S&P Global Ratings

RatingsDirect®

## Tear Sheet:

# Exxaro Resources Ltd.

**November 3, 2023**

Primary contact

**Munya Chawana**
Johannesburg
2711-214-4814
munya.chawana
@spglobal.com

Secondary contact

**Omega M Collocott**
Johannesburg
27-11-214-4854
omega.collocott
@spglobal.com

**S&P Global Ratings expects weak pricing in the coal export market to pressure revenue growth for Exxaro Resources Ltd. (Exxaro).** Export coal prices averaged $127 per ton in first-half 2023, a 52% decrease from $262 per ton in first-half 2022. In our 2023-2025 base case, we expect export coal prices to average between $94-$133 per ton each year. However, stable domestic coal pricing should offset some of the pricing weakness. Lower sales volumes in first-half 2023 (19.1 million tons) compared to 21.1 million tons in first-half 2022 were due to lower offtake from Eskom Holdings SOC's Matimba power station. The company expects coal sales to recover in second-half 2023 due to the expected pick-up in coal requirements at the Medupi and Matimba power stations. Therefore, we forecast robust sales in 2023 (43.4 million tons), but slightly lower sales (41.5-42.5 million tons) in 2024 and 2025 due to our expectation of persisting Transnet Freight Rail constraints on exports. As a result, we forecast annual revenue of about South African rand (ZAR) 40 billion in 2023, and ZAR38 billion-ZAR40 billion in 2024 and 2025, a 13.8% decline compared to 2022.

**We expect weaker revenue and the impact of elevated mining inflation to lead to lower annual S&P Global Ratings-adjusted EBITDA of ZAR14 billion-ZAR16 billion in 2023-2025.** In our view, this should result in Exxaro generating relatively robust annual operating cash flow of ZAR11 billion-ZAR13 billion. This will be more than adequate to cover annual capital expenditure (capex) of ZAR2.6 billion in 2023, ZAR5.9 billion in 2024, and ZAR5.4 billion in 2025. Concurrently, we forecast that Exxaro's dividend distributions will gradually reduce to about ZAR5 billion in 2025 from ZAR7.6 billion in 2023, in line with the company's policy to pay out a percentage of core earnings and the pass-through of dividends from it 20% investment in Sishen Iron Ore Co. (SIOC). However, we anticipate negative discretionary cash flow could weigh on the company's credit metrics, especially in 2024 and 2025.

**Exxaro's debt metrics over the 2023-2025 period should continue to support its credit quality.** We forecast adjusted debt to EBITDA will remain below 1x and funds from operations (FFO) to debt above 60%, on average. While not our base-case scenario, the rating could come under pressure if we expect Exxaro's FFO to debt to fall below 30% or the company's liquidity position to weaken. This could result from Exxaro experiencing payment delays or nonpayment on sales to Eskom, lower-than-expected export market prices and sales, or a large debt-funded acquisition. Notably, Eskom is also the off-taker of power from Exxaro's renewable assets. We see limited rating upside given Exxaro's reliance on Eskom, which remains in a weak liquidity position. However, we would consider raising our rating on Exxaro if liquidity improvements at Eskom prompt us to upgrade the utility, or if there is broader certainty that Eskom's suppliers would be paid in a timely manner in the event of an adverse funding gap at the company.

# Recent Research

- S&P Global Ratings' Metal Price Assumptions: Market Conditions Are Broadly Supportive, July 17, 2023
- Sub-Saharan Africa's Fading Tailwinds and Missed Opportunities, May 30, 2023
- South Africa-Based Exxaro Resources 'zaA/zaA-1' National Scale Ratings Affirmed On Strong Financial Performance, Sept. 13, 2022

# Company Description

Exxaro is primarily a South African-domiciled coal mining company. It generated ZAR46.4 billion in revenue in 2022 and expects to sell 43.4 million tons of coal in 2023, with 75% of sales by volume to South African energy utility Eskom, 10% to other domestic buyers, and 15% to export markets.

