MOODY'S RATINGS

Rating Action: Moody's Ratings places Transnet's ratings on review for downgrade

15 May 2025

London, May 15, 2025 -- Moody's Ratings (Moody's) has today placed most of Transnet SOC Ltd.'s (Transnet or the company) ratings on review for downgrade. This includes the long term corporate family rating (CFR) of Ba3, the Baseline Credit Assessment (BCA) of b3, the probability of default rating (PDR) of Ba3-PD, the global and national scale senior unsecured MTN programme (Medium-Term Note) ratings of (P)Ba3/A2.za, the global and national scale subordinated MTN programme ratings of (P)B1/Baa2.za, the senior unsecured and backed senior unsecured ratings of Ba3, and the national scale other short-term rating of P-1.za. The Not Prime (NP) short term issuer rating, the (P)NP other short term ratings and NP commercial paper rating were affirmed. Previously, the outlook was negative.

RATINGS RATIONALE

Today's rating action reflects our growing concern over Transnet's unsustainable capital structure, its deteriorating liquidity position, lack of formal agreement so far on additional government support, and the slower than planned pace of operational improvements.

In December 2023, the Government of South Africa (Ba2 stable) provided Transnet with a ZAR47 billion guarantee facility that allowed it to issue government guaranteed debt. This facility has been fully exhausted and expired on 31 March 2025. While Transnet still has undrawn available loan commitments of around ZAR7 billion and some cash as of the end of March 2025, we expect this amount of available liquidity sources will only be sufficient to reliably cover the company's operating and investing needs as well as upcoming debt maturities for the next three months.

We believe the company requires additional government support to refinance upcoming debt maturities and secure funds for its expanded capex program. The company faces debt amortization payments on a near monthly basis during the 2025/26 financial year ending March 2026, with the next substantial maturity comprised of a ZAR9.9 billion local bond due on 19 August 2025. We believe the government remains supportive of Transnet and will provide additional guarantees or other assistance to prevent default on its upcoming debt maturities. However, the lack of a formal announcement so far creates uncertainty and heightens default risk.

Transnet's operating performance has improved under the recovery program launched at the end of 2023. However, progress remains slower than planned, to some extent because of a continued high occurrence of theft, vandalism and adverse weather conditions. As such, we believe the company continues to underperform the plan's targets. As of March 2024, rail volumes had increased to 152 million tons per year from 150 million tons a year earlier, achieving only around half of the targeted improvement of 4 million tons. As of September 2024, volumes reportedly increased by 3.2%, implying continued underperformance against a target of 170 million tons for the full year that ended March 2025. While revenue increased by around 12% during the year that ended March 2024 and a further 6% during the six month that ended September 2024, these improvements were primarily driven by higher tariffs rather than increased volumes.

In the meantime, Transnet's debt burden remains excessively high, leading to unsustainably high interest payments. The company's EBIT to interest coverage ratio remains at 0.6x for the twelve months that ended in September 2024, and we expect it to remain below 1.0x for at least the next two to three years. This means the company is unable to meet regular capex and interest payments from its earnings.

We continue to believe that strategic steps, such as equity support will need to be taken to reduce the company's interest burden and reposition the capital structure on a more sustainable footing. Asset sales and operational improvements could reduce some of the equity required, but these remain exposed to high execution risk, especially since the company's progress on non-core asset sales and private sector participations has been slower than we initially expected. No funds have been raised so far and timelines remain uncertain.

Transnet falls under our Government-Related Issuers (GRI) methodology given its 100% government ownership and importance to the South African economy. The strong link between Transnet and the Government of South Africa is reflected by our assumptions of 'Very High' default dependence with the Government of South Africa and 'Strong' extraordinary support from the government, which supports three notches of uplift from the b3 BCA.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The review will focus on the government's willingness and ability to provide further support to Transnet, as well as the materiality and sufficiency of such support in bringing the company's capital structure and liquidity position on a sustainable footing. The review will therefore be used to reassess Transnet's BCA and CFR as well as GRI support assumptions, and ultimately the number of notches of uplift incorporated in the CFR. We will look to conclude the review within the coming weeks. Factors that could lead to an upgrade or downgrade of the rating will be updated following the conclusion of the review.

The methodologies used in these ratings were Surface Transportation and Logistics published in April 2025 and available at https://ratings.moodys.com/rmc-documents/440609, and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1280297.

The local market analyst for this rating is Lisa Jaeger, +971 (423) 796-59.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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