

South Africa Is Yet To Turn A Corner Past COVID-19

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S&P Global
Ratings

Contents

	Slide
Key Takeaways	3
Sovereign Highlights	5
Banking Highlights	10
Insurance Highlights	14
Corporate Highlights	17
Ratings Summary	20
Sovereign	21
Banks	22
Insurers	25
Corporations and state-owned enterprises	29

Key Takeaways

Sovereign

- The coronavirus pandemic came at a time of weak growth and fiscal pressures.
- We project that South African GDP will shrink by 4.5% in 2020 and that the fiscal deficit will rise to 13.3% of GDP due to lower tax revenues.
- We lowered our ratings on South Africa to 'BB-' from 'BB' on April 29, 2020, following our assignment of a negative outlook in November 2019.

Banks

- Despite their resilience, banks' earnings will come under pressure because of higher credit losses.
- The South African Reserve Bank's (SARB's) liquidity measures will help ensure the stability of the financial and banking sectors.
- We lowered our ratings on top-tier South African banks to 'BB-' in early May 2020, but their stand-alone credit profiles remain at 'bbb-'.

Key Takeaways Continued

Insurers

- Although insurance claims may increase due to COVID-19, we do not expect the losses to be material.
- Equity market selloffs and increasing credit risks will likely pressure insurers' earnings, but we do not expect this to affect their capital levels significantly.
- We cap our global scale ratings on insurers at the 'BB' local currency ratings on South Africa.

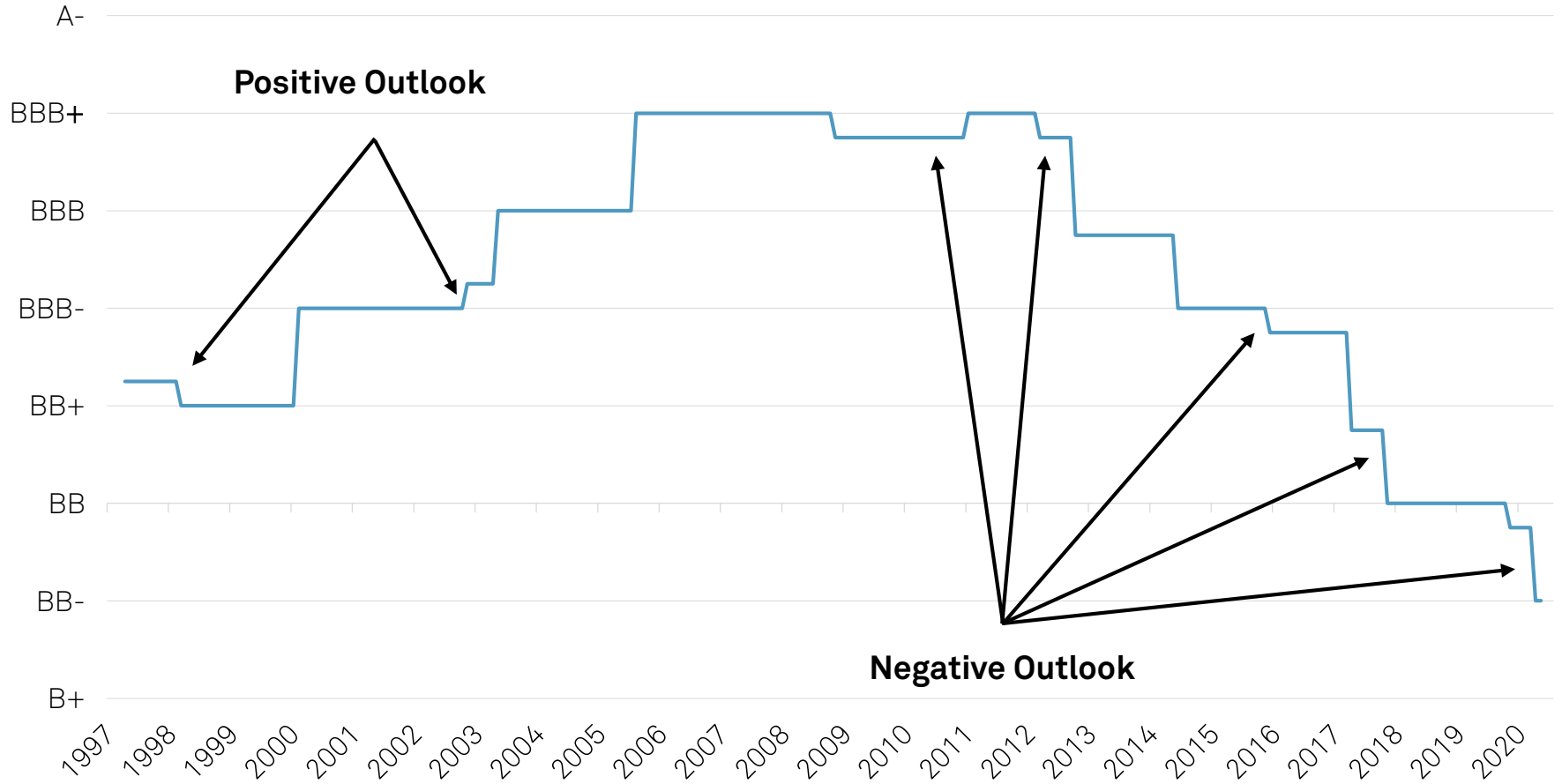
Corporations and SOEs

- Ratings on South Africa-based corporations reflect the effects of COVID-19 and sovereign downgrades.
- The corporate sector's resilience to COVID-19 reflects country-specific government measures and the consumer and business response.
- Rating changes reflect the extent of the government support for state-owned entities (SOEs); constraints on our ability to rate specific corporations above the sovereign; and rating concentration on the national scale, that is, a very large proportion of national scale ratings clustered at two or three rating levels.

