

## AECI Limited

## South Africa Corporate Analysis

April 2018

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term	National	A <sub>(ZA)</sub>	Stable	May 2019
Short term	National	A1 <sub>(ZA)</sub>		

## Financial data:

(USD'm comparative)

	31/12/16	31/12/17
R/USD (avg.)	14.71	13.40
R/USD (close)	13.74	12.36
Total assets	985.5	1121.7
Total debt	128.2	131.9
Total capital	530.9	618.4
Cash & equiv.	106.6	97.6
Turnover	1264.2	1379.3
EBITDA	139.2	165.7
NPAT	53.2	73.4
Op. cash flow	127.3	83.7
Market share		n.a
Market cap.*	R14.1bn/USD1.2bn	

\*As at 19/04/2018 @ R11.94/USD

## Rating history:

## Initial rating (July 2015)

Long-term: A<sub>(ZA)</sub>Short-term: A1<sub>(ZA)</sub>

Rating outlook: Stable

## Last rating (May 2017)

Long-term: A<sub>(ZA)</sub>Short-term: A1<sub>(ZA)</sub>

Rating outlook: Stable

## Related methodologies/research:

Global Master Criteria for Rating Corporate Entities, updated, updated February 2018

AECI Limited ("AECI") Issuer rating reports (2015-17)

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## Summary rating rationale

- AECI's strong market position as a leading manufacturer and supplier of mining explosives and chemicals in Africa, with its specialty chemicals segments gaining increasing end-market and geographical diversity through acquisitions. In this regard, the acquisition and integration of Much Asphalt and internationally based Schirm GmbH during FY18 are expected to enhance the chemicals franchise of AECI and unlock further synergies amongst its existing businesses. Nevertheless, note is taken of potential integration risk associated with large acquisitions.
- The group posted a solid operational and financial performance in FY17, despite trading conditions remaining tepid. EBITDA and operating profit grew by 8% and 14% respectively, translating into firmer margins. GCR expects that future profitability will be underpinned by the resilience of core businesses and increasing contributions from recent acquisitions.
- At FY17, AECI reflected a low leveraged balance sheet, with net gearing and net debt to EBITDA closing at 5.5% and 19%. This allowed for significant funding flexibility and provides AECI the balance sheet capacity to accommodate the significant R4.1bn ramp up in debt on account of the recent large acquisitions. Whilst this will see gearing metrics rise notably to around 2x EBITDA in FY18, key credit protection metrics are expected to remain commensurate with the rating level. That said, gearing headroom for any further large debt-funded capital expenditure plans in the near term has reduced.
- Cognisance is taken of the very high-front loaded debt profile as a result of the acquisition bridge facilities and R500m in maturing debt. Management is currently negotiating longer term refinancing options, whilst liquidity flexibility is provided by ample unutilised bank facilities (cR3.3bn) and around R1.2bn in cash balances.
- Cash generation has been sound, although volatility in the working capital cycle is noted. Cash flows are expected to continue to benefit from organic growth projects and more stringent focus on operating and capital efficiencies, which should facilitate gradual deleveraging.
- GCR views a level of concentration risk in the product portfolio, given its sizeable exposure to the cyclical mining sector, which is yet to show signs of a sustainable recovery, whilst volatile currency and raw material prices could continue to place pressure on overall growth. Positively, long standing client relationships and price competitiveness have also helped to stem volume erosion in very challenging years.

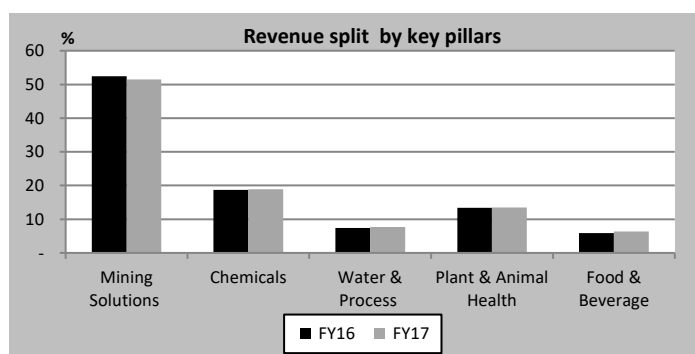
## Factors that could trigger a rating action may include

**Positive change:** Would depend on sound organic growth and visible earnings contributions from acquisitions and expansion projects, coupled with a track record of strong financial discipline through growth years.

