Tear Sheet:

Exxaro Resources Ltd.

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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

In our view, Eskom Holdings SOC's (Eskom) improved power station coal offtake should boost its sales volumes and support stronger revenue growth in 2024-2025. In first-half 2024, coal sales volumes decreased by 1.4% year-on-year to 18.9 million tons (Mt) due to operational challenges and equipment failures at the Matimba and Medupi power stations. While coal sales volumes were lower, we understand that Eskom's coal offtake was higher in second-quarter 2024 relative to the first quarter. Exxaro expects somewhat stronger operational performance at its power stations (including units coming back online) to gradually improve sales volumes.

We now forecast Exxaro's coal sales to reach about 41.0 Mt in 2024, then grow to about 45.4 Mt in 2025 (previously 41.5 Mt-42.5 Mt). This factors in our forecast of annual export sales of 6.0Mt-7.5Mt. We believe the improvement in Eskom's offtake will allow Exxaro to partially offset constrained export volumes (due to rail-to-port challenges) as well as expected weaker export coal pricing in 2024 and 2025. We now forecast Exxaro will generate annual revenue of about South African rand (ZAR) 41.8 billion in 2024, then about ZAR45.0 billion in 2025. This compares favorably to our previous (2023) estimate of ZAR38 billion-ZAR40 in 2024 and 2025.

We anticipate that Exxaro's leverage will remain below 1x and funds from operations (FFO) to debt above 60% in 2024-2025, with sufficient rating headroom. We expect S&P Global Ratings-adjusted EBITDA will remain constrained by persistent mining inflation and higher logistics costs caused by using alternative distribution channels for coal export sales. That said, we believe annual S&P Global Ratings-adjusted EBITDA of ZAR15 billion-ZAR16 billion (including annual dividends from equity investments of ZAR2.0 billion-ZAR3.7 billion) is sufficient for the company to generate annual FFO of ZAR12 billion-ZAR13 billion. We also forecast Exxaro's S&P Global Ratings-adjusted debt, which does not net off gross available cash of ZAR19 billion-ZAR22 billion, to remain stable at about ZAR10.4 billion in 2024-2025. This will enable the company to maintain S&P Global Ratings-adjusted debt to EBITDA well below 1x on average and FFO to debt above 60%, which we see as commensurate with the current rating. In our base case we assume a reduction in gross debt by about ZAR7.5 billion in 2026 from available cash, coupled with Exxaro's generally prudent financial policy regarding shareholder remuneration and M&A, will provide an ample cushion at the current rating level.

While not our base case, the rating could come under pressure if Exxaro's FFO to debt looked likely to fall below 30% or if its current adequate liquidity position were to weaken. This could result from payment delays or nonpayment on sales to South African electricity producer Eskom (also the off-taker of power from Exxaro's renewable assets); lower-than-expected export market prices and sales; or a large debt-funded acquisition. Notably, in November 2023, we raised our long-term issuer credit rating on Eskom to 'B' from 'CCC+' based on the South African government's provision of a ZAR254 billion financial support package to Eskom as part of the Eskom Debt Relief Act (see “South African Electricity Producer Eskom Upgraded To 'B' On Revised Government Support; Outlook Stable,” published on RatingsDirect). However, in our view, Eskom's operating performance and cash flow will remain under pressure, even though the expected cash injections will reduce Eskom's liquidity risk. Consequently, we see limited rating upside given Exxaro's reliance on Eskom. That said, Exxaro has not experienced any payment delays to date. We would consider raising our rating on Exxaro if Eskom's liquidity sustainably improves, prompting us to upgrade the utility further, 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.

Company Description

Exxaro is primarily a South African-domiciled coal mining company. It generated ZAR38.7 billion in revenue in 2023 and expects to sell about 41 million tons of coal in 2024, with 72% of sales by volume to South African energy utility Eskom, 12% to other domestic buyers, and 16% to export markets.

The company also holds 100% of Cennergi Proprietary Ltd., which runs two windfarm projects generating about ZAR1.3 billion in revenue and about 727 gigawatt-hours of power annually; and 20.6% of Sishen Iron Ore Company, which is over 75% owned by Johannesburg Stock Exchange-listed Kumba Iron Ore.

Key Metrics

Exxaro Resources Ltd.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. ZAR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	28,924	32,771	46,369	38,698	41,834	45,265	46,977
Gross profit	21,903	25,660	36,163	30,088	29,594	32,166	33,920
EBITDA (reported)	8,611	10,158	18,901	13,342	11,494	12,582	13,596
Plus/(less): Other	2,159	10,879	6,528	4,623	3,953	2,712	2,212
EBITDA	10,770	21,037	25,429	17,965	15,447	15,294	15,808
Less: Cash interest paid	(1,679)	(1,324)	(1,064)	(1,130)	(1,071)	(973)	(545)
Less: Cash taxes paid	(966)	(1,320)	(4,121)	(2,603)	(2,119)	(2,249)	(2,625)
Plus/(less): Other	(28)	(22)	(15)	(8)	(10)	(10)	(10)
Funds from operations (FFO)	8,097	18,371	20,229	14,224	12,247	12,063	12,627
Cash flow from operations (CFO)	8,455	18,171	20,237	16,012	12,063	11,896	12,416
Capital expenditure (capex)	2,803	2,164	1,570	2,682	3,432	4,709	5,441
Free operating cash flow (FOCF)	5,652	16,007	18,667	13,330	8,631	7,187	6,975
Dividends	4,012	12,688	8,961	7,360	8,366	5,343	5,500
Share repurchases (reported)	270	1,888	441	645	700	700	700
Discretionary cash flow (DCF)	1,370	1,431	9,265	5,325	(435)	1,144	775
Debt (reported)	13,628	10,256	9,093	8,923	8,906	8,906	1,443