Sovereign Highlights

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Ratings

South Africa Foreign Currency Ratings History



Source: S&P Global Ratings.

The COVID-19 Pandemic Has Exacerbated Weak Economic Growth And Fiscal Pressures

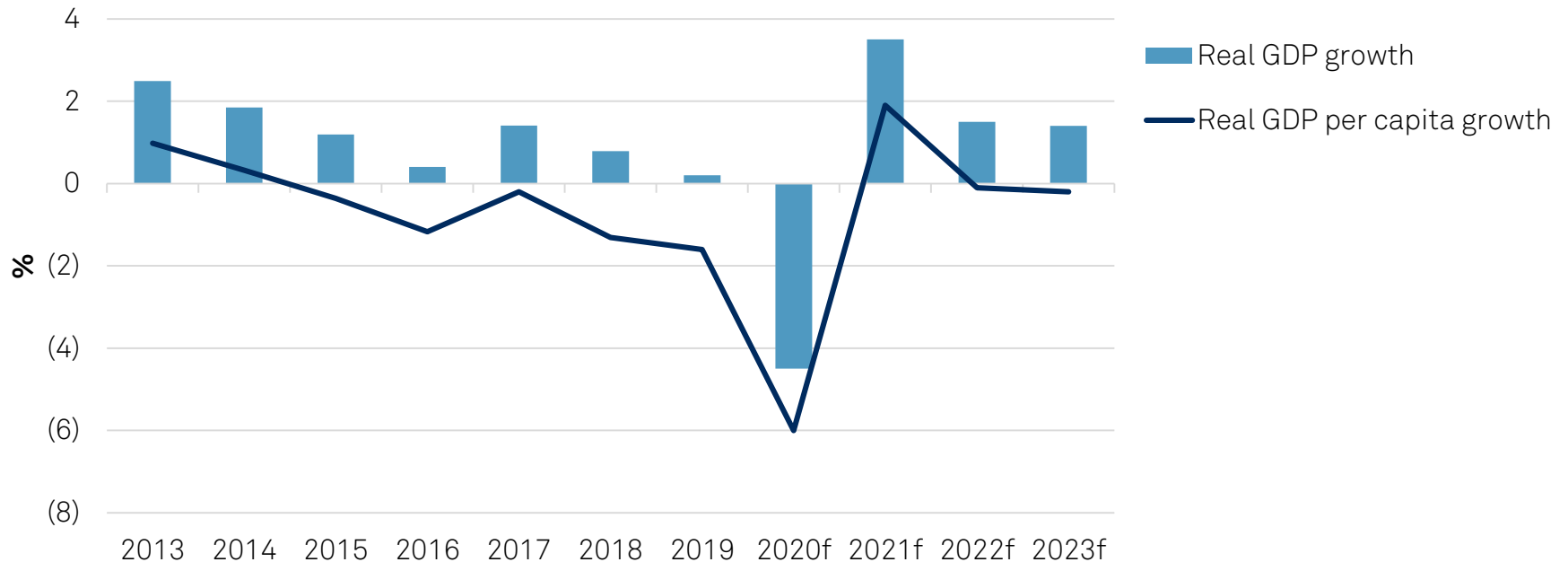
We lowered our foreign currency ratings on South Africa to 'BB-' from 'BB' on April 29, 2020

- GDP growth has taken a big hit due to strict lockdowns and markedly weaker external demand. We now project that the economy will shrink by 4.5% in 2020, partly supported by a South African rand (ZAR) 500 billion fiscal package.
- The fiscal deficit will rise to 13.3% of GDP in 2020 due to lower tax revenues, the already sizable budget expenditure in February 2020, and the COVID-19 support package.
- The stable outlook on South Africa reflects the balance between pressures relating to very low GDP growth and high fiscal deficits, and the sovereign's deep financial markets and monetary flexibility.
- We could lower the ratings again if South Africa's economic prospects fail to recover and financing pressures mount. We could also consider another downgrade if the rule of law, property rights, or enforcement of contracts were to weaken significantly, undermining the investment and economic outlook.
- We could raise the ratings if the government's reform efforts were to credibly arrest the rise in the government debt-to-GDP ratio. An upgrade could also occur if there is a substantial improvement in job creation and productivity, leading to higher real per capita GDP growth.

The Economy Faces A Sharp COVID-19-Related Contraction

- GDP growth will take a big hit in 2020.
- A ZAR500 billion stimulus package amounting to about 10% of GDP will contribute to net debt (net of liquid assets) rising to 75% of GDP in 2020.