**Negative change:** If AECI's credit metrics deteriorated markedly from a weaker-than-expected operating performance, or if additional debt-funded acquisitions were pursued and the working capital cycle is stretched further.

## Business profile and recent developments

AECI is a leading provider of explosive and specialty chemical related products to a wide range of customers across mining, industrial, agricultural and, more recently, the construction sector. In FY14, AECI reorganised its portfolio of operations, with strategic focus resting on five key segmental pillars, being Mining Solutions; Water & Process; Plant & Animal Health; Food & Beverage and Chemicals. In FY17, management realigned its segmental reporting to accurately reflect the performance of the pillars. While the various operational areas are each driven by different supply and demand dynamics, the divisions leverage off similar technologies and supply chains across the group, with some benefiting from cross-selling synergies.



Recent years have seen the group add several small to mid-scale acquisitions in an effort to enhance earnings diversification, both by product mix and geographically, to improve the resilience of free cash flows through the cycle. In continuation of this strategy, AECI concluded two large debt-funded acquisitions in early 2018. Schirm GmbH (“Schirm”), acquired in January 2018, represents the group’s largest European acquisition to date. The company has three sites in Europe and also a small presence in America (one site). Schirm is a supplier to leading global crop protection chemical producers (accounts for 80% of revenues) and its ability to provide innovative solutions and technical support to customers world-wide is a competitive advantage. A key product of the acquired business is high-value-add synthesis processes that convert customers’ raw materials into chemical products to be used directly or in formulations. This allows for margin accretion as volumes are ramped up, given limited input costs as these are borne by the customer. On the other hand, Much Asphalt represents a local acquisition, with the deal finalised in April 2018. Much Asphalt is Southern Africa’s largest supplier of hot and cold asphalt products, a key input in the building of roads, and also manufactures a range of complementary products for construction use. This addition is viewed to be complementary to AECI’s existing product portfolio, as it opens up new end markets, but cognisance is taken of the severe structural difficulties currently facing the construction industry. Specifically, performance and growth of this business will be highly dependent on government’s ability to deliver on its infrastructure plans, which remains uncertain due to a tight fiscus.

The addition of Schirm is expected to contribute to management’s progressive increase towards its foreign derived income target of 50% of total revenues, which at 34% at FY17 (FY16: 35%) was still well off due to counter effects of the stronger Rand. Further, as the two new business are bedded down, they are expected to positively contribute to the group’s strong business profile over the medium term, particularly as EBITDA margins of both entities align with AECI’s current averages. Nonetheless, AECI’s performance remains notably exposed to the cyclical mining industry, which although is starting show some positive momentum signs, still remains generally weak.

## Shareholding and corporate governance

Shareholder	%
Public Investment Corporation	12.0
Allan Gray	9.9
Kagiso Asset Management	9.8
PSG Asset Management	6.1
Sanlam Investment Management	5.0

AECI displays a diverse shareholding structure, with 90% in free float, primarily held by large institutional shareholders. Furthermore, nearly 30% is held by offshore investors.

During 2017, AECI continued to realign its corporate governance principles towards the King IV framework, which remain on-going. Whilst a number of board changes came into effect during FY17 owing to both retirement and resignations, the board remains majority independent. Post year-end FY17, an additional non-executive director has been appointed.

