GCR RATINGS

Credit Rating Announcement

GCR upgrades Omnia's long term issuer rating to A(ZA) from BBB+(ZA) following significant deleveraging and improved operating resilience

Rating Action

Johannesburg, 4 August 2021 – GCR Ratings ("GCR") has upgraded Omnia Holdings Limited ("Omnia" or "'the group") and Omnia Group Investments Limited's long and short-term national scale issuer ratings to A(ZA) and A1(ZA) respectively. The outlook on the ratings is Stable.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Omnia Holdings Limited	Long Term Issuer	National	A(ZA)	Stable
	Short Term Issuer	National	A1(ZA)	
Omnia Group Investments Limited	Long Term Issuer	National	A(ZA)	Stable
	Short Term Issuer	National	A1(ZA)	

Rating Rationale

The ratings upgrade reflects Omnia's stronger financial risk profile, supported by further significant deleveraging on the back of the recent Oro Agri disposal, as well as the improved resilience of the group's cash flows following its business realignment interventions.

Omnia's balance sheet has significantly strengthened. The group R2.2bn in proceeds from the recent sale of Oro Agri combined with strong operational cash flows (aided by working capital improvements) to significantly reduce its leverage. This included fully redeeming its term and working capital facilities, with gross debt reducing to a low of R66m at FY21 (FY20: R2.6bn). In addition, the group maintained significant balance sheet cash after the debt redemption, resulting in a large net cash position of R1.3bn at FY21 (FY20: R1.9bn net debt position). The ratings factor in management's intent to maintain conservative financial policies as it gradually re-gears up for growth, with a stated public commitment to keep net debt to EBITDA sustainably below 1.5x over the longer term. This includes scope for potential acquisitions as well as the working capital upcycle. As such, robust debt service metrics are expected to be maintained over the rating horizon, with funds from operations to total debt exceeding 60% and interest cover to trend between the 8.0x-15x range.

Alongside its deleveraging, the group's liquidly profile has also strengthened. The group recently refinanced its facilities on more beneficial terms, with R3bn of committed credit lines available as at August 2021, which combined with strong ongoing cash generation provides significant capacity to fund operations, capital expenditure and dividends over the next 12-18 months. We expect that Omnia's recent trend of stronger operating cash flows will continue in view of the material improvements made in respect of optimising the agriculture division's trading cycle. Thus, whilst the group looks to add additional debt over the medium term, we believe Omnia will be able to sustain coverage of at least 1.5x of its liquidity requirements. Our assessment is also supported by demonstrated strong access to capital and ample covenant headroom.

The group has exhibited a sound operating performance throughout the COVID-19 pandemic, benefiting from minimal disruptions as an essential services provider, its business diversification by product and geographies, as well as past cost rationalisation initiatives adopted. GCR calculated EBITDA from continuing operations increased by 7% to R2.1bn for FY21, underpinned by a favourable agriculture season, while mining and chemicals earnings were dampened by lower volumes as result of hard lockdowns. End market conditions in agriculture and mining are expected to remain supportive going forward, and with the group prioritising growth in its higher-margin products and its increased cost flexibility, should contribute to greater earnings momentum going forward. Thus, the operating margin should continue to trend within longer term targeted profitability levels of 6-9% (FY21: 6% GCR adjusted operating margin). Nonetheless, we do continue to recognise past volatility in the group's earning base, whilst it is yet to achieve margins aligned to strongly performing peers.

Omnia's solid business profile is underpinned by its strong market positioning in the agriculture products space in Africa, complemented by BME's burgeoning market share. Proprietary technologies, modernised production processes, improved control of the supply chain and integration of the group's divisions also underpins its strong competitiveness. Nevertheless, exposures to higher-risk territories and cyclical industries balances our assessment.

Outlook Statement

The stable outlook reflects our expectation that Omnia will continue to exhibit a strong performance amid the ongoing pandemic, which, together with prudent capital and liquidity management will continue to support a strong financial profile.

Rating Triggers

The ratings could be upgraded if Omnia demonstrates 1) meaningful profitability improvements and sustained free cash flow growth; 2) increased diversification to more developed jurisdictions and/or 3) stronger credit metrics than our base case on a sustained basis.

Whilst the likelihood of a ratings downgrade is low, GCR would consider negative rating action if the group reports materially weaker trends in operating performance and working capital, and/or shifts to a more aggressive financial policy than its stated commitment.

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, July 2021
GCR Corporate Sector Risk Scores, April 2021

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 Positive	Nov 2020
Short Term Issuer		National	A2(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 Positive	Nov 2020
Short Term Issuer		National	A2(ZA)		

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**10.25**
Country risk score	6.25
Sector risk score	4.0
Business profile	**1.00**
Competitive position	1.00
Management and governance	0.00
Financial profile	**2.00**
Earnings	(0.50)
Leverage & cash flow	1.00
Liquidity	1.50
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**13.25**

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 2021
- Four years of comparative audited numbers
- Comprehensive group facility details at 30 July 2021
- Group SENS, circulars and presentations