



GCR affirms Group Five Limited's rating of A-(ZA); outlook Stable

Johannesburg, 15 Nov 2013 — Global Credit Ratings has today affirmed the long term national scale and affirmed the short term national scale issuer ratings assigned to Group Five Limited of A-(ZA) and A1-(ZA) respectively; with the outlook accorded as Stable.

RATING RATIONALE

Global Credit Ratings has accorded the above credit rating(s) on Group Five Limited based on the following key criteria:

Group Five reported a 27% increase in revenue to R11.1bn in F13 (F12 R8.7bn), buoyed by an improvement in all clusters. Costs were well contained during the year, which served to preserve margins, the exception being administration and plant costs (which were substantially higher). The cost of materials as a share of total operating expenses declined from 16% in F12 to 15% in F13, providing some evidence of higher margins being obtained. As a result, the EBITDA margin increased to 6.4% in F13 (F12: 5%), reversing the downward trend of the last two years. Operating profit was somewhat impacted by a higher depreciation charge, but still increased 78% to R469m in F13.

Despite higher interest and taxes, cash flow from operations nearly doubled to R817m (F12: R451m), boosted by a R252m working capital release. The strong discretionary cash flow was sufficient to cover capex requirements, while retained cash was further bolstered by inflows from the sale of investments and subsidiaries. As a result of strong cash flows, Group Five reported a large R2.9bn cash reserve at FYE13, of which only 18% was restricted to joint ventures. Thus, the group maintained its net ungeared position, with very strong liquidity metrics.

Looking ahead, the record order book of R14.2bn suggests double digit revenue growth in F14, although as much of the growth will be driven by lower margin clusters, operating profit growth is likely to lag revenue growth somewhat. The domestic construction operating environment is likely to remain challenging over the short to medium term. While there are a number of positive signs, such as the uptick in building confidence indicators, substantial negative pressure remains. In this regard, with an election looming in 2014, few major infrastructure projects are likely to proceed. Although the rest of Africa offers strong opportunities, this is at the cost of greater risks, and much of it is dependent on commodity prices.

Any upward rating movement would be dependent on sustained long term revenue and operating profit growth, as well as further clarity regarding the government's planned infrastructure programme, which is required to increase workflow to the sector. Conversely, weaker economic growth will dash hopes of a recovery in the domestic construction sector as investment is further delayed. In addition, whilst the diversification of contracts into other countries in Africa reduces the risk of excessive exposure to one geographical region, poor risk management could result in



APPLICABLE METHODOLOGIES AND RELATED RESEARCH

GCR's Global Master Criteria for Rating Corporate Entities

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SALIENT FEATURES 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.

Group Five 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 rating/s has been disclosed to Group Five Limited with no contestation of the rating.

The information received from Group Five Limited and other reliable third parties to accord the credit rating included the latest available audited annual financial statements (plus four years of comparative numbers), internal and/or external management reports, full year budgeted financial statements, most recent year to date management accounts (where necessary), corporate governance and enterprise risk framework, industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties. In addition, information specific to the rated entity and/or industry was also received.

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.

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