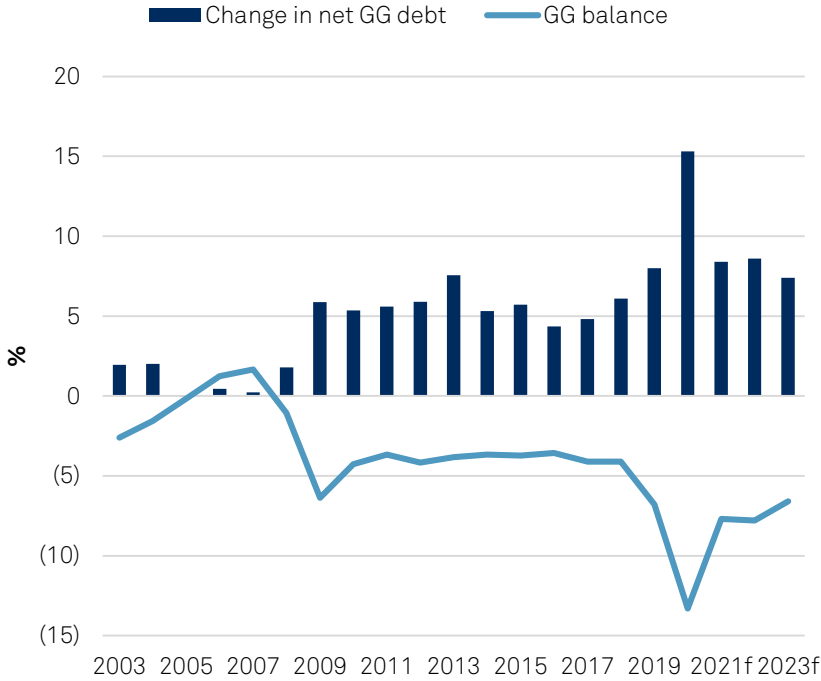
Historically Weak GDP Growth



f--Forecast. Source: S&P Global Ratings.

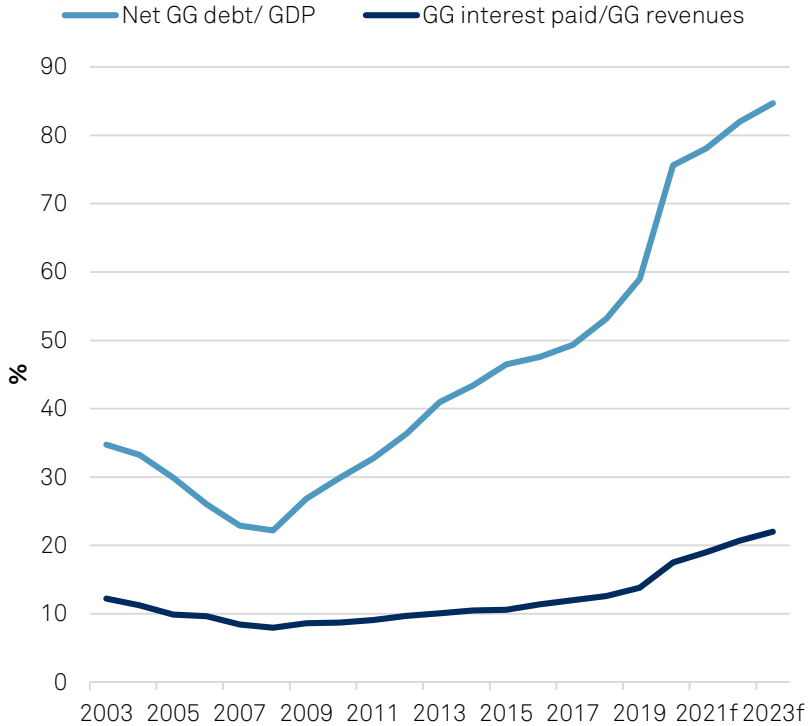
Fiscal Deficits And Debt Burden: No Stabilization In Sight

Fiscal Deficits Revised Up Sharply For 2020 And Beyond



f--Forecast. GG--General government. Source: S&P Global Ratings.

Rising Debt Burden--No Stabilization In Sight



f--Forecast. GG--General government. Source: S&P Global Ratings.

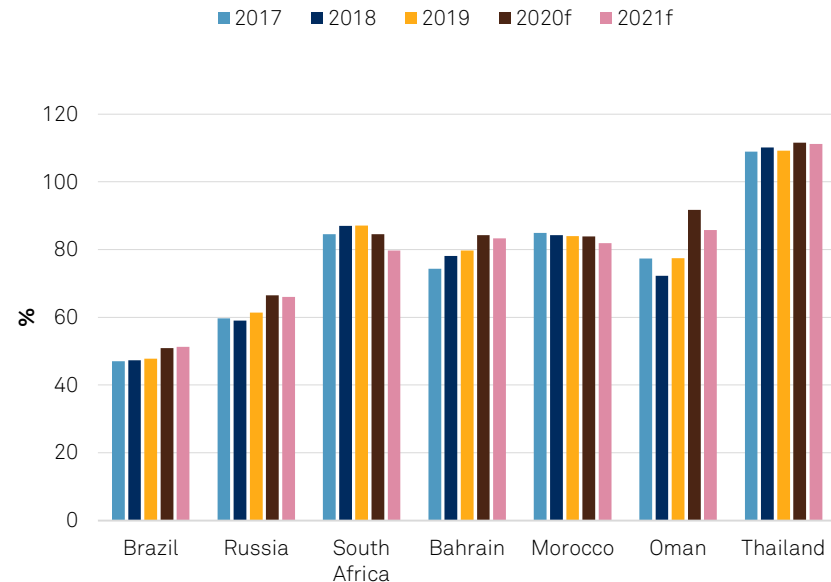
Banking Highlights

S&P Global
Ratings

Higher Credit Losses Will Stem From Defaults On Retail And Small-To-Midsize-Enterprise Loans