Description	Findings
Directors - Executive	2
- Non-exec.	6 independent
Frequency of meetings	At least quarterly, as well as an annual strategy meeting.
Separation of the chairman	Chair is separate from the CEO, and is independent.
Board committees	Audit; Risk; Social & Ethics; Remuneration and Nominations Committees; and Financial Review and Risk Committee; all chaired by independent directors.
Internal control/compliance	Performed by the management of each subsidiary, as well as at group level. Both reports are submitted to Audit Committee.
External auditors	KPMG Inc. - provided unqualified reports for all years under review. Deloitte & Touche has been appointed for FY18.

## Operating environment

After a contraction in 1Q 2017, South Africa saw a welcome pickup in the economy in 4Q 2017 in particular, which bolstered real growth to 1.3% for the year (2016: 0.6%). Growth was primarily underpinned by agriculture and tertiary sectors in the last quarter, while mining and construction both registered contractions amidst reduced productivity. Despite this, the mining sector showed improvement in 2017 on aggregate, supported by firmer global commodity prices, although legacy challenges within the sector persist. Real manufacturing output contracted by 0.2% in 2017, from modest growth of 0.9% in 2016. Part of the deceleration resulted from the loss of

competitiveness of certain products, while in other categories, it was a factor of demand-side pressures.

While growth in real economic activity has picked up slightly, performance remains lacklustre. Positively, local political sentiment has shifted markedly following the appointment of the Ramaphosa government, with positives expected to accrue from succinct policy direction. This gave a major boost to the local currency in late 2017, which had already regained significant ground against major currencies for most of the year, registering at R12.36/USD at YE 2017, from R13.74/USD at YE 2016. Coupled with stabilising food prices, with headline CPI continuing to move down to 4% in February 2018, this supported the 25bps cut in the repo rate at the end of March 2018. The Central Bank is expected to remain cautious in respect of monetary policy, in view of global growth and consequent policy drivers.

### Earnings diversification

Table 3: Earnings diversification	Revenue (R'm)		Op. profit* (R'm)		Margin* (%)	
	FY16	FY17	FY16	FY17	FY16	FY17
Mining Solutions	9,938	9,718	911	1,097	9	11
Chemicals	3,548	3,564	394	365	11	10
Water & Process	1,408	1,454	159	182	11	13
Plant & Animal Health	2,540	2,543	172	133	7	5
Food & Beverage	1,122	1,195	13	64	1	5
Property and Corporate	410	406	(314)	(262)	-	-
Intercompany	(370)	(398)	-	-	-	-
<b>Total</b>	<b>18,596</b>	<b>18,482</b>	<b>1,335</b>	<b>1,579</b>	<b>7</b>	<b>9</b>

\* Includes forex movements and amortisation.

Mining Solutions, comprised of explosives and mining chemicals, represents AECI's largest revenue and earnings generator. The explosives unit, underpinned by AEL Mining Services ("AEL"), remains the cornerstone of this pillar, representing 81% of sales and 55% of earnings in FY17. AEL is the leading supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction industries in Africa and South East Asia, and a leading supplier of explosives technology globally. Persistently difficult trading conditions in the mining sector over the past few years notably suppressed explosive volume growth. Positively, 2017 saw an improvement in global mining output following a rally in as commodity prices leading to increased explosive sales both locally and abroad. However, with around 60% of this unit's revenues USD based, the effects of the stronger Rand, which combined with lower selling prices linked to the ammonia price curtailed top-line growth. Nonetheless, efficient cost controls at AEL and the throughput of higher volumes aided in margin improvement to 8% (FY16: 6%).

The mining chemicals sub-segment is comprised of Experse (primarily a surfactants supplier for explosives manufacture), and Senmin (supplies metal extraction chemicals). While this unit evidenced solid sales growth in the local market, revenues were dragged down by lower exports to other African economies. Nonetheless, copper is staging a strong price-recovery, including in Central Africa, where old mines are reopening. Accordingly,

Senmin should stand to benefit from the excess demand going forward, particularly as its R90m expansion of its xanthates Sasolburg plant becomes operational in the second half of 2018.

