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SAR Corporate Rating & Philosophy

2023

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Outline

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About Sovereign Africa Ratings

- Sovereign Africa Ratings (SAR) is a licensed credit rating agency supervised by the Financial Sector Conduct Authority with a focus on Sovereign, Regional and Municipal Governments, Corporate and Sukuk rating services.

- SAR was formed in order to satisfy developmental and investment needs in Africa and in emerging markets in general.

- SAR asserts that it is clear that the needs of emerging markets are unique, and that the length of time it has taken for economic transformation to be realised on a large scale indicates the need for more plurality in the provision of quality economic research, creditworthiness opinion and linked market insights. SAR aims to offer such insights with unerring market relevance, statistical and economic accuracy.

Vision & Mission

Vision

SAR's vision is to position itself as the premier and preferred credit rating agency for emerging markets that uniquely and objectively catalyses economic performance.

Mission

SAR's mission is to provide credit rating services for corporates, sovereign governments, and regional and municipal government issuers (with a special interest in developing countries, particularly in the African continent) to ensure that investors are provided with an informed analysis of the risk associated with rated entities and financial securities. SAR also aims to monitor and report to issuers the effectiveness of policy on credit rating fundamentals to foster economic growth, activity, and development.

Strategic Objectives

- To provide independent and fair credit ratings incorporating monitoring and reporting to issuers the effectiveness of policy on credit rating fundamentals to foster economic growth, activity, and development.

- Consideration of the issuer’s structural nature embedded in models, resource endowments, and economic potential of rated emerging markets.

Methodologies

- SAR has developed and issued methodologies for various rating categories including:
- Sovereign Rating Methodology: Governments/Sovereign States
- Corporate Rating Methodology
- Regional and Municipal Governments Methodology
- Sukuk Rating Methodology
- SAR continues to develop its rating categories to include financial institutions, insurance and structured finance.

Key Strengths

Structural Nature and Resource Endowment Beneficiation Considerations

For sovereign ratings, SAR's point of departure is to factor in the structural nature of developing markets in its process to ensure fair and unbiased ratings. In addition to conventional analytical considerations, SAR's sovereign rating approach considers the structural nature of developing economies through its analytical method, which has an appreciation of opportunities and challenges faced by developing economies. This includes consideration for natural resource endowment beneficiation and natural growth rates for sovereigns, which considers the proximities to factors of production full employment levels.