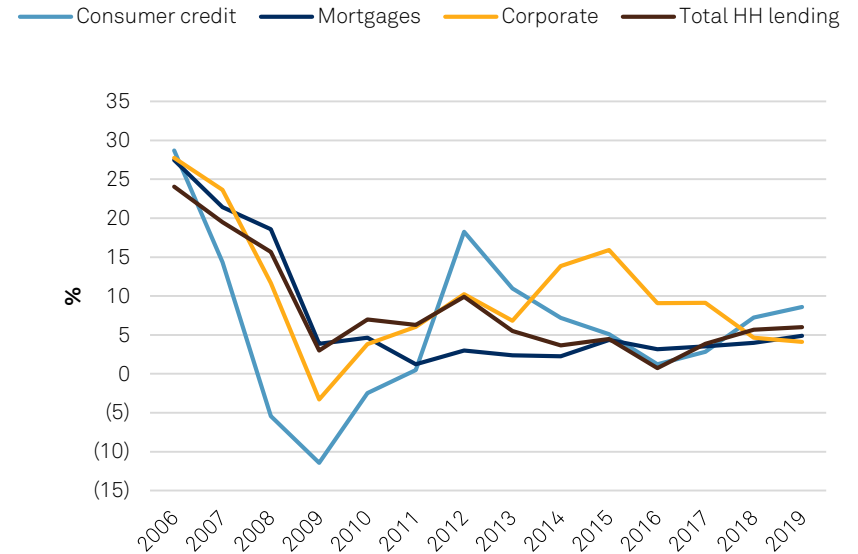
- We anticipate that the banking sector will contract due to the economic crisis. We forecast that credit to the private sector will shrink by about 5% in 2020.
- Credit leverage (private sector credit to GDP) in the economy will decline in 2020-2021, but remain high, at about 80% of GDP.

Private Sector Credit Will Contract But Remain High



Source: S&P Global Ratings. f--Forecast.

Unsecured Lending Grew Faster Than Secured Lending

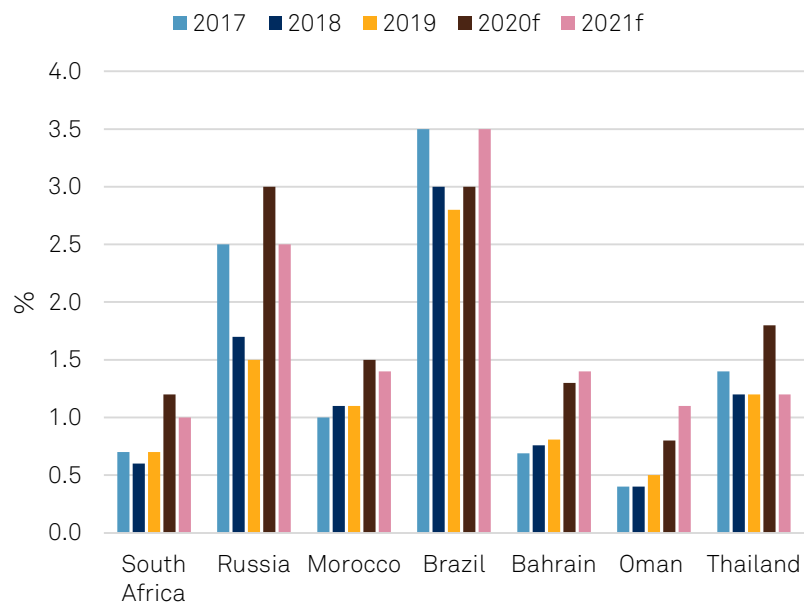


Source: South African Reserve Bank. Consumer credit includes credit cards, leasing finance, and overdrafts.

Credit Risks Will Rise While Banks' Refinancing Risk Is Limited

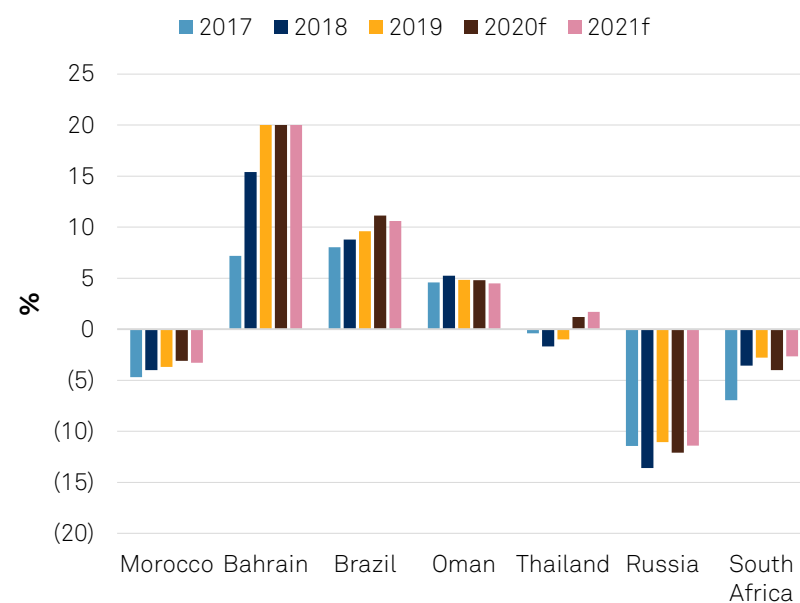
- We expect that the banking sector's credit losses will rise to about 1.2% in 2020, mostly stemming from defaults on retail and small-to-midsize-enterprise loans.
- Household debt and affordability metrics will come under pressure in 2020. Household leverage (the ratio of household debt to disposable income) averaged 72% in the past three years.

Credit Losses Will Rise In 2020 But Compare Adequately With Peers



Source: S&P Global Ratings. f--Forecast.

External Refinancing Risk Is Limited Amid Market Dislocations In Q1 2020



Source: S&P Global Ratings. f--Forecast.

