

## CREDIT RATING ANNOUNCEMENT

GCR downgrades the ratings on Transaction Capital Limited and places them on Rating Watch Negative due to the ongoing corporate restructuring

### Rating action

Johannesburg, 21 February 2024 – GCR Ratings ("GCR") has downgraded the long and short-term South African national scale issuer credit ratings on Transaction Capital Limited to A<sub>-(ZA)</sub> and A2<sub>(ZA)</sub> respectively, from A<sub>(ZA)</sub> and A1<sub>(ZA)</sub> respectively, with a Rating Watch Negative. At the same time, the long-term international scale rating has been affirmed at B+ with a Rating Watch Negative.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Transaction Capital Limited	Issuer Long Term	National	A <sub>-(ZA)</sub>	Rating Watch Negative
	Issuer Short Term	National	A2 <sub>(ZA)</sub>	
	Issuer Long Term	International	B+	Rating Watch Negative

### Rating rationale

GCR has downgraded Transaction Capital Limited's (TC or the group) national scale ratings, as the group will be much less diversified following the unbundling of WeBuyCars (WBC) (the WBC transaction). The Rating Watch Negative also reflects GCR's concerns as to the ongoing financial challenges in the SA Taxi Group (SA Taxi), which continue to depress the performance of subsidiaries and weakens the holding company credit profile. However, the WBC transaction should alleviate gearing and liability concerns at TC, and we expect cash flows from Nutun Holdings Proprietary Limited (Nutun) to remain strong.

As per the SENS announcement issued 13 February 2024, TC is seeking shareholder approval to unbundle its stake in WBC whereafter WBC will list independently on the JSE. TC's shares in WBC will be distributed to its shareholders on a *pro-rata* basis. Shareholders will then have a direct stake in WBC, unencumbered from the challenges experienced by SA Taxi. Nevertheless, the WBC transaction has negative implications for the group credit rating as TC will forego its largest subsidiary by revenue contribution, with short to medium term financial performance to be almost entirely determined by Nutun. The reduction in business line diversification is exacerbated by the current weak credit profile of SA Taxi, which is undergoing a comprehensive operational restructuring and requires a renegotiation of funding facilities to ensure long term sustainability.

Positively, the WBC transaction should help TC address outstanding debt and other liabilities on the holding company balance sheet. Thus, TC plans to raise between ZAR900 million and ZAR1.25 billion through the sale of a portion of its stake in WBC as part of the transaction. Combined with cash on hand, the funds will be used to settle TC's ZAR1.1 billion revolving credit facility, redeem the ZAR489 million in preference shares and settle

the ZAR285 million guarantee that was assumed as part of the SA Taxi empowerment deal. The put/call options on the remaining 25.1% stake in WBC will also be cancelled.

## Outlook statement

The Rating Watch Negative reflects GCR's view that there remains downside risk to TC's ratings post the WBC transaction as the group will be smaller and have less headroom to address uncertainties related the restructuring of SA Taxi. It also reflects the possibility that should the WBC transaction not proceed, there will be debt service challenges for TC, as well as uncovered liabilities.

## Rating triggers

The rating could be downgraded if the WBC transaction does not proceed, or if group gearing and liability concerns are not adequately settled through the transaction. The rating could also be impacted by an adverse outcome to the SA Taxi restructuring, notwithstanding that TC has no legal obligation to provide further funding to SA Taxi.

Positive rating movement is not foreseen in the short to medium term. However, the rating could return to Stable once the WBC transaction is complete and gearing and liability issues at TC are adequately resolved.

## Analytical contacts

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## Related criteria and research

Criteria for the GCR Ratings Framework, January 2022  
Criteria for Rating Financial Institutions, May 2019  
Criteria for Rating Financial Services Companies, January 2022  
Criteria for Rating Corporate Entities, January 2022  
GCR Rating Scale, Symbols & Definitions, May 2022  
GCR Country Risk Scores, December 2023  
GCR Financial Institutions Sector Risk Score, November 2023

## Ratings history

Transaction Capital Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	A <sup>-(ZA)</sup>	Stable	November 2016
	Last	National	A <sup>(ZA)</sup>	Negative	March 2023
Issuer Short Term	Initial	National	A1 <sup>-(ZA)</sup>	--	November 2016
	Last	National	A1 <sup>(ZA)</sup>	--	March 2023
Issuer Long Term	Initial	International	BB-	Stable	November 2016
	Last	International	B+	Negative	March 2023

## Glossary

Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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 exposures 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.
Downgrade	The rating has been lowered on its specific scale.
Facility	The grant of availability of money at some future date in return for a fee.
Gearing	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.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
Preference Shares	A source of long-term equity funding that has no voting rights and higher pay-out priority than common shares.
Pro Rata	(1) Distribution of the amount of insurance under one policy among several objects or places covered in proportion to their value or the amounts shown. (2) Distribution of liability among several insurers having policies on a risk, usually in the proportion that the amount of coverage in each policy bears to the total amount of coverage in all policies.
Revolving Credit	A credit agreement that allows a customer to borrow against a preapproved credit line.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Tranche	A portion of an obligation, each of which has different terms.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.

### Salient points of accorded rating

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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity.

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

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Interim financial statements for six months to September 2023
- Analyst presentation September 2023
- SAENS announcement regarding the unbundling of WBC, 13 February 2024
- Other relevant SENS announcements

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