While the mining sector has shown some positive developments, commodity prices in general remain low and are unlikely to spur a high level of new investment over the near term. In particular, platinum mining forms the largest concentration (22%) and remains under significant cost pressure, evidenced by several mine closures. Nevertheless, the group is exposed to a broad spectrum of minerals that are mined across several geographical locations, bringing a level of defensiveness to the portfolio.

The Chemical pillar is comprised of five distinct businesses and product lines, which serve a diverse base of customers. That said, the unit remains exposed to the South African manufacturing sector, which given the continued demand-slump has created excess plant capacity. Nonetheless the pick-up in sales evidenced late in 2017 should sustain volumes going forward, while the businesses remain highly cash generative, leaving the unit as a key contributor to overall group profits. As Much Asphalt will be integrated into this segment as a standalone entity, and given relatively disparate end-markets therein, management believe this presents a key opportunity to focus on developing innovative synergies with existing customer segments to extract additional value.

For FY17, the group's Plant & Animal Health operations profits were curtailed by a lower margin product mix, a factor largely brought on as consequence of the Cape drought. The Schirm acquisition is expected to bring enhanced diversification to this segment, specifically in view of geographic seasonality. For Schirm, peak season occurs in the first half of the year and thus management intend to explore synergistic options that use capacity in the second half to potentially create products for the South African market. This particularly in view of the recently extended production capacity at one of the plants. That said, management's immediate focus will be on bedding down the business.

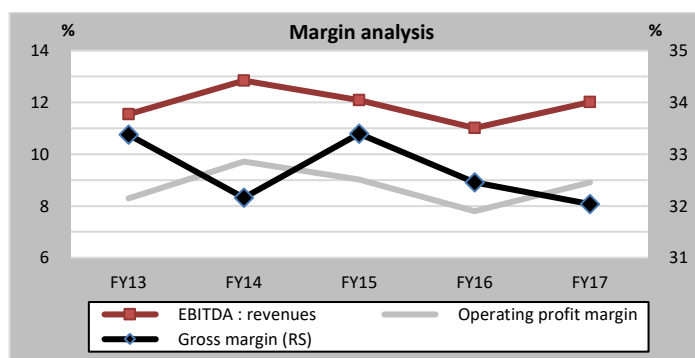
Water & Process solutions continues to benefit from sound organic growth given the importance of water service delivery by governments. Past acquisitions have been a key driver to expand the geographic sales reach, with the rest of Africa accounting for around 30% of revenues. The unit has also been successful with innovative concepts, such as the small desalination plants built for certain companies in the Western Cape, that allow for self-sufficient production sites. The Food and Beverage pillar remains small and only has local presence, with focus to remain on adding small strategic bolt-on acquisitions to gain scale. An improved performance was reported by this unit in FY17 on the back of higher-margin production down the value chain, whilst FY16 included an impairment on the poultry brine business. Managing working capital levels will also be of priority, with FY17

levels effected by the purchase of more expensive strategic stock due to regular supplier shortfalls.

## Financial performance

A 5-year financial synopsis is reflected at the end of this report and brief commentary follows hereafter.

Cyclical weakness in the group's key markets has largely challenged AECI's revenue growth trajectory over the review period. For FY17, despite an uptick in sales volumes across all the operating platforms, the stronger local currency tempered foreign income, leaving overall revenues flat YoY at R18.5bn. Nonetheless, the extraction of volume-driven benefits and maintaining focus on its cost optimisation program (despite the relatively large R105m once-off transaction related fees), translated into slightly higher margins. The EBITDA and operating margin rose to 12% and 8.9% respectively in FY17, from the prior review lows of 11% and 7.8%. GCR positively considers the company's successful track record of relative earnings stability in spite of a tough environment, borne out by an ability to largely defend contract volumes.



On account of the lower average debt balances, the net interest charge receded to R167m (FY16: R215m). Together with the stronger operating result, the gross and net interest coverage ratios improved to 8.2x and 9.9x respectively in FY17 (FY16: 5.4x; 6.7x). Overall, net profits were reported at a higher R983m in FY17 (FY16: R812m), albeit below the levels seen in FY14 and FY15. It is, however, recognised that profitability uplift derived off sales of bulk land surpluses during these years.