Liquidity Support

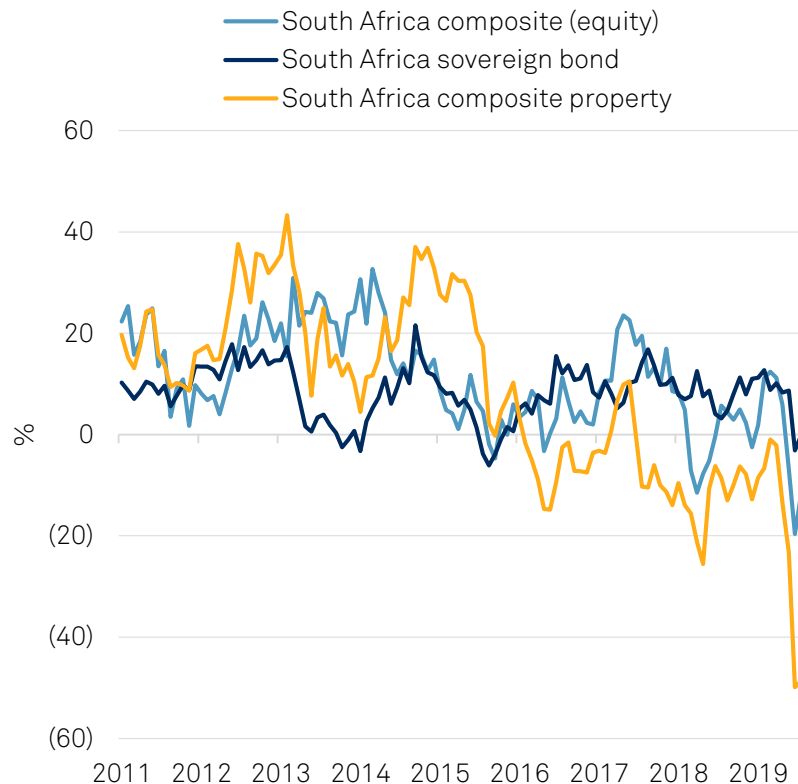
- The combined effect of uncertainties linked to COVID-19 and the exit of South African bonds from the FTSE World Government Bond Index in May 2020 will likely lead to volatility in portfolio investments throughout 2020.
- The scale of the capital-market selloffs prompted the SARB to intervene in late March by committing to an open-ended program of government bond purchases in the secondary market.
- The SARB's liquidity support via the repurchasing market will ease the pressure on banks' and asset managers' liquidity requirements, with depositors and investors continuing to favor cash over term deposits.
- Funding is largely denominated in rand, but the banking sector continues to derive 25% of its funding from short-term wholesale deposits from nonbank financial institutions.
- The rand's liquidity will remain in South Africa because of resident exchange controls, which mitigate the systemwide risk of liquidity outflows.
- The major banks have no exposure to large-scale refinancing risk or reversals of investor sentiment thanks to their lack of exposure to international funding. This differentiates the South African banking sector positively from other emerging-market banking sectors.

Insurance Highlights

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Ratings

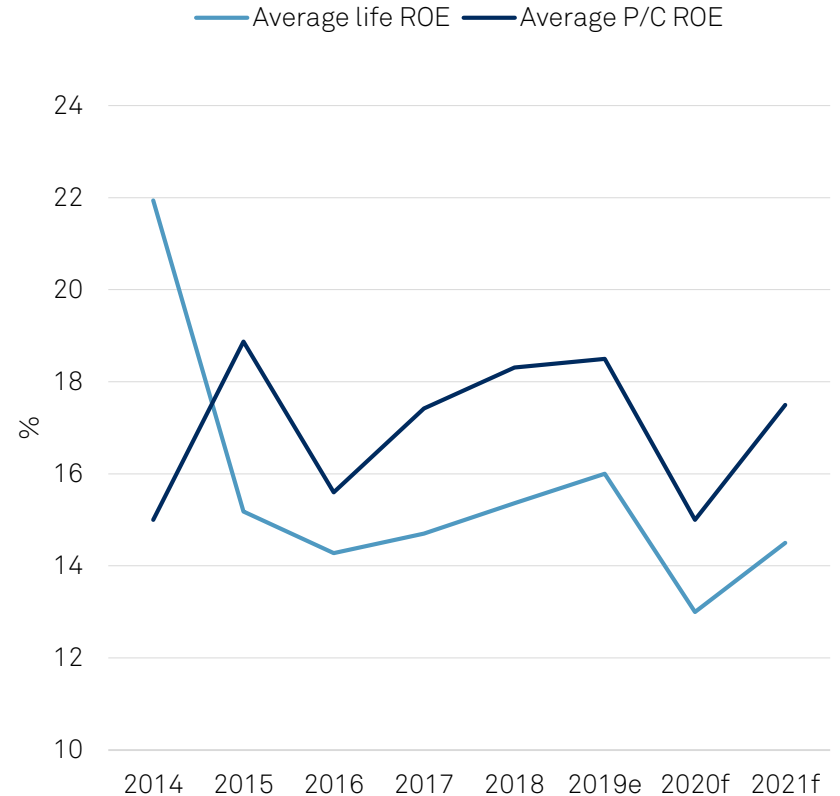
Deteriorating Economic Conditions Will Weigh On The Domestic Insurance Sector

Significant Decline Across Asset Classes



Source: S&P Global Ratings, S&P Dow Jones Indices.

Profitability Metrics Impacted



f--Forecast. P/C--Property/casualty. ROE--Return on equity. Sources: SARB Regulatory Industry Data, S&P Global Ratings.

The Sector Will Remain Resilient

Insurers are more resistant to sovereign stress

- Insurers have support from large capital buffers relative to their risks and ample liquidity.
- The local risk-based solvency regime has encouraged insurers to enhance their risk-management practices.
- The insurance sector's creditworthiness is therefore stronger than that of most other domestic sectors.

