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
KAP Industrial Holdings Limited	Issuer Long Term	National	A+(ZA)	Stable Outlook
	Issuer Short Term	National	A1(ZA)	

GCR announced that it had released new criteria for rating corporate entities in May 2019. As a result, the ratings were placed "Under Criteria Observation". Subsequently, GCR has finalised the review under the new methodology, and the ratings have been removed from 'Under Criteria Observation'.

Rating Rationale

The ratings balance KAP's broad product diversification and leadership positions, strong cash generating capabilities and conservative financial profile, with its limited geographic diversity, vulnerability to local economic cycles and cyclical sectors.

KAP is a diversified industrial group, with either leading or well-established local market positions across a broad business portfolio. Some benefit from high barriers to entry or a competitive edge through backward integration into key raw materials, which together with its continuous focus on improving its production and technology base help the group to remain cost competitive, lending stability to earnings and to defend its market positions. KAP's revenues are also generally well spread by customer and end-markets, but its exposure to the South African economy (82% of revenues), pricing competition and cyclical demand in a number of its segments restrain the assessment.

KAP has shown a good track record of integrating acquisitions profitably, which have bolstered its revenues and cash flow generation since FY15. However, the ongoing weak local economic climate has diminished its organic growth prospects and the challenging trading conditions across all businesses has led to some pressure on profit margins. GCR believes that overall earnings will largely remain resilient, with additional volumes from capacity expansions and the strategy to focus on value-add offerings contributing support, but may show some further softening in FY20.

GCR believes that the group will maintain its modest financial risk profile over the rating horizon, with net debt to EBITDA well below 1.75x and interest cover around the 5x range. Cognisance is taken of the fact that operations have been very cash generative, although, as the business model requires heavy investments in maintenance and capacity expansion, somewhat weak discretionary cash flows have been reported in certain years. GCR also expects that KAP will maintain conservative leverage levels even in regard to potential acquisition activity, while the headroom cushion on certain term facility covenants should increase quite materially as these are renegotiated.

GCR assess the groups' liquidity as good in spite of higher projected capex outlays, supported by large cash balances, access to R1bn under its undrawn committed revolving credit facility, an expectation of robust cash flow generation and manageable debt maturities. The group's well-established and solid relationships with banks and active use of its R10bn DMTN programme are also positively viewed.

Outlook Statement

The Stable outlook reflects GCR's expectation that KAP will continue to capitalise on its strong positions in its core markets, whilst maintaining a strong funding profile.

Rating Triggers

Although not anticipated in the near term, GCR could consider an upgrade on the back of improving organic growth prospects and margin expansion leading to higher than anticipated discretionary cash flows on a sustained basis. The ratings could be lowered if there is a significant deterioration in credit metrics due to weakening operating performance or aggressive debt-financed acquisitions.

Analytical Contacts

Primary analyst Johannesburg, ZA	Sheri Morgan morgan@GCRratings.com	Senior Analyst: Corporates +27 11 784 1771
Committee chair Johannesburg, ZA	Eyal Shevel shevel@GCRratings.com	Sector Head: Corporates +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
 Criteria for Rating Corporate Companies, May 2019
 GCR Ratings Scale, Symbols & Definitions, May 2019
 GCR Country Risk Scores, June 2019
 GCR Corporate Sector Risk Scores, November 2019

Ratings History

KAP Industrial Holdings Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	A-(ZA)	Stable	April 2014
	Last	National	A+(ZA)	Stable	November 2018
Issuer Short Term	Initial	National	A2(ZA)	-	April 2014
	Last	National	A1(ZA)	-	November 2018

RISK SCORE SUMMARY

Risk score	15.00
Operating environment	12.00
Country risk score	7.50
Sector risk score	4.50
Business profile	1.50
Competitive position	1.50
Management and governance	0.00
Financial profile	1.50
Earnings performance	0.00
Leverage and capital structure	1.00
Liquidity	0.50
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
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.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
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.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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 rating was influenced by any other business activities of the credit rating agency; b.) the rating was 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; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The credit ratings have been disclosed to KAP Industrial 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.

KAP Industrial 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 information received from KAP Industrial Holdings Limited and other reliable third parties to accord the credit rating included:

- The audited financial results for June 2019;
- Four years of comparative audited numbers;
- Industry presentations;
- Detailed facility breakdown at June 2019;
- Financial forecasts.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2019 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.