## Cash flows

	FY14	FY15	FY16	FY17
Cash generated by operations	2,318	2,607	2,328	2,350
Defined-benefit costs	(94)	(62)	(27)	(101)
Non-current provisions and employee benefits	(59)	(64)	(76)	(77)
Post-retirement medical aid obligations	-	(222)	-	-
Settlement of performance shares	-	(94)	(22)	(44)
<b>Adjusted cash generated by operations</b>	<b>2,165</b>	<b>2,165</b>	<b>2,203</b>	<b>2,128</b>

AECI remains highly cash generative, demonstrated even in years when profitability has come under pressure. Operating cash flows, however, reduced by 40% to R1.1bn in FY17, as working capital needs increased due to higher sales in the chemicals segment during the 4Q. This is in contrast to the release achieved in the prior year, owing to dedicated efforts to tighten inventory controls

across the business. Note is taken of management's commitment to continue to execute measures to stabilise net working capital, particularly in view of the forecast increase in leverage following sizeable recent acquisitions.

Capex expenditure totaled a higher R704m in FY17 (FY16: R502m). Of this R288m was for expansionary means, which included initial spend of R36.9m on the Senmin plant and other smaller businesses. Overall, internal cash flows remained sufficient to cover capex and dividends in FY17, with a further R132m of debt redeemed. Cognisance is, however, taken that the large payments for acquisitions were only made post year-end, which will substantially alter the cash flow position in FY18.

## Funding and liquidity profile

After peaking at R3.3bn in FY15, strong cash flows and moderate capex activity allowed the group to pay down debt to a review period low of R1.6bn at FY17. Accordingly, gross gearing metrics were reported at very conservative levels, with gross debt to equity totaling 21% at FY17 (FY16: 24%) and gross debt to EBITDA at 73% (FY16: 86%). Applying the sizeable cash balances of R1.2bn reported (FY16: R1.5bn), net gearing metrics have been very low at 5.5% (FY16: 4%), with net debt to EBITDA registering at 19% (FY16: 14.5%). Furthermore, operating cash flow to total debt was reported at strong 69% at FY17.

The low leverage has allowed for significant funding flexibility and provides AECI the balance sheet capacity to accommodate its recent large strategic acquisitions. To this end, the respective transactions will add a cumulative R4.1bn to debt in FY18. Funding has been taken up via bridging loans, comprised of a 10-month EUR128m loan and a 12-month R2.3bn facility. Alternative term facilities with longer tenors are currently being negotiated to replace the bridges. These will also include Dollar based facilities given dividend flows from African subsidiaries that act as a natural currency hedge. Further, management is considering refinancing R500m in maturing existing loans from a DMTN issuance, depending on appetite. Whilst cognisance is taken of the very high-front loaded debt profile, a level of comfort is taken from the R1.6bn available in committed facilities, as well as a further R1.7bn in facilities that can be activated within 48 hours. Additional liquidity flexibility is afforded by around R1.2bn in cash balances and no other major debt concentrations until FY21.

While the two transactions will see net gearing metrics rise notably to around 2x net debt to EBITDA in FY18, it is anticipated that continued strong free cash flows should facilitate gradual deleveraging by FY19. In this regard, GCR expects credit protection metrics to remain commensurate with the rating level, including net debt to EBITDA no higher than 2.5x and net interest cover of at least 3.5x. As AECI's gearing headroom has reduced, and in view of planned capex commitments of R405m, downward rating pressure could arise if the working-

capital cycle is stretched further or debt funded acquisitions were undertaken without taking any mitigating action that help to protect its financial profile.

## **Outlook**

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As demonstrated, AECI remains operationally well-positioned to maintain sound profitability even during downturns. Accordingly, the group intends to continue to reinforce cost efficiencies across the business, particularly as commodity-related demand is yet to show a sustained pick up and mixed conditions in other general industrial subsectors. The ratings also consider the group's successful track record of integrating bolt-on acquisitions and incorporates tolerance for an overall trajectory of modest deleveraging in the medium term in view of recent large debt-funded acquisitions. In this regard, it is assumed that the group's capex, dividends and working capital will be appropriately balanced to sustain the credit positioning.