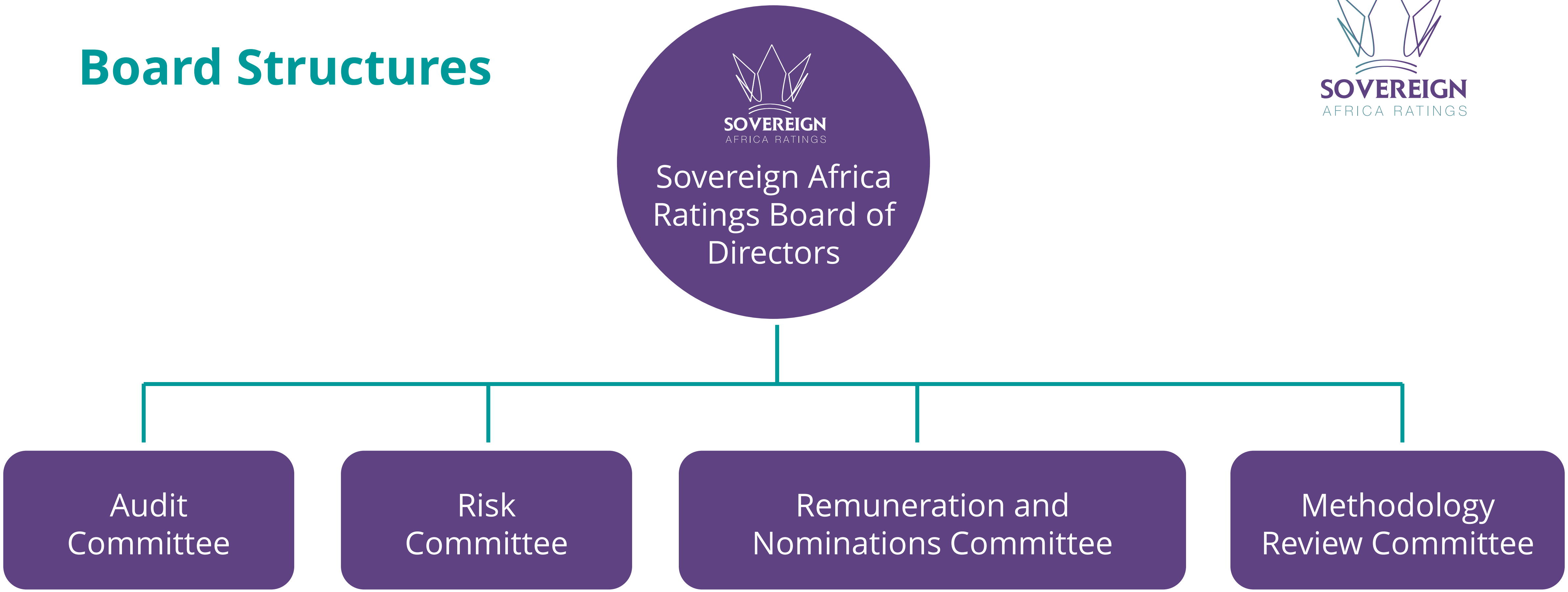
Credit Ratings Based on the Merits of the Rated Entity;
No Sovereign Rating Ceilings

SAR's credit ratings are always based on the merits of the rated entity. Additional adjustments may be made in instances where there exists extraordinary support from a parent company or commitments from affiliates. Consequently, in assigning credit ratings for regional and municipal government or corporate entities, SAR does not assign sovereign rating ceilings.

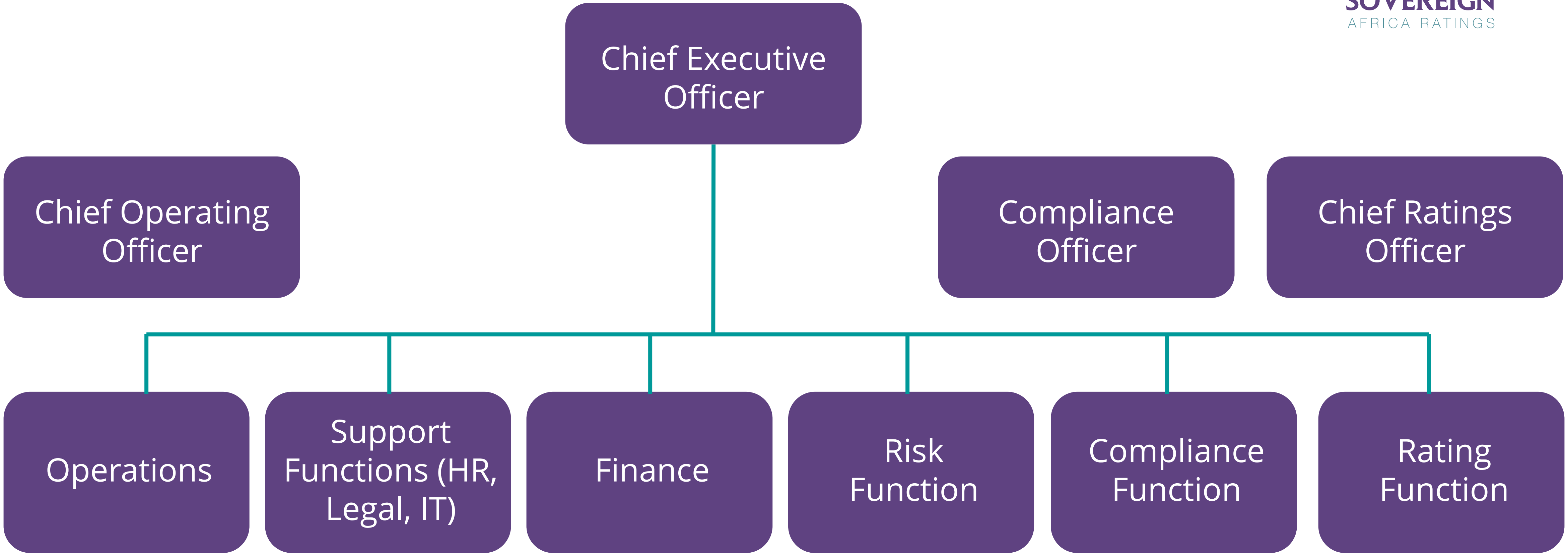
International and National Scale Ratings Based on Peer Selection in Peer Analysis

