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Research Update:

National Scale Ratings On South Africa-Based Eqstra Holdings Ltd. Raised To 'zaA-' On Improved Financial Performance

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Overview

- Lower funding costs and a stronger revenue base have led to improved financial performance for Eqstra Holdings Ltd. (Eqstra) in the past 12 months.
- We are therefore raising the long-term South Africa national scale rating on Eqstra to 'zaA-' from 'zaBBB+'. At the same time, we are affirming our short-term rating at 'zaA-2'.
- Although unlikely in the medium term, further positive rating action could occur in the event of an improvement in sustainable long-term revenue growth and associated cash flow generation from leased assets. This would occur if the absolute amount of debt increased only moderately, capitalization remains at good levels and if the funding structure were to diversify materially.
- Ratings could be lowered if Eqstra increases its debt leverage without the benefit of sustainable and reliable revenues and cash flows that we consider well defined, if capital adequacy levels reduce significantly, or if the funds become less diversified or more short term.

Rating Action

On Oct. 3, 2011, Standard & Poor's Ratings Services raised the long-term South Africa national scale ratings on Eqstra Holdings Ltd. (Eqstra) to 'zaA-' from 'zaBBB+'. At the same time, we affirmed our short-term rating at 'zaA-2'.

Rationale

The upgrade reflects our view of Eqstra's stronger financial performance from lower funding costs and improved revenues through the distributorship and industrial equipment divisions. This complements the improved funding structure and capitalization achieved in the past two years, in our opinion.

Eqstra is a South Africa-based nonoperational holding company, overseeing four separate business divisions: contact mining and plant rental, construction and mining equipment distributorships, passenger and commercial vehicles, and industrial equipment.

The ratings are supported by good levels of capitalization, a strong local market position and customer franchise, and a relatively diversified business

profile for an operating leasing company. The ratings are constrained by the vulnerability of earnings and cash flow to domestic economic and commodity cycles, high counterparty concentrations, and a reliance on wholesale funding with domestic bank concentration. Furthermore, due to its nonbank status, Eqstra would not benefit from access to central bank liquidity, if required. The ratings factor in our assessment of the company's stand-alone credit profile and do not include any uplift for extraordinary external support.

Profitability and associated cash flow have improved in the past 15 months, as a result of decreased financing costs and improved revenues from the distributorship and industrial equipment divisions. Financing costs dropped rapidly to 54% of EBITDA at June 30 2011, from 88.3% in June 30, 2010. The decline in financing costs reflects a reduction in short-term debt and an increase in equity raised in July 2010, as well as the successful renegotiation of a large proportion of its bank debt in early 2011.

The major improvement in EBITDA stemmed mainly from the ongoing restructuring of Eqstra's distributorship unit, which recorded a net income of South African rand (ZAR) 36 million (equal to 12% of total income) in financial year 2011, compared to a ZAR310 million loss in 2010. Revenue across the other divisions has been relatively stable, although sales of industrial equipment notably increased by 32% in financial year 2011.

We anticipate stronger sustainable revenues in fiscal-2012, driven by new contracts and the contact mining and plant rental division, as well as sustained growth in the industrial equipment division. Our expectations also factor in a moderate increase in debt levels to fulfill this revenue growth, as most leasing assets are already on the balance sheet. The distributorship division could lose some business position and revenue in 2012 if Eqstra sells or loses the distribution rights to Bucyrus in South Africa. However, the financial result of this potential change will be neutral, in our opinion.

Further positive ratings momentum, although unlikely in the medium term, could occur in the event of an improvement in the sustainable long-term growth of revenues and associated cash flow generation from leased assets and inventories, alongside a moderate increase in absolute debt levels and the maintenance of current capital adequacy levels. If Eqstra pursues its growth strategy out of free cash flow, rather than by leveraging existing capital and increasing debt, we would see that as positive for the ratings. We would also consider further meaningful diversification of its funding structure as necessary before any further positive rating action were to occur.

Negative ratings momentum could follow if the company increases its debt leverage without the benefit of sustainable and reliable revenues and cash flows that we consider well defined. The ratings could also come under pressure if Eqstra returns to a less-diversified or shorter-term funding profile, which would raise refinancing and liquidity risks.

Standard & Poor's national scale credit ratings provide a current opinion of an issuer's creditworthiness or overall capacity to meet specific financial

obligations, relative to that of other entities and specific obligations in a given country. Standard & Poor's bases its national scale rating opinion on a comparative credit risk analysis of active issuers within one country.

Related Criteria And Research

- Understanding National Rating Scales, April 14, 2005
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Standard & Poor's Provides Mapping Guidance For Its South Africa National Credit Rating Scale, Dec. 7, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004
- Focus On Leasing Analysis, March 31, 2004

Ratings List

Upgraded; Ratings Affirmed

	To	From
Eqstra Holdings Ltd.		
South Africa National Scale Rating	zaA-/--/zaA-2	zaBBB+/--/zaA-2
Senior Unsecured	zaA-	zaBBB+
Short-term debt	zaA-2	zaA-2

NB: This list does not include all ratings affected.

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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