GCR affirms National Scale Long term Issuer Rating on Murray and Roberts Holdings Limited at A-$_{(ZA)}$, with Stable Outlook.

Rating Action

Johannesburg, 19 November 2019 – GCR Ratings ("GCR") has affirmed the national scale long term Issuer rating accorded to Murray and Roberts Holdings Limited ("M&R", "the group") of A-$_{(ZA)}$ and revised the short term Issuer rating to A2$_{(ZA)}$ (on the change in GCR's Rating Scales, Symbols and Definitions, May 2019); with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Murray and Roberts Holdings Limited	Issuer Long Term	National	A-$_{(ZA)}$	Stable Outlook
	Issuer Short Term	National	A2$_{(ZA)}$	

GCR announced that it had released new criteria for rating corporate companies in May 2019. As a result, the ratings were placed "Under Criteria Observation". Subsequently, GCR has finalised the review under the new methodology, and the ratings have been removed from 'Under Criteria Observation'.

Rating Rationale

The ratings accorded to M&R reflect its strong balance sheet and demonstrated track record of executing engineering and construction projects across various territories. The group's growing exposure to developed countries (68% of its order book) is expected to anchor earnings over the rating horizon, offsetting the impact of the distressed South African operating environment. This is, however, counterbalanced by the group's small scale against global competitors.

Supporting the credit rating is M&R's strong net ungeared position, underpinned by R2.7bn in unrestricted cash. This compares against R1.7bn in gross debt at FY19, which rose from just R554m at FY18 due to a mix of finance leases to support growth and the acquisition of bolt on businesses. Thus, while discretionary cash flow coverage of gross debt fell to 77.8% at FY19 (FY18: 128.8%), and interest coverage narrowed to 17.5x at FY19 (FY18: 24.5x), credit protection metrics still align with very strong levels. Even after stressing for a portion of the outstanding guarantees, and operating lease liabilities, GCR expects net debt to EBITDA to trend below 1x over the next 12 months. While GCR considers M&R's ability to raise new equity capital to be curtailed due to the complications of the large Aton shareholding, access to capital is supported by large facilities from the largest local banks and reputable international funders.

Strong liquidity is also credit positive, with M&R reporting liquidity coverage of 2x on a one-year basis and 1.5x on a two-year basis. Liquidity coverage is supported by the large cash balance and committed unutilised facilities, against moderate capex commitments and low debt maturities. Nevertheless, GCR recognizes the inherent liquidity risks faced by construction companies, in the event that contracts are delayed or there are cost overruns.

Constraining the rating somewhat is the erratic historical earnings trend and low margins. A delay in initiating oil and gas contracts, and dearth of new contracts in South Africa, saw revenue decline by 7.7% to R20.2bn in FY19, while negative margins were reported in those segments. This was offset by a robust underground mining segment performance, as firmer commodity prices necessitated investment in mining infrastructure. Nevertheless, the group operating margin narrowed to 2.2% (FY18: 2.5%), with operating income decreasing by 16% to R453m in FY19. Looking ahead, the strong growth in the order book to R46.8bn at FY19, and further positive tender outcomes in 1H FY20, bode positively for revenue growth and margin enhancement. GCR thus expects the overall operating margin to trend upwards towards the 5% level over the rating horizon. Nevertheless, earnings remain sensitive to the inherent cyclicality of the industry.

Outlook Statement

The Stable outlook reflects GCR's expectation that the group will remain net ungeared with a strong liquidity position.

Rating Triggers

The group's ratings could get an uplift from a sustained margin enhancement, leading to improved earnings. Conversely, downward pressure on the ratings could emanate from an increase in debt to fund operations, particularly if the balance sheet shifts from the net ungeared position. A deterioration in earnings could also result in a downgrade.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Companies, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, June 2019
GCR Corporate Sector Risk Scores, November 2019

Ratings History

Murray and Roberts Holdings Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	$A_{(ZA)}$	Stable	September 2001
	Last	National	$A-_{(ZA)}$	Stable	October 2018
Issuer Short Term	Initial	National	$A1_{(ZA)}$	–	September 2001
	Last	National	$A1-_{(ZA)}$	–	October 2018

RISK SCORE SUMMARY

Risk score	**13.50**
Operating environment	**15.50**
Country risk score	11.0
Sector risk score	4.5
Business profile	**-3.00**
Competitive position	-3.00
Management and governance	0.00
Financial profile	**1.00**

Earnings performance	-2.00
Leverage and capital structure	2.00
Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
Credit Risk	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.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures 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.

Income	Money received, especially on a regular basis, for work or through investments.
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 operating profit by its interest payments for a given period.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to 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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS 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.

The credit ratings have been disclosed to Murray and Roberts Holdings Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Murray and Roberts 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 information received from Murray and Roberts Holdings Limited and other reliable third parties to accord the credit rating included:

- The audited financial results for June 2019;
- Four years of comparative audited numbers;
- Analyst presentations;
- Detailed facility breakdown at June 2019;
- Industry comparative data.