SAR also does not map national scale ratings to international scale ratings through the use of mapping tables. Instead, the methodologies incorporate the “country score” and “industry score” where the rated entity has significant operations and exposure. The designation for national or international scale ratings is then assigned based on the selection of peer entities in peer analysis. This implies that SAR’s national scale ratings will include a peer analysis of involving entities operating in the same jurisdiction(s) as the rated entity, whereas international scale ratings will include a selection of global peer entities. This approach, therefore, enables SAR to assign credit ratings based on the merits of the rated entity without limiting the credit ratings through a sovereign rating ceiling or the use of rigid mapping tables.

Board Structures



Operational Structure



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Corporate Credit Ratings

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Overview

- RATING PROCESS
- CORPORATE RATING SUMMARY
- CORPORATE METHODOLOGY
- KEY RATING DETERMINANTS

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Rating process

Rating Process

Business development officials engage the issuer, and once done they handover to the analytical team.

The process:

- The lead analyst requests all relevant financial information from the issuer and performs a desktop analysis.
- The analytical team meets with the issuer's management team to discuss initial findings, gather additional business insights and request any additional information.
- The lead analyst prepares a presentation for the Rating Committee (RC), including a credit rating recommendation.
- The RC debates the merits of the recommendation and votes on an appropriate rating to be assigned. All attendees to the RC must confirm that they have no conflicts in relation to the issuer being rated.
- The rating outcome of the RC is communicated to the issuer, thereby commencing the 24-hour window for the issuer to appeal the rating outcome or to provide factual corrections on the contents of the draft press release.
- If there is an appeal of the outcome based on SAR's application of its methodology or new information is availed, SAR will engage the issuer in a consultative process to resolve the appeal before issuing the rating.
- The lead analyst will incorporate the issuer's comments if any and publish the press release at the end of the 24-hour period or the consultative process where relevant.
- The monitoring of the rating begins after the publication. This involves periodic meetings with the issuer and monitoring of developments affecting the rated entity, etc.

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Corporate Rating Summary

The Sovereign Africa Ratings (SAR) Corporate Credit Rating Methodology is based on four pillars. These pillars are weighted according to their importance and influence on the creditworthiness of a corporate entity as illustrated below.

Approach

As Sovereign Africa Ratings (SAR) is also a licensed sovereign and sub-sovereign (Regional and Municipal Government) rating services provider, we utilize live data in assessing the operating context of companies which may have operational exposure to various jurisdictions.

SAR's analysis spans financial, economic and social measures on a relative basis, using proprietary models that rely on qualitative and quantitative variables.

The rating process involves an assessment of market wide and entity-specific attributes that influence the creditworthiness of corporate entities.

In determining our projections, we consider budgets and forecasts provided by the rated entity, as well as internal views of market trends and their impact on the rated entity.

SAR's credit ratings will provide an opinion of the relative credit risk facing corporates, supplemented by market research on potential rating drivers.

Approach

1

The SAR rating team examines the sovereign and industry risks affecting the environment where the corporate entity operates, providing a foundation to differentiate the impact of entity-specific risks on peers' credit profiles.

