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Research Update:

South African Eqstra Holdings National Scale Ratings Up On Reduced Refinancing Risks And Improving Financial Performance

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South African Eqstra Holdings National Scale Ratings Up On Reduced Refinancing Risks And Improving Financial Performance

Overview

- Eqstra Holdings Ltd. has successfully renegotiated its funding package, and so reduced its medium-term refinancing risks.
- Profitability and cash flow is improving due to lower funding costs and earnings growth.
- We are raising the long-term South Africa national scale ratings to 'zaBBB+' from 'zaBBB'. At the same time, we are affirming our short-term rating of 'zaA-2'.

Rating Action

On Feb. 21, 2011, Standard & Poor's Ratings Services raised the long-term South Africa national scale ratings on Eqstra Holdings Ltd. (Eqstra) to 'zaBBB+' from 'zaBBB'. At the same time, we affirmed our short-term rating of 'zaA-2'.

Rationale

The upgrade of Eqstra reflects both the significant reduction in medium-term refinancing risks due to renegotiation of the bank funding package, and improving profitability and cash flow due to lower funding costs and earnings growth.

Eqstra is a South Africa-based nonoperational holding company, overseeing three separate business divisions: construction and mining equipment, 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 relatively diversified business profile for an operating leasing company. The ratings are constrained by Eqstra's reliance on the local bank funding, and the cyclicality of earnings and geographic concentrations in Southern Africa. The ratings factor in our assessment of the company's stand-alone credit profile, and do not include any uplift for extraordinary external support. Furthermore, due to Eqstra's nonbank status, this institution does not benefit from the soft benefits of banking regulation, including access to central bank liquidity.

Eqstra's renegotiated bank funding package has, in our opinion, significantly reduced the 2013 refinancing risk and diversified the term of future repayments. The new package and some additional international multilateral funding have also introduced additional counterparty diversification to the funding profile. Nevertheless, in our opinion, funding remains concentrated in the South African banks. In our view, South African banks have proved highly willing to support Eqstra, demonstrated by the successful renegotiation of the funding package.

Profitability and associated cash flow have also improved in 2010 because of a significant drop in financing costs and a more-gradual improvement in EBITDA. The primary cause of the steep reduction in financing costs was the reduction of short-term debt due to the South African rand (ZAR) 650 million of equity raised in July 20

The major improvement in EBITDA stemmed mainly from the continuing restructuring of the distributorship unit, which was approaching breakeven point at the company's half-year on Dec. 31, 2010. Consequently, the interest coverage ratio (EBITDA to net interest expenses) has improved to 4.99x on Dec. 31, 2010 from 3.23x on Dec. 31, 2009.

Furthermore, Eqstra's annualized return on assets has notably increased to 2.69% at half-year 2011, a significant swing from the -1.16% a year earlier. Cash flow ratios are also showing tangible signs of improvement; funds from operations accounted for 40% of net debt on Dec. 31, 2010, up from 21% on Dec. 31, 2009. Free operating cash flow was positive at both dates.

We expect profitability to continue to improve as it optimizes the leasing of its assets and the distributorship business turns profit-making. On the other hand, we expect heavy capital expenditures in the second half to place some strain on free cash flow as Eqstra builds up the fleet once again to take on larger projects.

A further positive rating action could follow if Eqstra retains its current level of profitability toward year-end 2011 (June 30, 2011), and if the profits result from sustainable improvements in business operations or operating cost reductions. We would consider positive rating actions in the longer term if we see a longer track record of sustainable profit growth, and if the company demonstrates that the business is capable of growing out of free cash flow and not leveraging existing capital. We would also view positively further diversification of funding or an additional equity increase.

Negative rating momentum could be created if the company significantly increases its debt leverage without the benefit of sources of sustainable and reliable cash flows that we consider well defined.

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 opinions on a comparative credit risk analysis of active issuers within one country.

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Related Criteria And Research

- South Africa (Republic of), Jan. 19, 2010
- 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

Ratings List

Ratings Upgraded And Affirmed

	To	From
Eqstra Holdings Ltd.		
South Africa National Scale Ratings		
	zaBBB+/zaA-2	zaBBB/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) 495-783-4011.