# AECI Limited

(Rand in millions except as noted)

Income statement	Year end : 31 December	2013	2014	2015	2016	2017
Turnover		15,942.0	16,903.0	18,446.0	18,596.0	18,482.0
<b>EBITDA</b>		<b>1,841.0</b>	<b>2,171.0</b>	<b>2,229.0</b>	<b>2,048.0</b>	<b>2,221.0</b>
Depreciation		(519.0)	(529.0)	(565.0)	(598.0)	(574.0)
<b>Operating income</b>		<b>1,322.0</b>	<b>1,642.0</b>	<b>1,664.0</b>	<b>1,450.0</b>	<b>1,647.0</b>
Amortisation		(16.0)	(18.0)	(25.0)	(28.0)	(3.0)
Net finance charge		(175.0)	(150.0)	(187.0)	(215.0)	(167.0)
Foreign exchange and fair value movements		93.0	(28.0)	64.0	(87.0)	(45.0)
Abnormal/Exceptional items		0.0	0.0	0.0	0.0	0.0
Equity accounted earnings		43.0	31.0	(23.0)	28.0	-
<b>NPBT</b>		<b>1,267.0</b>	<b>1,477.0</b>	<b>1,493.0</b>	<b>1,148.0</b>	<b>1,412.0</b>
Taxation charge		(313.0)	(368.0)	(464.0)	(336.0)	(429.0)
<b>NPAT</b>		<b>954.0</b>	<b>1,109.0</b>	<b>1,029.0</b>	<b>812.0</b>	<b>983.0</b>
Attributable earnings		<b>946.0</b>	<b>1,096.0</b>	<b>1,007.0</b>	<b>777.0</b>	<b>950.0</b>
<b>Cash Flow Statement</b>						
<b>Cash generated by operations*</b>		<b>2,125.0</b>	<b>2,165.0</b>	<b>2,165.0</b>	<b>2,203.0</b>	<b>2,128.0</b>
Utilised to increase working capital		(426.0)	547.0	(215.0)	488.0	(358.0)
Net interest paid		(175.0)	(150.0)	(187.0)	(183.0)	(167.0)
Taxation paid		(464.0)	(488.0)	(532.0)	(636.0)	(481.0)
<b>Cash flow from operations</b>		<b>1,060.0</b>	<b>2,074.0</b>	<b>1,231.0</b>	<b>1,872.0</b>	<b>1,122.0</b>
Maintenance capex		(240.0)	(410.0)	(308.0)	(319.0)	(416.0)
<b>Discretionary cash flow from operations</b>		<b>820.0</b>	<b>1,664.0</b>	<b>923.0</b>	<b>1,553.0</b>	<b>706.0</b>
Dividends paid		(274.0)	(335.0)	(808.0)	(389.0)	(442.0)
<b>Retained cash flow</b>		<b>546.0</b>	<b>1,329.0</b>	<b>115.0</b>	<b>1,164.0</b>	<b>264.0</b>
Net expansionary capex		(477.0)	(850.0)	(605.0)	(188.0)	(288.0)
Investments and other		(55.0)	15.0	(4.0)	41.0	(42.0)
Proceeds on sale of assets/investments		0.0	541.0	73.0	14.0	48.0
Shares issued and other		0.0	0.0	(563.0)	(39.0)	0.0
Cash movement: (increase)/decrease		14.0	(123.0)	(270.0)	518.0	150.0
Borrowings: increase/(decrease)		(28.0)	(912.0)	1,254.0	(1,510.0)	(132.0)
<b>Net increase/(decrease) in debt</b>		<b>(14.0)</b>	<b>(1,035.0)</b>	<b>984.0</b>	<b>(992.0)</b>	<b>18.0</b>
<b>Balance Sheet</b>						
Ordinary shareholders interest		5,553.0	6,188.0	7,085.0	7,161.0	7,522.0
Outside shareholders interest		52.0	71.0	104.0	127.0	116.0
Pref shares		6.0	6.0	6.0	6.0	6.0
<b>Total shareholders' interest^</b>		<b>5,611.0</b>	<b>6,265.0</b>	<b>7,195.0</b>	<b>7,294.0</b>	<b>7,644.0</b>
Short term debt		1,861.0	583.0	2,620.0	162.0	530.0
Long term debt		1,099.0	1,459.0	672.0	1,600.0	1,100.0
<b>Total interest-bearing debt</b>		<b>2,960.0</b>	<b>2,042.0</b>	<b>3,292.0</b>	<b>1,762.0</b>	<b>1,630.0</b>
Interest-free liabilities		4,088.0	4,387.0	4,938.0	4,485.0	4,590.0
<b>Total liabilities</b>		<b>12,659.0</b>	<b>12,694.0</b>	<b>15,425.0</b>	<b>13,541.0</b>	<b>13,864.0</b>
