

Stress in South African businesses

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OCCASIONAL REPORT

ANALYSTS

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We profile and rank the riskiness of South African listed small- and mid-cap companies informed by business risk (industry risk profile, degree of operating leverage or DOL, degree of financial leverage or DFL); liquidity risk; the short- and long-term debt risk profile; and management pedigree. Each source of risk is ranked from 1 to 5, where 1 represents high risk while 5 is low risk. We assign a final risk score out of 5 (from 0), a simple-weighted average of these sources of risk. The lower the score the higher the risk profile. We provide detailed breakdown of risk allocation in Appendix 1 at the end of this report.

Quick overview of our methodology

We determine riskiness using the following five factors:

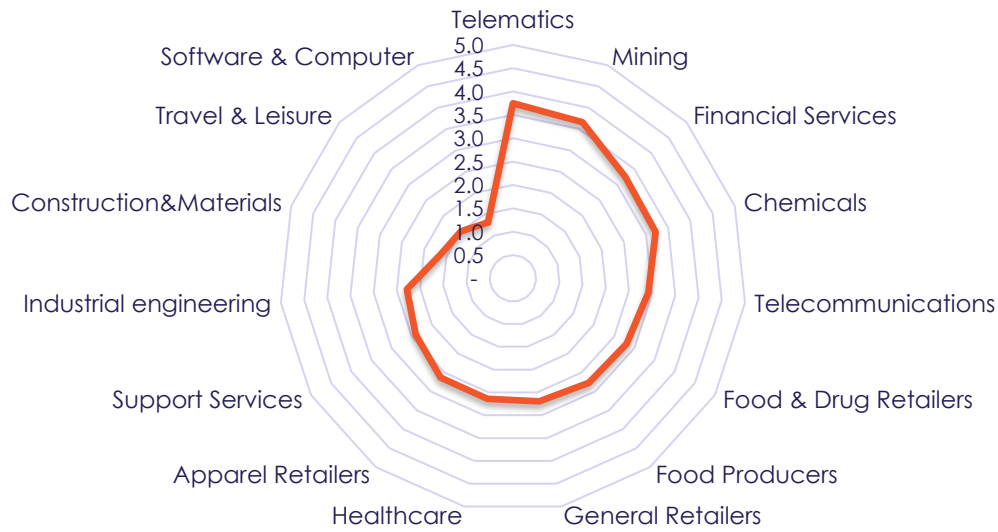
1. Business risk
 - Industry risk: A subjective judgement of the industry's riskiness relative to other industries, in the view of Intellidex analysts.
 - Degree of operating leverage: measures responsiveness of operating profit to changes in revenue. Companies with high fixed costs (including leases) and lower margins tend to have high DOL, which means they are riskier
 - Degree financial leverage: measures responsiveness of earnings to changes in operating profit. This should be viewed in conjunction with the Ebitda to Debt ratio (an important debt covenant used by lenders). Companies with high interest costs have high DFL, thus riskier.
2. Liquidity risk: Evaluates working capital position using the current and acid test ratios.
3. Short-term debt risk: Measures a company's ability to meet its short-term interest-bearing debt obligations. Calculated as short-term debt divided by cash.
4. Long-term debt risk: A company's ability to meet all its interest-bearing liabilities, calculated as Net debt divided by equity
5. Management risk: A subjective measure which evaluates management's pedigree in the view of Intellidex analysts, thus its ability to navigate business stress induced by Covid-19.

Note: ratios are calculated using data from latest financial statements and analysts use own judgement to adjust the financial data where necessary to enhance comparability.

TOPICS
JSE equities

INDEPENDENT, EXPERIENCED,
KNOWLEDGEABLE,
DEEPLY CONNECTED,
RAPID ANALYSIS

Figure 1: Average sector riskiness (the closer to the centre, the higher the risk)



In Table 1 we list each company underlying the analysis and overall risk position, while in Table 2 we provide the detailed breakdown of each risk factor.

Table 1: Risk of financial distress

| | High | Moderate | Low |
|----------------|------|----------|-----|
| Mr Price | | | ▲ |
| Truworths | | ▲ | |
| TFG | | ▲ | |
| Woolworths | | ▲ | |
| AECI | | | ▲ |
| Afrox | | | ▲ |
| Bowler Metcalf | | | ▲ |
| Omnia | | ▲ | |
| Afrimat | | ▲ | |
| Aveng | ▲ | | |
| Calgro M3 | ▲ | | |
| PPC | ▲ | | |
| Raubex | | | ▲ |
| WBHO | | ▲ | |
| Shoprite | | | ▲ |
| Spar | | | ▲ |
| Pick n Pay | | ▲ | |
| Massmart | | ▲ | |
| Clicks | | | ▲ |
| Dis-Chem | | ▲ | |
| Coronation | | | ▲ |
| Peregrine | | | ▲ |
| PSG | | | ▲ |
| PSG Konsult | | | ▲ |
| Sygnia | | ▲ | |
| Zeder | | ▲ | |