2

The outcome of the credit rating analysis will be outlined in a credit rating report, where SAR will detail its views on the assessment of the entity in respect of each attribute and provide relevant triggers that may enhance or detract from the assigned rating.

3

Ongoing engagements with the rated entity's management teams, as well as the monitoring of developments in the media and the general state of their operating environment, will enable SAR to provide relevant and timely updates.

4

SAR will endeavour to provide transparent and consistent reviews of its ratings as well as its assessment of the main drivers under each rating pillar and will communicate in its analysis any fundamental changes incorporated.

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Credit Rating Methodology – Corporate Entities

Pillars and Attributes

Pillar	Weight	Attribute	Weight
Operating Context	30%		
		Country Risk	20%
		Industry Risk	6%
		Competitive Advantage	4%
Business & Financial Performance	25%		
		Environmental, Social & Governance	10%
		Revenue & Profitability	5%
		Cash-Flow & Liquidity	5%
		Capital Structure	5%

Pillars and Attributes

Pillar	Weight	Attribute	Weight
Credit Profile	**40%**		
		Debt Burden	**20%**
		Leverage ratios	
		Debt Serviceability	**20%**
		Debt service ratios	
		Finance costs	
Peer Review and Adjustments	**5%**		
		Support	**3%**
		Media & News alerts	**2%**

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Key Rating Determinants

The Key Risk Determinants

Operating Context

- This is an evaluation of the exogenous risks introduced by the various factors driving the economic, social, financial and political conditions of the country(ies) where the corporate entity operates.
- SAR will either rely on its assigned ratings or apply its sovereign methodology to establish a score representative of the country risk of the corporate's domicile.
- The industry risk score captures the market risks facing the specific sector where the entity operates.
- The competitive advantage assessment provides an overview of entity-specific factors that differentiate the corporate entity from peers who operate in the same sector.
- In the case of an entity with exposure to different countries and/or industries, a weighted average of the relevant scores for each significant exposure will be adopted in the analysis.

The Key Risk Determinants

Business & Financial Performance

- An evaluation of the viability and stability of the business through assessing its reported and forecast performance as well as its strategy and compliance including ESG factors.

- SAR will rely on financial reports, budgets and supplemental information submitted by the entity, as well as any relevant market insights to analyse historical performance and determine a realistic short to medium-term forecast.

- The rating analysis will focus on the corporate's ability to operate efficiently, generate sufficient income to sustain growth and maintain adequate liquidity to service its obligations.

- SAR may make some adjustments to the reported annual financial statements in order to align potential differences in reporting standards between entities.

The Key Risk Determinants

Credit Profile

- Provides an overview of the credit risk profile of the corporate entity by analyzing the level of indebtedness, as well as the willingness and ability to service debt obligations.

Debt Burden

SAR will assess the corporate's appetite for debt funding and the efficiency of their funding strategy. This will incorporate the quantitative analysis of outstanding debt, available facilities and leverage ratios. Also includes a qualitative assessment of the nature of debt instruments and their terms, as well as the relative exposure to each funder and management of any currency risk.

Debt Serviceability

The assessment will focus on debt service coverage of both interest and principal repayments as well as any covenant reporting by the corporate entity. A medium-term view will be driven by how smooth the debt maturity profile for the entity is. SAR will also assess how the entity's income generation compares to its debt burden as a measure of the ability to service debt on an ongoing basis.

The Key Risk Determinants

Peer Review & Adjustments

- Additional notching up of the scores assigned under the above pillars may be warranted where a corporate benefits from some form of support that enhances its creditworthiness.
- The simplest form of support that can result in this benefit is an explicit guarantee issued by an entity with a higher credit rating or a better risk profile, while the issuing of secured debt and/or subordination of capital will be assessed on a case-by-case basis.
- SAR may potentially consider adjusting the scoring to reflect recent media coverage or news alerts relating to the corporate entity where these are deemed material to operations or the ability to service debt.

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Thank You

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