The company also holds 100% of Cennergi Proprietary Ltd., which has two windfarm projects running, generating about ZAR1.2 billion in revenue and about 700 gigawatt-hours of power annually; and 20.6% of SIOC, which is over 75% owned by Johannesburg Stock Exchange-listed Kumba Iron Ore.

# Key Metrics

### Exxaro Resources Ltd.--Forecast summary

| Period ending | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 | Dec-31-2023 | Dec-31-2024 | Dec-31-2025 | Dec-31-2026 |
|---|---|---|---|---|---|---|---|---|
| (Mil. ZAR) | 2019a | 2020a | 2021a | 2022a | 2023e | 2024f | 2025f | 2026f |
| Revenue | 25,726 | 28,924 | 32,771 | 46,369 | 39,976 | 38,640 | 39,633 | 39,633 |
| EBITDA | 10,039 | 10,770 | 21,037 | 25,429 | 15,964 | 14,434 | 14,422 | 14,422 |
| Funds from operations (FFO) | 7,849 | 8,097 | 18,371 | 20,229 | 13,258 | 11,951 | 11,684 | 11,795 |
| Cash flow from operations (CFO) | 7,181 | 8,455 | 18,171 | 20,237 | 12,725 | 11,441 | 11,178 | 11,249 |
| Capital expenditure (capex) | 5,633 | 2,803 | 2,164 | 1,570 | 2,598 | 5,857 | 5,426 | 5,857 |
| Free operating cash flow (FOCF) | 1,548 | 5,652 | 16,007 | 18,667 | 10,127 | 5,584 | 5,751 | 5,392 |
| Dividends | 7,203 | 4,012 | 12,688 | 8,961 | 7,573 | 5,841 | 5,288 | 5,288 |
| Discretionary cash flow (DCF) | (6,333) | 1,370 | 1,431 | 9,265 | 1,554 | (1,257) | (536) | (896) |
| **Adjusted ratios** | | | | | | | | |
| Debt/EBITDA (x) | 1.0 | 1.4 | 0.6 | 0.4 | 0.7 | 0.8 | 0.9 | 0.6 |
| FFO/debt (%) | 75.0 | 51.9 | 157.0 | 190.3 | 117.2 | 100.4 | 94.8 | 126.1 |

### Exxaro Resources Ltd.--Forecast summary

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FOCF/debt (%) | 14.8 | 36.2 | 136.8 | 175.7 | 89.5 | 46.9 | 46.7 | 57.7 |
| DCF/debt (%) | (60.5) | 8.8 | 12.2 | 87.2 | 13.7 | (10.6) | (4.4) | (9.6) |

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. ZAR--South African rand.