Fixed assets		3,929.0	4,218.0	4,433.0	4,130.0	4,181.0
Investments & other		809.0	850.0	1,572.0	1,129.0	1,077.0
Cash and cash equivalent		1,219.0	1,376.0	2,114.0	1,465.0	1,206.0
Other current assets		6,702.0	6,250.0	7,306.0	6,817.0	7,400.0
<b>Total assets</b>		<b>12,659.0</b>	<b>12,694.0</b>	<b>15,425.0</b>	<b>13,541.0</b>	<b>13,864.0</b>
<b>Ratios</b>						
<b>Cash flow:</b>						
Operating cash flow: total debt (%)		35.8	101.6	37.4	106.2	68.8
Discretionary cash flow: net debt (%)		47.1	249.8	78.4	522.9	166.5
<b>Profitability:</b>						
Turnover growth (%)		15.3	6.0	9.1	0.8	(0.6)
Gross profit margin (%)		33.4	32.2	33.4	32.5	32.0
EBITDA: revenues (%)		11.5	12.8	12.1	11.0	12.0
Operating profit margin (%)		8.3	9.7	9.0	7.8	8.9
EBITDA: average total assets (%)		17.1	19.1	18.1	16.1	18.0
Return on equity (%)		18.9	21.9	19.4	15.5	18.3
<b>Coverage:</b>						
Operating income : gross interest (x)		6.2	8.0	6.6	5.4	8.2
Operating income : net interest (x)		7.6	10.9	8.9	6.7	9.9
<b>Activity and liquidity:</b>						
Trading assets turnover (x)		5.6	6.8	7.5	9.0	6.6
Days receivable outstanding (days)		68.0	64.9	57.9	54.0	68.9
Current ratio (:1)		1.5	1.8	1.4	1.8	1.7
<b>Capitalisation:</b>						
Net debt: equity (%)		31.0	10.6	16.4	4.1	5.5
Total debt: equity (%)		52.8	32.6	45.8	24.2	21.3
Total debt: EBITDA (%)		160.8	94.1	147.7	86.0	73.4
Net debt: EBITDA (%)		94.6	30.7	52.8	14.5	19.1

\*Adjusted for defined-benefit obligations. ^ Excludes goodwill and intangible assets.

**GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY**

Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
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.
Capital Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
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 investments, 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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
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	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Working Capital	Working capital usually refers to net working capital and is the resource that a company uses to finance day-to-day operations. It is calculated by deducting current liabilities from current assets.

## SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was 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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

AECI Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to AECI Limited with no contestation of the ratings.

The information received from AECI Limited and other reliable third parties to accord the credit ratings included:

- The 2017 audited annual financial statements and integrated report (plus prior four years of comparative numbers)
- Analyst presentations
- A breakdown of debt facilities available at December 2017
- Financial forecasts for FY18 and FY19.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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