This is thanks to insurers' ability to absorb losses

- Life insurers' liquidity profiles are largely loss-absorbing. This allows them to withstand the stress associated with defaults on foreign currency sovereign debt.
- Life insurers have significant capital and liquidity buffers, and/or credible and board-approved risk-mitigation plans.

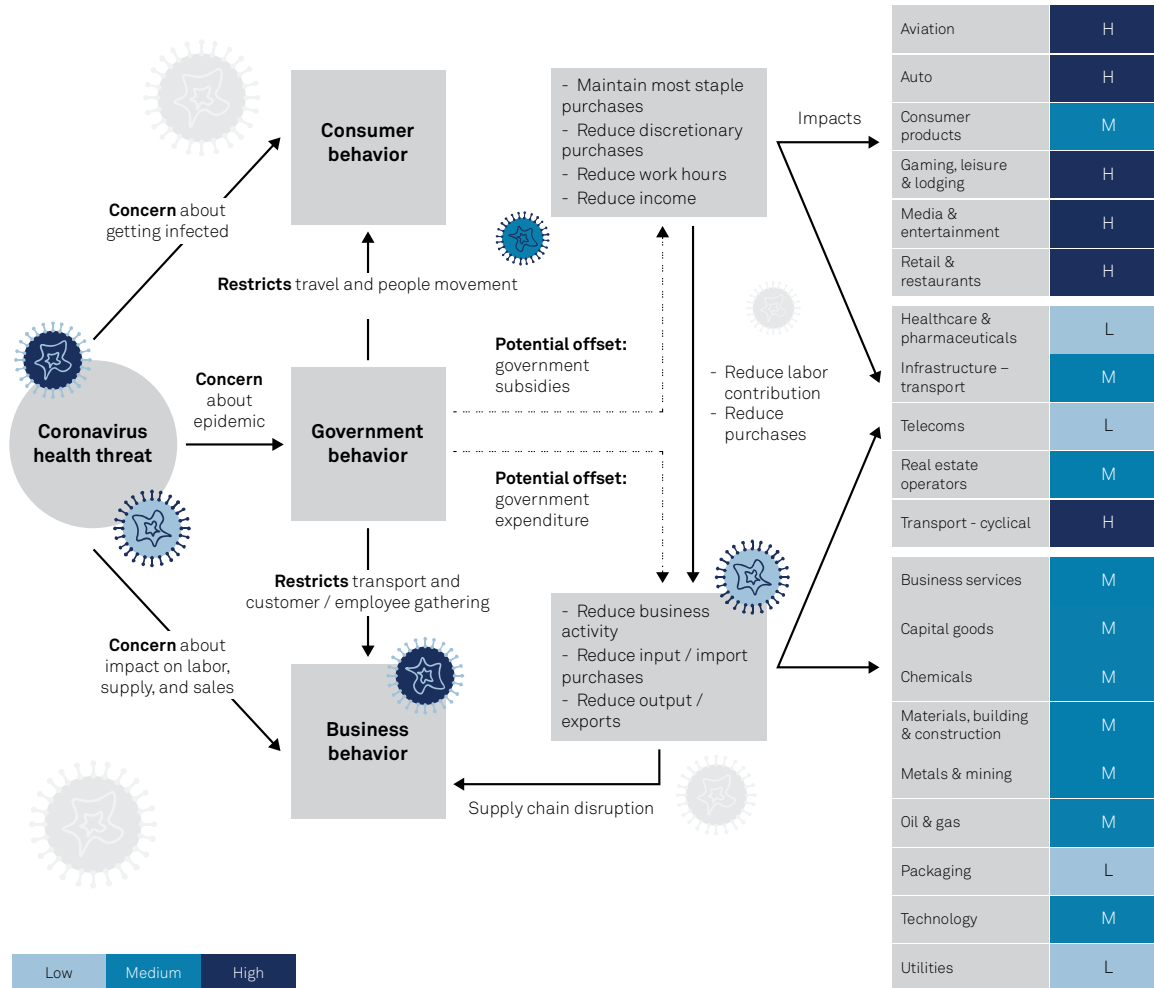
However, we cap our global scale rating on insurers at the 'BB' local currency ratings on South Africa

- Insurers' concentration of assets and liabilities in the domestic economy makes them susceptible to financial and macroeconomic stresses associated with defaults on local currency sovereign debt.

Corporate Highlights

S&P Global
Ratings

The Impact Of COVID-19 By Sector, Tempered By Management Remedial Actions



Note: These relative risk classifications are based on our analytical teams' qualitative opinions and do not indicate any potential rating trend or actions. Source: S&P Global Ratings.

Macroeconomic Factors Aside, The Impact Of The Sovereign Is Different For SOEs And Corporations

COVID-19 has had notable effects on certain sectors

- COVID-19 has also affected the stand-alone credit profiles (SACPs) on selected rated South African corporations.
- Lockdowns have affected the transport and retail sectors the most due to reduced customer activity.
- Exposure to commodities with high global prices, such as precious metals, is currently a determining factor in ratings resilience.
- Utility-like corporations (telecoms, power, water, and infrastructure companies) are more resilient, but the outlook for demand and affordability is uncertain.

Sovereign rating levels influence our support or constraint assessments

- For SOEs, sovereign factors affect the likelihood of government support and the differential between their SACPs and the sovereign foreign and local currency ratings.
- For publicly owned corporations, constraints derive from our sovereign foreign currency ratings and/or transfer and convertibility assessments. Corporations' liquidity and exposure to end markets influence our ability to rate them above the sovereign.
- A lowering of the sovereign rating and rating concentration on the national scale can affect both public corporations and SOEs.