# Financial Summary

### Exxaro Resources Ltd.--Financial Summary

| Period ending | Dec-31-2017 | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 |
|---|---|---|---|---|---|---|
| Reporting period | 2017a | 2018a | 2019a | 2020a | 2021a | 2022a |
| Display currency (mil.) | ZAR | ZAR | ZAR | ZAR | ZAR | ZAR |
| Revenues | 22,813 | 25,491 | 25,726 | 28,924 | 32,771 | 46,369 |
| EBITDA | 8,821 | 10,684 | 10,039 | 10,770 | 21,037 | 25,429 |
| Funds from operations (FFO) | 7,368 | 8,931 | 7,849 | 8,097 | 18,371 | 20,229 |
| Operating cash flow (OCF) | 7,211 | 7,925 | 7,181 | 8,455 | 18,171 | 20,237 |
| Capital expenditure | 3,891 | 5,604 | 5,633 | 2,803 | 2,164 | 1,570 |
| Free operating cash flow (FOCF) | 3,320 | 2,321 | 1,548 | 5,652 | 16,007 | 18,667 |
| Discretionary cash flow (DCF) | (5,225) | (3,876) | (6,333) | 1,370 | 1,431 | 9,265 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 38.7 | 41.9 | 39.0 | 37.2 | 64.2 | 54.8 |
| Return on capital (%) | 20.5 | 19.2 | 16.8 | 19.5 | 28.9 | 36.1 |
| EBITDA interest coverage (x) | 8.4 | 11.1 | 10.1 | 7.9 | 19.6 | 23.4 |
| FFO cash interest coverage (x) | 12.1 | 13.0 | 8.8 | 5.8 | 14.9 | 20.0 |
| Debt/EBITDA (x) | 1.0 | 0.8 | 1.0 | 1.4 | 0.6 | 0.4 |
| FFO/debt (%) | 80.5 | 98.7 | 75.0 | 51.9 | 157.0 | 190.3 |
| OCF/debt (%) | 78.8 | 87.6 | 68.6 | 54.2 | 155.3 | 190.4 |
| FOCF/debt (%) | 36.3 | 25.7 | 14.8 | 36.2 | 136.8 | 175.7 |
| DCF/debt (%) | (57.1) | (42.8) | (60.5) | 8.8 | 12.2 | 87.2 |

# Peer Comparison

### Exxaro Resources Ltd.--Peer Comparisons

| | Exxaro Resources Ltd. | Petra Diamonds Ltd. | Sibanye Stillwater Ltd. | AngloGold Ashanti Ltd. | Gold Fields Ltd. |
|---|---|---|---|---|---|
| Foreign currency issuer credit rating | -- | B/Stable/-- | BB/Stable/-- | BB+/Stable/-- | BBB-/Stable/A-3 |
| Local currency issuer credit rating | -- | B/Stable/-- | BB/Stable/-- | BB+/Stable/-- | BBB-/Stable/A-3 |
| Period | Annual | Annual | Annual | Annual | Annual |
| Period ending | 2022-12-31 | 2022-06-30 | 2022-12-31 | 2022-12-31 | 2022-12-31 |

**Exxaro Resources Ltd.--Peer Comparisons**

| Mil. | ZAR | ZAR | ZAR | ZAR | ZAR |
|---|---|---|---|---|---|
| Revenue | 46,369 | 9,580 | 138,288 | 76,522 | 72,879 |
| EBITDA | 25,429 | 4,351 | 38,746 | 37,062 | 39,077 |
| Funds from operations (FFO) | 20,229 | 4,121 | 28,752 | 32,744 | 27,025 |
| Operating cash flow (OCF) | 20,237 | 4,656 | 25,550 | 30,313 | 29,153 |
| Capital expenditure | 1,570 | 884 | 15,899 | 17,511 | 17,732 |
| Free operating cash flow (FOCF) | 18,667 | 3,772 | 9,651 | 12,802 | 11,421 |
| Discretionary cash flow (DCF) | 9,265 | 3,715 | 198 | 9,351 | 5,716 |
| Debt | 10,627 | 7,069 | 36,331 | 27,989 | 15,330 |
| Equity | 59,379 | 7,833 | 91,004 | 70,282 | 73,776 |
| EBITDA margin (%) | 54.8 | 45.4 | 28.0 | 48.4 | 53.6 |
| Return on capital (%) | 36.1 | 20.3 | 27.5 | 18.8 | 27.8 |
| EBITDA interest coverage (x) | 23.4 | 4.8 | 20.1 | 15.1 | 21.0 |
| FFO cash interest coverage (x) | 20.0 | 41.0 | 26.5 | 17.1 | 17.4 |
| Debt/EBITDA (x) | 0.4 | 1.6 | 0.9 | 0.8 | 0.4 |
| FFO/debt (%) | 190.3 | 58.3 | 79.1 | 117.0 | 176.3 |
| OCF/debt (%) | 190.4 | 65.9 | 70.3 | 108.3 | 190.2 |
| FOCF/debt (%) | 175.7 | 53.4 | 26.6 | 45.7 | 74.5 |
| DCF/debt (%) | 87.2 | 52.5 | 0.5 | 33.4 | 37.3 |

# Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Exxaro. We see the company as more exposed to climate transition risks than peers given its high exposure to thermal coal mining. We believe this is balanced by long-term off-take contracts with Eskom, under which Exxaro supplies coal to Eskom's more recently built coal plants. These are key contributors to South Africa's base load energy supply, which reduces Exxaro's exposure to the acceleration in the energy transition away from coal. Also, Exxaro is transitioning its exposure toward the low-carbon economy with investments in renewable energy generation projects and associated minerals. Social factors are also a negative consideration. Similar to other miners operating in developing economies, we believe underlying social tensions and inequalities in South Africa translate into weaker operating and investment conditions, which affects operating efficiency.

# Regulatory Disclosure

Regulatory disclosures applicable to the most recent credit rating action can be found in "South Africa-Based Exxaro Resources 'zaA/zaA-1' National Scale Ratings Affirmed On Strong Financial Performance," published Sept. 13, 2022, on RatingsDirect.

# Glossary

- Anchor: The starting point for assigning an issuer a long-term rating, based on its business risk profile assessment and its financial risk profile assessment.
- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).
- Comparable rating analysis: This involves taking a holistic review of a company's stand-alone credit risk profile (SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the midpoint, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- Competitive advantage: The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- Corporate Industry and Country Risk Assessment (CICRA): Derived by combining an issuer's country risk assessment and industry risk assessment.
- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- CreditWatch: This highlights the potential direction of a short- or long-term rating over the short term, typically less than three months. Ratings may be placed on CreditWatch where, in our view, an event or a deviation from an expected trend has occurred or is expected and additional information is necessary to determine the rating impact.
- Creditworthiness: Ability and willingness of a company to meet its debt and debtlike obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Diversification/portfolio effect: Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Economies of scale: This is the cost advantage that arises with increased size or output of a product.
- Efficiency gains: Cost improvements.
- ESG credit factors: Those environmental, social, and governance (ESG) factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. These credit factors can have a negative or positive impact on creditworthiness, depending on whether they represent a risk or an opportunity.

- ESG credit indicator: An ESG credit indicator is an alphanumeric representation of the qualitive assessment of ESG factors' impact on creditworthiness produced as part of the ratings process. Our ESG credit indicators provide additional disclosure by reflecting our opinion of how material the influence of ESG factors is on the various analytical components in our rating analysis through an alphanumerical 1-5 scale. ESG credit indicators are applied after the ratings have been determined.
- Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a predesignated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage) or set for the respective rating level. Significant headroom would allow for larger deviations.
- Financial risk profile: This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- Free operating cash flow: Cash flow from operations minus capital expenditure.
- Funds from operations: EBITDA minus interest expense minus current tax.
- Government-related entity: An entity that could, under stress, benefit from extraordinary government support in order to meet its financial obligations; or conversely an entity controlled by a government that could be subject to negative extraordinary government intervention if the government is under stress.
- Group rating methodology: The assessment of the likelihood of extraordinary group support (or conversely, negative group intervention) that is factored into the rating on an entity that is a member of a group.
- Industry risk: This addresses the major factors that affect the risks that companies face in their respective industries.
- Issue credit rating: This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- Leverage: The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Management and governance: This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).

- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.

### Rating Component Scores

| South Africa national scale | zaA/zaA-1 |
|---|---|
| **Business risk** | Weak |
| Country risk | Moderately High |
| Industry risk | Moderately High |
| Competitive position | Weak |
| **Financial risk** | Significant |
| Cash flow/leverage | Significant |
| **Anchor** | bb- |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Adequate (no impact) |
| Management and governance | Fair (no impact) |
| Comparable rating analysis | Negative (-1 notch) |
| **Stand-alone credit profile** | b+ |

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011