GCR RATINGS

GCR assigns Forty Two Point Two BBB+/A2, AAA$_{(MU)}$/A1+$_{(MU)}$ and AAA$_{(ZA)}$/A1+$_{(ZA)}$ long term and short term international and national scale ratings respectively. Outlook Stable

Rating Action

Ebene, 22 April 2021 – GCR Ratings ("GCR") has assigned Mauritian and South African national scale long and short-term issuer ratings to Mauritius based Forty Two Point Two of AAA$_{(MU)}$/A1+$_{(MU)}$ and AAA$_{(ZA)}$/A1+$_{(ZA),}$ respectively, both with a Stable Outlook. At the same time, GCR has assigned international scale long and short-term issuer ratings to Forty Two Point Two of BBB+/ A2, also with a Stable Outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Forty Two Point Two	Long Term Issuer	National	AAA$_{(MU)}$	Stable Outlook
	Short Term Issuer	National	A1+$_{(MU)}$	
	Long term Issuer	National	AAA$_{(ZA)}$	Stable Outlook
	Short Term Issuer	National	A1+$_{(ZA)}$	
	Long term Issuer	International	BBB+	Stable Outlook
	Short term Issuer	International	A2	

Rating Rationale

Forty Two Point Two's ratings benefit from its net ungeared position and strong levels of liquidity that supports an exceptional financial profile score. The business profile is slightly positive, balancing the high investment concentration, related party exposures and limited franchise of Forty Two Point Two against the high quality of the underlying assets.

Low debt levels and solid Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") margins (albeit exposed to high market risk) drive a strong leverage assessment. After stressing the market value of investments, we view sum of the parts ("SOTP") coverage of gross debt to be high (above 2x) while loan to value remains conservative, even in a scenario where debt is expected to increase slightly in the coming year. The low cost operating structure also provides ample headroom to consistently generate strong EBITDA margins (three year average: 93%), although there have been some erratic fair value movements of late due to volatile equity markets, which does have an acute impact on net income due to the very high investment counterparty concentration. Nonetheless, Forty Two Point Two is expected to remain net ungeared over the next 12-18 months while continuing to deliver solid core earnings.

Adding further support to the financial profile is the strong liquidity relative to debt and operational costs. The core investment asset consists of the c.21.4% equity stake in Ninety One plc and Ninety One Limited (together "Ninety One"), valued at GBP313.9m at 31 March 2020. Ninety One has a dual listing on the Johannesburg and London stock exchanges and we believe these markets do provide adequate liquidity and depth to generate short term liquidity in a stressed scenario. The strong liquidity assessment also incorporates our view that sources of liquidity (including stressed market value of assets) will typically cover uses by over 4x over the medium term.

Forty Two Point Two is ultimately an investment vehicle through which key employees of Ninety One, including senior management, have collectively built a long-term investment in the founder-led global investment manager. As such, it does not invest outside of Ninety One, leading to the very high counterparty concentration, related party exposure and limited franchise (with regards to Forty Two Point Two). While this weighs down the competitive profile, we view the high quality nature of the investment as a mitigant and supportive of a mildly positive business profile score.

Ninety One was founded in South Africa nearly 30 years ago and has been organically and sustainably grown into a global player with approximately GBP119bn in assets under management ("AUM") as at September 2020. It has a market leading position in its Southern African operations, while also reflecting material geographic diversification in developed regions such as UK, Europe, and North America. Furthermore, the client grouping is well spread across pension funds, public authorities, official institutions, insurance companies, private banks, wealth managers and corporates having been built up on the back of a long standing track record and good market acceptance/branding within the core markets. Over the past 10 years, AUM has grown by a Compound Annual Growth Rate ("CAGR") of 12%, accompanied by a good performance track record, with GCR calculated EBITDA margins consistently above 25% over the past 3 years. Balance sheet risk is very low given the capital light nature of the business and absence of debt, while revenue sources are stable, comprising mainly of management fees. Liquidity is also good, with good cash flow generative capacity supporting sound medium term sources vs. uses coverage of between 1 to 1.25x, albeit upside is limited due to the high dividend payout policy. While this does moderate the liquidity score for Ninety One, it supports income stability for Forty Two Point Two.

Outlook Statement

Given the regional diversification of the revenue source, net ungeared balance sheet and good track record of income stability, it is our view that Forty Two Point Two can sustain its current credit profile over the next 12-18 months, underpinning the stable outlook. While there are plans to slightly raise debt levels in the short term, serviceability is still expected to remain manageable with ample headroom provided by strong earnings, as well as the quantum and liquidity of the investment portfolio, even under a conservatively stressed scenario.

Rating Triggers

Positive rating action could stem from diversifying the investment portfolio and reducing counterparty/related party exposure at Forty Two Point Two level, assuming the quality of new investments are equal or greater. Furthermore, should Ninety One continue to grow its AUM above USD250bn and sustain sources vs. uses coverage above 1.25x, then this may support a higher investment quality assessment and consequently improve the ratings on Forty Two Point Two. On the other hand, should there be a material drop in earnings, or severe deterioration in the market value of investments leading to higher levels of leverage, downward rating action could occur. In addition to this, negative ratings pressure could stem from Ninety One experiencing significant loss of AUM, lower than expected earnings or if uses vs. sources coverage drops below 1x.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Investment Holding Companies, May 2019
Criteria for Rating Asset Managers, November 2019 * appendix to the Criteria for Financial Services
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, March 2021
GCR Financial Institutions Sector Risk Scores, February 2021

Ratings History

Forty Two Point Two

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial/last	National	AAA$_{(MU)}$	Stable	April 2021
	Initial/last	National	AAA$_{(ZA)}$	Stable	April 2021
	Initial/last	International	BBB+	Stable	April 2021
Short Term Issuer	Initial/last	National	A1+$_{(MU)}$	N/a	April 2021
	Initial/last	National	A1+$_{(ZA)}$		April 2021
	Initial/last	International	A2		April 2021

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**18.50**
Country risk score	11.25
Sector risk score	7.25
Business profile	**0.00**
Portfolio size and diversification	(4.50)
Investment quality and track record	4.50
Management and governance	0.00
Financial profile	**5.00**
Leverage and cash flow	3.00
Liquidity	2.00
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**23.50**

Printed on: May 13, 2021 / **Location:** https://gcrratings.com/announcements/gcr-assigns-forty-two-point-two-bbb-a2-aaamu-a1mu-and-aaaza-a1za-long-term-and-short-term-international-and-national-scale-ratings-respectively-outlook-stable/ / **Date of article:** Apr 22, 2021

Glossary

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.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
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.

Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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 ratings were 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 Forty Two Point Two. 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.

Forty Two Point Two participated in the rating process via written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information used to analyse and accord the credit ratings included:

- Audited financial results as at 31 March 2020 (and four years of comparative numbers);
- Budgets for 2021 and 2022; and
- Other public and private information;