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Omnia Holdings Limited

South Africa Corporate Analysis **July 2015**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term	National	A-$_{(ZA)}$	Positive	July 2016
Short term	National	A1-$_{(ZA)}$		

Financial data:

(USD'm comparative)

	31/03/14	31/03/15
R/USD (avg)	10.11	11.06
R/USD (close)	10.58	12.09
Total assets	947.5	941.1
Total debt	63.6	100.9
Total capital	508.0	506.5
Cash & equiv.	31.9	33.1
Turnover	1,608.2	1,522.2
EBITDA	174.0	170.7
NPAT	98.1	84.4
Op. cash flow	130.1	42.1
Market cap *	USD972.9m	
Market share	n.a	

* As at 16 July 2015 @ R12.41/USD

Rating history:

Initial rating (March 2009)
Long-term: BBB+$_{(ZA)}$
Short-term: A2$_{(ZA)}$
Rating outlook: Stable

Last rating (July 2014)
Long-term: A-$_{(ZA)}$
Short-term: A1-$_{(ZA)}$
Rating outlook: Positive

Related methodologies/research:

Criteria for rating corporate entities, updated February 2015
Omnia Holdings Limited ("Omnia, or "the Group") rating reports, 2009-2014

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Summary rating rationale

- Omnia has an established position as a leading regional producer and supplier of fertilizers, mining explosives and industrial chemicals. This position is supported by its substantial production capacity, as well as the ongoing development of specialised products & solutions to service profitable market niches.
- Omnia's revenue has increased at a compound annual growth rate ("CAGR") of 12% over the five years to an all time high of R16.8bn in F15, whilst operating profit more than doubled from R715m in F11 to R1.6bn in F15. Profitability improved on the back of higher internal nitric acid production, which has reduced the need for imports, and general growth. Thus, despite an unfavorable ammonia-urea ratio and margin pressure in the mining sector, the operating margin has been maintained above 9% since F13.
- Strong market position in two distinct industries (mining and agriculture) benefits the Group in terms of earnings diversification. Thus, whilst the demand for explosives is currently subdued, there are substantial opportunities to expand the supply of fertilizers. This also ensures a constant demand for nitric acid, allowing Omnia's plant to operate at high capacity levels.
- Operations are characterised by seasonality, largely relating to the agriculture business, whilst changes to exogenous factors affecting agriculture can impact working capital utilisation. Such was the case in F15 when a late season drought reduced demand and led in part to higher inventory levels and an R878m working capital absorption. This should unwind during F16.
- As a consequence of the working capital pressure, gross debt almost doubled to R1.2bn at FYE15, of which 95% was short term. However, the Group remains lowly geared with net gearing of 13% (FYE14: 6%) and net debt to EBITDA of 43% (FYE14: 19%). Net interest coverage declined to 10x in F15, albeit remaining high (F14: 13x).
- Comfort is taken from the substantial funding facilities available to Omnia. Moreover, with strong expected cash flows, funding capacity remains strong and will allow Omnia to comfortably fund potential acquisitions or medium term capex projects.
- As Omnia remains exposed to a challenging operating environment, its performance over the short to medium term is likely to be constrained. However, increased efficiencies and productivity are supportive of stable margins going forward.

Factors that could trigger a rating action may include

Positive change: Continued bedding down of the new capacity and operational structures, coupled with sound earnings growth, strong cash flows and moderate gearing.

Negative change: Unexpected commodity price volatility, necessitating increased short term debt to fund working capital requirements, and thereby increasing gearing metrics materially above current levels.

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