Credit Rating Announcement

GCR upgrades Omnia's issuer ratings to BBB+(ZA)/A2(ZA) on further stabilisation of the financial profile, Outlook Stable

Rating Action

Johannesburg, 07 September 2020 – GCR Ratings ("GCR") has upgraded Omnia Holdings Limited and Omnia Group Investments Limited's long and short-term issuer ratings to BBB+(ZA) and A2(ZA) respectively, from BBB-(ZA) and A3(ZA) previously. The Outlook has also been revised to Stable, from Negative previously.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Omnia Holdings Limited	Long Term Issuer	National	BBB+(ZA)	Stable Outlook
	Short Term Issuer	National	A2(ZA)	
Omnia Group Investments Limited	Long Term Issuer	National	BBB+(ZA)	Stable Outlook
	Short Term Issuer	National	A2(ZA)	

Rating Rationale

The upgrade reflects sustained improvement in Omnia Holdings Limited's ("Omnia or "the group") financial flexibility, underpinned by demonstrated shareholder support, well-entrenched relationships with funding counterparties, the fundamental de-risking of the working capital cycle, and rationalisation of underlying operations. The rebound in group cash flows and liquidity, in GCR's view, should continue to anchor Omnia's conservative financial profile despite the adverse impact of the COVID-19 pandemic on broader economic productivity.

The FY20 equity raise, and the facility tenor of between two-five-years achieved upon the refinance of remaining debt provided a strong backdrop to a sustainable funding structure, while the group's operations are now well-positioned to support strong cash generation through the cycle. Accordingly, GCR expects adjusted net debt to EBITDA to continue to trend well below 1.5x, and cash net interest coverage to migrate towards the upper end of the 5.0x-10.0x range, against a covenant requirement of 4.0x. Operating cash flow coverage of adjusted debt was reported at the higher end of the 40%-55% range at FY20, with GCR expecting it to be sustained at reasonably sound levels over the outlook period. Looking further ahead, improved conservatism in debt serviceability, especially with respect to interest cover, would be supportive of a positive leverage assessment.

Omnia's robust liquidity is underpinned by the committed, medium-term revolving facility on hand, flexibility provided by a working capital facility, and net ungeared international operations. Recently demonstrated support from a strong shareholder base, and well-established relationships with domestic and international financial institutions also underlines fairly strong access to capital. GCR has noted the material improvements made to the group's cash conversion cycle by managing down exposures to territories with significant liquidity constraints, enhancing procurement efficiencies, and optimising the Agriculture division's stock levels (*inter alia*). Accordingly, GCR is of the view that Omnia will be able to sustain coverage of its 18-24 months' liquidity requirements of at least 1.0x, assuming term debt continues to be progressively repaid. Our view is underlined by the significant free cash flow stresses the liquidity coverage ratio would be able to withstand without negatively impacting the liquidity assessment. GCR will continue to monitor management of covenant risk and debtors' performance, as unremedied proximity to the more rigorous covenant thresholds could negatively impact the liquidity assessment.

Counterbalancing these expectations in the short-term is potential contagion from a highly uncertain global operating climate on Omnia's earnings and cash flows. Amongst other factors, a second wave of restrictions could counter the pace of economic recovery, demand and supply dynamics, and the commodity price cycle. Exogenous pressures that drive high volatility in the sectors that anchor Omnia's earnings base also constrains our earnings assessment. This is exacerbated by continued contraction of the domestic manufacturing industry, although GCR notes that the group is repositioning its Chemicals product mix and operating model to optimise earnings.

Overall, while structural changes supporting the rebound in Omnia's profit trajectory bode positively, this is yet to fully reflect in the EBIT margin, which in GCR's view, could range between 7.0%-10.0% over the outlook period. Accordingly, entrenchment of margins at the higher end of this range, through (*inter alia*) efficiencies from the nitrophosphate plant, high plant utilisation, improved geographic diversification of BME's revenue base, and stronger volumes from higher-yielding product lines, would improve the earnings assessment further. GCR is of the view that Omnia's 1H FY21 earnings will fall short of our expectations due to lower downstream demand during the hard lockdown earlier in the year. That said, the group's businesses have continued to trade throughout, and accordingly, we expect a smaller profit and cash flow distortion relative to many domestic industrials. Looking ahead, the strength of the group's cash flow rebound through to March 2021 will depend on momentum from the domestic agriculture season, sustained cost rigour, continued volume growth in Omnia's international markets, and timely bedding down of new contracts.

The group's competitive position remains underpinned by its strong market positioning in the agriculture products space on the continent, complemented by BME's burgeoning market share. Proprietary technologies, continued modernisation of the production process, control of the supply chain, and integration of the three main business units also underpins a sound revenue base. That said, further earnings diversification towards stronger economies could help to improve earnings predictability through the cycle.

Outlook Statement

The Stable Outlook reflects GCR's view that the recovery in the group's cash flows is underpinned by operational rationalisation, cash preservation, and relatively strong access to capital. This is expected to further entrench the defensiveness of Omnia's financial profile, despite distortions to free cash flows and leverage that could arise from adverse COVID-19 related headwinds in the short-term.

Rating Triggers

Beyond the current macroeconomic uncertainty, further upward rating migration could arise from 1) sustaining strong 18-24 months' liquidity cover of at least 1.0x, on the back of rigorous management of the cash conversion cycle and robust discretionary cash flows, 2) proactive management of covenant risk 3) net debt to EBITDA comfortably managed below 1.2x; and 4) migration of interest cover into the 10.0x-15.0x range. Conversely, cash flow underperformance that continues well into the outlook period due to failure to sustain strong earnings or rigorous operational oversight, could constrain Omnia's credit risk profile. Unremedied proximity to covenants would also have negative rating impact.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
GCR Rating Scales, Symbols and Definitions, May 2019
Criteria for Rating Corporate Companies, May 2019
GCR Country Risk Scores, May 2020
GCR Corporate Sector Risk Scores, July 2020

Ratings History

Omnia Holdings Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	BBB+(ZA)	Stable Outlook	Mar 2009
Short Term Issuer		National	A2(ZA)		
Long Term Issuer	Last	National	BBB-(ZA)	Rating Watch Negative	Mar 2020
Short Term Issuer		National	A3(ZA)		

Omnia Group Investments Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A-(ZA)	Stable Outlook	Nov 2016
Short Term Issuer		National	A1-(ZA)		
Long Term Issuer	Last	National	BBB-(ZA)	Rating Watch Negative	Mar 2020
Short Term Issuer		National	A3(ZA)		

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**10.25**
Country risk score	6.75
Sector risk score	3.50
Business profile	**1.00**
Competitive position	1.00
Management and governance	0.00
Financial profile	**0.00**
Earnings	(1.00)
Leverage & cash flow	0.00
Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**11.25**

Glossary

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.
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.
Rating Horizon	The rating outlook period.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Rating Watch	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Repayment	Payment made to honour obligations regarding a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Short Term	Current; ordinarily less than one year.
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.
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 EBITDA by its interest payments for a given period.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Leverage	In 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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.

SALIENT POINTS OF ACCORDED RATING

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

The rated entities participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Omnia Holdings Limited's audited annual financial results to 31 March 2020
- Four years of comparative audited numbers
- Comprehensive group facility details by counterparty
- Group SENS and presentations