Ratings Summary

- Sovereign
- Banks
- Insurers
- Corporations and SOEs

S&P Global
Ratings

Ratings List | Sovereign

Downgraded; Outlook Action; Ratings Affirmed	To	From
South Africa		
Foreign currency	BB-/Stable/B	BB/Negative/B
Local currency	BB/Stable/B	BB+/Negative/B
Transfer & convertibility assessment	BB+	BBB-
Senior unsecured	BB-	BB
Senior unsecured	BB	BB+
Republic of South Africa Sukuk No. 1 Trust		
Senior unsecured	BB-	BB
Ratings Affirmed		
South Africa		
Sovereign credit rating		
South Africa national scale	zaAAA/--/zaA-1+	
Senior unsecured	zaAAA	

Source: S&P Global Ratings.

Ratings List | Banks

Absa Bank Ltd.*

Ratings Affirmed

South Africa national scale zaAA/--/zaA-1+

African Bank Ltd.

Downgraded; Outlook Action; Ratings Affirmed

Issuer credit rating B/Stable/B B+/Negative/B

Ratings Affirmed

South Africa national scale zaA/--/zaA-2

Downgraded

Senior unsecured B B+

BNP Paribas

Ratings Affirmed

South Africa national scale zaAA/--/zaA-1+

Capitec Bank Ltd.

Downgraded; Outlook Action; Ratings Affirmed To From

Issuer credit rating BB-/Stable/B BB/Negative/B

Ratings Affirmed

South Africa national scale zaAA/--/zaA-1+

Source: S&P Global Rating.

Ratings List | Banks Continued

FirstRand Ltd.

Downgraded; Outlook Action; Ratings Affirmed	To	From
Issuer credit rating	B/Stable/B	B+/Negative/B
Ratings Affirmed		
South Africa national scale	zaA/--/zaA-2	
Downgraded; Outlook Action; Ratings Affirmed	To	From
Issuer credit rating	BB-/Stable/B	BB/Negative/B
Ratings Affirmed		
South Africa national scale	zaAA/--/zaA-1+	
Downgraded		
Subordinated	B	B+
Subordinated	zaA	zaA+
Junior subordinated	zaBBB+	zaA-

Investec Bank Ltd.

Downgraded; Outlook Action; Ratings Affirmed	To	From
Issuer credit rating	BB-/Stable/B	BB/Negative/B
Ratings Affirmed		
South Africa national scale	zaAA/--/zaA-1+	

Source: S&P Global Ratings.

Ratings List | Banks Continued

Nedbank Group Ltd.

Downgraded; Outlook Action; Ratings Affirmed	To	From
Issuer credit rating	BB-/Stable/B	BB/Negative/B
Ratings Affirmed		
South Africa national scale	zaAA/--/zaA-1+	

Development Bank of South Africa Ltd.

Downgraded; Outlook Action; Ratings Affirmed	To	From
Issuer credit rating		
Foreign currency	BB-/Stable/B	BB/Negative/B
Local currency	BB/Stable/B	BB+/Negative/B
Senior unsecured	BB	BB+

Source: S&P Global Ratings.

Ratings List | Insurers

Allianz Global Corporate and Specialty South Africa Ltd.

Downgraded; Outlook Action	To	From
Issuer credit rating		
Local currency	BB+/Stable/--	BBB-/Negative/- -
Financial strength rating		
Local currency	BB+/Stable/--	BBB-/Negative/- -

Allianz Global Corporate And Specialty South Africa Ltd.

Ratings Affirmed		
Issuer credit rating		
South Africa national scale	zaAAA/--/--	

AIG South Africa Ltd.

Downgraded; Outlook Action	To	From
Issuer credit rating		
Local currency	BB/Stable/--	BB+/Negative/--
Financial strength rating		
Local currency	BB/Stable/--	BB+/Negative/--
Ratings Affirmed		
Issuer credit rating		
South Africa national scale	zaAAA/--/--	

Source: S&P Global Ratings.

Ratings List | Insurers Continued

Old Mutual Life Assurance Co. (South Africa) Ltd.

	To	From
Downgraded; Outlook Action		
Issuer credit rating		
Local currency	BB/Stable/--	BB+/Negative/--
Financial strength rating		
Local currency	BB/Stable/--	BB+/Negative/--
Ratings Affirmed		
Issuer credit rating		
South Africa national scale	zaAAA/--/zaA-1+	
Subordinated	zaA+	

Old Mutual Ltd.

Ratings Affirmed		
Issuer credit rating		
South Africa national scale	zaA+/--/zaA-1	

Santam Ltd.

	To	From
Downgraded; Outlook Action		
Issuer credit rating		
Local currency	BB/Stable/--	BB+/Negative/--
Financial strength rating		
Local currency	BB/Stable/--	BB+/Negative/--

Source: S&P Global Ratings.

Ratings List | Insurers Continued

Santam Ltd.

Rating Affirmed		
Issuer credit rating		
South Africa national scale	zaAAA	
Subordinated		
South Africa national scale	zaA+	

Santam Structured Insurance Ltd.