Table 1: Risk of financial distress (continued)

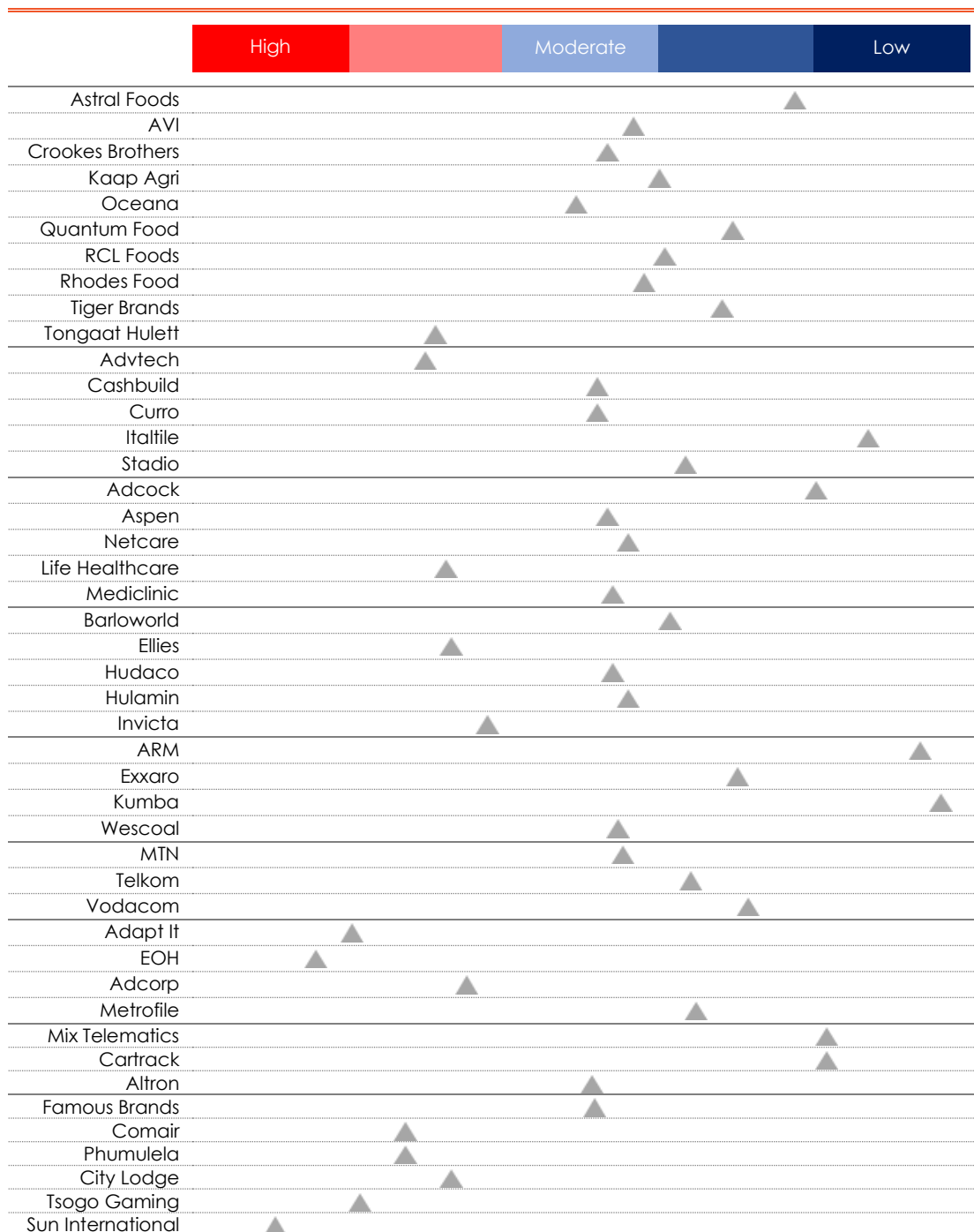


Table 2: Company risk profile

| Sector | Company | Risk Score | Risk source | | | | | | |
|--------------------------|-------------------|------------|-------------|-----|-----|-----------|------------|-----------|------------|
| | | | Industry | DOL | DFL | Liquidity | Short debt | Long debt | Management |
| Apparel Retailers | Mr Price | 3.57 | 2 | 2 | 4 | 5 | 5 | 5 | 4 |
| Apparel Retailers | Truworths | 3.04 | 2 | 2 | 5 | 4 | 4 | 4 | 3 |
| Apparel Retailers | TFG | 2.14 | 2 | 2 | 4 | 3 | 2 | 2 | 4 |
| Apparel Retailers | Woolworths | 1.79 | 3 | 2 | 3 | 2 | 2 | 2 | 3 |
| Chemicals | Bowler Metcalf | 4.20 | 2.5 | 4 | 5 | 5 | 5 | 5 | 4 |
| Chemicals | Afrox | 3.30 | 2.5 | 2 | 4 | 4 | 4 | 5 | 4 |
| Chemicals | AECI | 3.13 | 2.5 | 2 | 4 | 4 | 4 | 3 | 5 |
| Chemicals | Omnia | 2.23 | 2.5 | 2 | 3 | 2 | 3 | 3 | 4 |
| Construction & Materials | Raubex | 2.86 | 1 | 2 | 4 | 2 | 4 | 5 | 5 |
| Construction & Materials | Afrimat | 2.50 | 1 | 1 | 4 | 2 | 4 | 4 | 5 |
| Construction & Materials | WBHO | 2.32 | 1 | 2 | 3 | 2 | 3 | 5 | 4 |
| Construction & Materials | Av eng | 0.89 | 1 | 1 | 1 | 1 | 1 | 4 | 3 |
| Construction & Materials | PPC | 0.71 | 1 | 1 | 1 | 1 | 1 | 3 | 3 |
| Construction & Materials | Calgro M3 | 0.54 | 1 | 2 | 1 | 1 | 1 | 1 | 3 |
| Food & Drug Retailers | Shoprite | 3.39 | 4 | 2 | 5 | 4 | 4 | 4 | 3 |
| Food & Drug Retailers | Clicks | 3.21 | 4 | 3 | 3 | 4 | 1 | 5 | 5 |
| Food & Drug Retailers | Spar | 3.13 | 4.5 | 2 | 4 | 4 | 3 | 3 | 4 |
| Food & Drug Retailers | Pick n Pay | 2.68 | 4 | 2 | 4 | 2 | 3 | 3 | 4 |
| Food & Drug Retailers | Dis-Chem | 2.50 | 4 | 3 | 2 | 3 | 1 | 3 | 5 |
