GCR affirms HomeChoice Holdings Limited’s rating of BBB+(ZA); Outlook Stable.

Johannesburg, 1 June 2016 — Global Credit Ratings has today affirmed the national scale issuer ratings assigned to HomeChoice Holdings Limited of BBB+(ZA) and A2(ZA) in the long term and short term respectively; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to HomeChoice Holdings Limited ("HomeChoice") based on the following key criteria:

HomeChoice’s ratings are supported by its unique market position as one of the largest direct home-shopping credit retailers in South Africa. This is underpinned by an improving product and service offering and scalable technology platform. Despite the difficult trading environment, the company continues to evidence a good track record in revenue growth and earnings. In F15, revenue rose 14% to reach R2.2bn, while the operating margin was fairly stable at 26%. Increasing diversification into the higher-margin Financial Services business should continue to assist in mitigating relative margin compression within the Retail segment.

A slight deterioration in non-performing loans to 9.5% in Retail (F14: 8.7%) and 4.7% in Financial Services (F14: 4.2%) is noted. Nonetheless, HomeChoice’s adherence to strict credit granting criteria, combined with certain additional risk filters and conservative provisioning (reported at a stable 18%) has seen the company’s receivable books remain healthy. Furthermore, HomeChoice remains strongly cash generative and while working capital absorptions are inherent in the business model, operating cash flows have registered a strong upward trend, reaching a new high of R193m in F15. Thus, both cash flow coverage of total debt and interest coverage remain sound.

Stemming from the capex expansion plan over the past five years, gross debt has risen to R548m at FYE15 compared to R82m at FYE11. Nonetheless, the balance sheet remains moderately leveraged, with net gearing registering at 28% (FYE14: 16%), while net debt to EBITDA was reported at 72% (FYE14: 43%). Committed capex is expected at markedly lower levels going forward, which should see gearing metrics ease. Whist HomeChoice reported a high short dated debt maturity profile at FYE15 (at 70% of total debt), mitigating factors include management’s intention to refinance the maturing obligations with new longer tenor banking facilities, with negotiations far advanced.

HomeChoice is highly dependent on discretionary consumer spending and on a loyal base of repeat customers for growth. With the domestic operating environment remaining challenging, this could place a damper on future growth prospects, particularly in the retail environment, which has largely been a resilient sector to date.

An upgrade is considered unlikely, as the local economy remains weak and credit trends are
considered negative. Nevertheless, an upwards rating movement could materialise on the back of continued geographic expansion of the business, thus developing sustainable revenue streams and earnings from a diversity of economies. Conversely, a material deterioration in Homechoice’s receivables books or poor business performance, thus resulting in weaker cash flows, could precipitate a deterioration in credit risk metrics and result in a ratings downgrade.

### NATIONAL SCALE RATINGS HISTORY

<table>
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<tr>
<th>Rating Details</th>
<th>Description</th>
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| Initial rating (June 2013) | Long term: BBB+(ZA)  
Short term: A2(za)  
Outlook: Stable |
| Last rating (June 2015) | Long term: BBB+(ZA)  
Short term: A2(za)  
Outlook: Stable |

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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for rating corporate entities, updated February 2016  
HomeChoice issuer rating reports, 2013-2015

**RATING LIMITATIONS AND DISCLAIMERS**

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR’S CORPORATE GLOSSARY

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Budget</td>
<td>Financial plan that serves as an estimate of future cost, revenues or both.</td>
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<tr>
<td>CAGR</td>
<td>The compound annual growth rate is the year-on-year percentage growth rate of an investment over a given period of time.</td>
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<tr>
<td>Capital</td>
<td>The sum of money that is invested to generate proceeds.</td>
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<tr>
<td>Cash Flow</td>
<td>The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>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.</td>
</tr>
<tr>
<td>Debt</td>
<td>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.</td>
</tr>
<tr>
<td>Default</td>
<td>Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.</td>
</tr>
<tr>
<td>Diversification</td>
<td>Spreading risk by constructing a portfolio that contains different investments, 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.</td>
</tr>
<tr>
<td>Downgrade</td>
<td>The assignment of a lower credit rating to a corporate or sovereign borrower’s debt by a credit rating agency. Opposite of upgrade.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.</td>
</tr>
<tr>
<td>Financial Year</td>
<td>The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.</td>
</tr>
<tr>
<td>Gearing</td>
<td>With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders’ funds or by EBITDA.</td>
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<tr>
<td>Interest Cover</td>
<td>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.</td>
</tr>
<tr>
<td>Leverage</td>
<td>With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.</td>
</tr>
<tr>
<td>Liquidity</td>
<td>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.</td>
</tr>
<tr>
<td>Margin</td>
<td>A term whose meaning depends on the context. In the widest sense, it means the difference between two values.</td>
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National Scale Rating | The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.

Operating Cash Flow | A company’s net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.

Operating Margin | Operating margin is operating profit expressed as a percentage of a company’s sales over a given period.

Operating Profit | Profits from a company’s ordinary revenue-producing activities, calculated before taxes and interest costs.

Portfolio | A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.

Receivables | Any outstanding debts, current or not, due to be paid to a company in cash.

Revenue | The total value of goods or services sold by a company in a given period. Also known as turnover or sales.

Risk | The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.

Shareholder | An individual, entity or financial institution that holds shares or stock in an organisation or company.

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.

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.

HomeChoice 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 credit ratings have been disclosed to HomeChoice Holdings Limited with no contestation of the rating.

The information received from HomeChoice Holdings Limited and other reliable third parties to accord the credit ratings included:

- The 2015 audited annual financial statements (plus prior year of comparative numbers)
- 2015 Analysts presentation
- 2016 Forecasts
- Other public information
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.

GCR affirms HomeChoice Holdings Limited’s rating of BBB+(ZA) Outlook Stable.