Downgraded; Outlook Action	To	From
Issuer credit rating		
Local currency	BB-/Stable/--	BB/Negative/--
Financial strength rating		
Local currency	BB-/Stable/--	BB/Negative/--

Santam Structured Reinsurance Ltd. PCC

Downgraded; Outlook Action	To	From
Issuer credit rating		
Local currency	BB-/Stable/--	BB/Negative/--
Financial strength rating		
Local currency	BB-/Stable/--	BB/Negative/--

Santam Structured Reinsurance DAC

Downgraded; Outlook Action	To	From
Issuer credit rating		
Local currency	BB-/Stable/--	BB/Negative/--
Financial strength rating		
Local currency	BB-/Stable/--	BB/Negative/--

Source: S&P Global Ratings.

Ratings List | Insurers Continued

Sanlam Capital Markets Proprietary Ltd.

Ratings Affirmed

Issuer credit rating

South Africa national scale zaAA/--/zaA-1+

Sanlam Ltd.

Ratings Affirmed

Issuer credit rating

South Africa national scale zaA+/--/--

Sanlam Life Insurance Ltd.

Ratings Affirmed

Issuer credit rating

South Africa national scale zaAAA/--/--

Financial strength rating

South Africa national scale zaAA/--/--

Subordinated

South Africa national scale zaA+

Liberty Group Ltd.

Ratings Affirmed

Issuer credit rating

South Africa national scale zaAAA/--/zaA-1+

Subordinated

zaA+

Subordinated

zaAA

Source: S&P Global Ratings.

Ratings List | Corporations And SOEs

Anglo American PLC

Ratings Affirmed

Issuer credit rating	BBB/Stable/A-2
South Africa national scale	zaAAA/--/zaA-1+
Senior unsecured	BBB
Senior unsecured	zaAAA

ESKOM Holdings SOC Ltd.

Downgraded	To	From
Senior unsecured*	BB-	BB

Ratings Affirmed

Issuer credit rating		
South Africa national scale	zaB/--/zaB	
Senior secured	CCC+	
Senior unsecured	CCC+	
Ratings Affirmed; Outlook Action	To	From
Issuer credit rating	CCC+/Negative/-- CCC+/Stable/--	

Exxaro Resources Ltd.

Ratings Affirmed

Issuer credit rating	
South Africa national scale	zaA/--/zaA-2

**Guaranteed by the Republic of South Africa. NR--Not rated. Source: S&P Global Ratings.*

Ratings List | Corporations And SOEs Continued

MTN Group Ltd.

Downgraded; Outlook Action	To	From
Issuer credit rating	BB-/Stable/--	BB/Negative/--
Senior unsecured	BB-	BB
Recovery rating	3(65%)	3(65%)
Ratings affirmed		
Issuer credit rating		
South Africa national scale	zaAA/--/--	

Rand Water

Downgraded; Outlook Action; Ratings Affirmed	To	From
Issuer credit rating		
Foreign currency	BB-/Stable/--	BB/Negative/--
Local currency	BB/Stable/--	BB+/Negative/--
South Africa national scale	zaAAA/--/--	zaAAA/--/--
Senior unsecured	BB	BB+

Sappi Ltd.

Ratings Affirmed		
Issuer credit rating	BB/Negative/B	
Senior unsecured	BB	
Recovery rating	3(55%)	

**Guaranteed by the Republic of South Africa. NR--Not rated. Source: S&P Global Ratings.*

Ratings List | Corporations And SOEs Continued

Sasol Ltd.

Ratings Affirmed		
Issuer credit rating		
Foreign currency		BB/Negative/B
Senior unsecured		BB
Recovery rating		3(65%)

Sibanye Gold Ltd.

Not Rated Action	To	From
Issuer credit rating	NR	B+/Negative/--
South Africa national scale	NR	zaA/--/--
Ratings Affirmed		
Senior unsecured		
	B+	
Recovery rating		3(65%)

Sibanye Stillwater Ltd.

New Rating		
Issuer credit rating		B+/Stable/--
South Africa national scale		zaA/--/--

Super Group Ltd.

Upgraded; Ratings Affirmed	To	From
Issuer credit rating		
South Africa national scale		zaAAA/--/zaA-1+ zaAA/--/zaA-1+

**Guaranteed by the Republic of South Africa. NR--Not rated. Source: S&P Global Ratings.*

Ratings List | Corporations And SOEs Continued

Telkom SA SOC Ltd.

Downgraded; Outlook Action	To	From
Issuer credit rating	BB/Stable/--	BB+/Negative/--

Transnet SOC Ltd.

Downgraded; Outlook Action; Rating Affirmed	To	From
Issuer credit rating	BB-/Stable/--	BB/Negative/--
South Africa national scale	zaAA/--/zaA-1+	zaAA/--/zaA-1+
Senior unsecured	BB-	BB
Senior unsecured*	BB	BB+

Umgeni Water

Ratings affirmed		
Issuer credit rating		
South Africa national scale	zaAAA/--/zaA-1+	

Woolworths Holdings Ltd.

Ratings Remain On CreditWatch		
Issuer credit rating		
South Africa national scale	zaA-/Watch Neg/--	

Enx Leasing Investments (pty) Ltd.

CreditWatch Action	To	From
Issuer credit rating		
South Africa national scale	zaA-/Watch Neg/--	zaA/--/--

*Guaranteed by the Republic of South Africa. NR--Not rated. Source: S&P Global Ratings.

Related Research

- COVID-19 Impact: Key Takeaways From Our Articles, May 19, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, May 16, 2020
- Rating Actions Taken On Various Corporate And Infrastructure Issuers Following Downgrade Of South Africa, May 12, 2020
- Various Rating Actions Taken On South African Banks Following Sovereign Downgrade, May 7, 2020
- Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed, May 4, 2020
- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020
- COVID-19 And Implications Of Temporary Debt Moratoriums For Rated African Sovereigns, April 29, 2020

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