Exxaro Resources Ltd.--Forecast summary

Plus: Lease liabilities debt	522	504	478	451	404	344	274
Plus: Pension and other postretirement debt	106	114	120	128	131	131	131
Plus/(less): Other	1,341	824	936	996	996	996	996
Debt	15,597	11,699	10,627	10,499	10,438	10,378	2,845
Equity	48,121	50,098	59,379	66,407	67,193	70,479	73,458
Adjusted ratios							
Debt/EBITDA (x)	1.4	0.6	0.4	0.6	0.7	0.7	0.2
FFO/debt (%)	51.9	157.0	190.3	135.5	117.3	116.2	443.9
FFO cash interest coverage (x)	5.8	14.9	20.0	13.6	12.4	13.4	24.1
EBITDA interest coverage (x)	7.9	19.6	23.4	13.4	11.5	12.3	19.5
CFO/debt (%)	54.2	155.3	190.4	152.5	115.6	114.6	436.5
FOCF/debt (%)	36.2	136.8	175.7	127.0	82.7	69.3	245.2
DCF/debt (%)	8.8	12.2	87.2	50.7	(4.2)	11.0	27.2
Gross margin (%)	75.7	78.3	78.0	77.8	70.7	71.1	72.2
EBITDA margin (%)	37.2	64.2	54.8	46.4	36.9	33.8	33.6

Financial Summary

Exxaro Resources Ltd.--Financial Summary

Period ending	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
Revenues	25,491	25,726	28,924	32,771	46,369	38,698
EBITDA	10,684	10,039	10,770	21,037	25,429	17,965
Funds from operations (FFO)	8,931	7,849	8,097	18,371	20,229	14,224
Cash interest paid	746	1,006	1,679	1,324	1,064	1,130
Operating cash flow (OCF)	7,925	7,181	8,455	18,171	20,237	16,012
Capital expenditure	5,604	5,633	2,803	2,164	1,570	2,682
Free operating cash flow (FOCF)	2,321	1,548	5,652	16,007	18,667	13,330
Discretionary cash flow (DCF)	(3,876)	(6,333)	1,370	1,431	9,265	5,325
Gross available cash	2,080	2,695	3,196	7,042	14,812	19,859
Debt	9,049	10,472	15,597	11,699	10,627	10,499
Common equity	41,145	42,887	48,121	50,098	59,379	66,407
Adjusted ratios						
EBITDA margin (%)	41.9	39.0	37.2	64.2	54.8	46.4
Return on capital (%)	19.2	16.8	19.5	28.9	36.1	25.4
EBITDA interest coverage (x)	11.1	10.1	7.9	19.6	23.4	13.4
FFO cash interest coverage (x)	13.0	8.8	5.8	14.9	20.0	13.6
Debt/EBITDA (x)	0.8	1.0	1.4	0.6	0.4	0.6

Exxaro Resources Ltd.--Financial Summary

FFO/debt (%)	98.7	75.0	51.9	157.0	190.3	135.5
OCF/debt (%)	87.6	68.6	54.2	155.3	190.4	152.5
FOCF/debt (%)	25.7	14.8	36.2	136.8	175.7	127.0
DCF/debt (%)	(42.8)	(60.5)	8.8	12.2	87.2	50.7

Peer Comparison

Exxaro Resources Ltd.--Peer Comparisons

	Exxaro Resources Ltd.	Petra Diamonds Ltd.	Sibanye Stillwater Ltd.	AngloGold Ashanti PLC	Gold Fields Ltd.
Foreign currency issuer credit rating	--	B/Negative/--	BB-/Negative/--	BB+/Stable/NR	BBB-/Stable/A-3
Local currency issuer credit rating	--	B/Negative/--	BB-/Negative/--	BB+/Stable/NR	BBB-/Stable/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-06-30	2023-12-31	2023-12-31	2023-12-31
Mil.	ZAR	ZAR	ZAR	ZAR	ZAR
Revenue	38,698	6,127	113,684	83,809	82,322
EBITDA	17,965	1,819	17,311	26,577	41,045
Funds from operations (FFO)	14,224	1,654	12,788	22,864	31,413
Cash interest paid	1,130	177	1,314	2,250	1,917
Operating cash flow (OCF)	16,012	829	12,852	17,724	28,819
Capital expenditure	2,682	2,110	22,411	19,059	19,906
Free operating cash flow (FOCF)	13,330	(1,281)	(9,559)	(1,335)	8,913
Discretionary cash flow (DCF)	5,325	(1,352)	(14,877)	(3,292)	1,911
Gross available cash	19,859	831	25,560	17,632	11,865
Debt	10,499	5,943	53,359	36,065	25,683
Equity	66,407	5,967	51,607	68,408	84,500
EBITDA margin (%)	46.4	29.7	15.2	31.7	49.9
Return on capital (%)	25.4	2.3	6.1	16.2	22.6
EBITDA interest coverage (x)	13.4	2.2	7.6	9.1	17.9
FFO cash interest coverage (x)	13.6	10.3	10.7	11.2	17.4
Debt/EBITDA (x)	0.6	3.3	3.1	1.4	0.6
FFO/debt (%)	135.5	27.8	24.0	63.4	122.3
OCF/debt (%)	152.5	13.9	24.1	49.1	112.2
FOCF/debt (%)	127.0	(21.6)	(17.9)	(3.7)	34.7
DCF/debt (%)	50.7	(22.8)	(27.9)	(9.1)	7.4

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-fired power 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.
- 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	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**b+**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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, Jan. 7, 2024
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011