| Food & Drug Retailers | Massmart | 1.96 | 3 | 2 | 3 | 1 | 1 | 3 | 5 |
| Financial Services | Peregrine | 4.11 | 3 | 4 | 5 | 4 | 5 | 5 | 4 |
| Financial Services | PSG | 3.75 | 3 | 5 | 4 | 4 | 4 | 3 | 5 |
| Financial Services | PSG Konsult | 3.57 | 3 | 3 | 4 | 4 | 4 | 4 | 5 |
| Financial Services | Coronation | 3.21 | 3 | 4 | 3 | 4 | 3 | 4 | 4 |
| Financial Services | Sygnia | 2.50 | 3 | 3 | 1 | 3 | 1 | 5 | 5 |
| Financial Services | Zeder | 2.32 | 3 | 4 | 1 | 3 | 1 | 4 | 4 |
| Food Producers | Astral Foods | 3.75 | 4 | 3 | 4 | 4 | 4 | 5 | 4 |
| Food Producers | Quantum Food | 3.39 | 4 | 3 | 3 | 4 | 3 | 5 | 4 |
| Food Producers | Tiger Brands | 3.21 | 4 | 2 | 4 | 3 | 4 | 5 | 3 |
| Food Producers | Kaap Agri | 2.86 | 4 | 2 | 3 | 3 | 3 | 4 | 4 |
| Food Producers | RCL Foods | 2.86 | 4 | 2 | 4 | 3 | 4 | 3 | 3 |
| Food Producers | AVI | 2.68 | 4 | 4 | 2 | 3 | 2 | 3 | 4 |
| Food Producers | Rhodes Food | 2.68 | 4 | 2 | 3 | 3 | 3 | 3 | 4 |
| Food Producers | Crookes Brothers | 2.50 | 4 | 2 | 2 | 3 | 2 | 4 | 4 |
| Food Producers | Oceana | 2.32 | 4 | 3 | 3 | 3 | 3 | 1 | 3 |
| Food Producers | Tongaat Hulett | 1.43 | 4 | 2 | 1 | 1 | 1 | 4 | 2 |
| General Retailers | Italtile | 4.20 | 3.5 | 2 | 5 | 5 | 5 | 5 | 5 |
| General Retailers | Stadio | 2.95 | 3.5 | 2 | 4 | 3 | 4 | 4 | 3 |
| General Retailers | Cashbuild | 2.41 | 3.5 | 2 | 2 | 2 | 2 | 5 | 4 |
| General Retailers | Curro | 2.41 | 3.5 | 4 | 2 | 2 | 2 | 3 | 4 |
| General Retailers | Adv tech | 1.52 | 3.5 | 3 | 1 | 1 | 1 | 2 | 4 |
| Healthcare | Adcock | 3.93 | 5 | 2 | 4 | 4 | 5 | 5 | 4 |
| Healthcare | Netcare | 2.68 | 3 | 2 | 4 | 3 | 4 | 3 | 3 |
| Healthcare | Mediclinic | 2.50 | 3 | 2 | 3 | 4 | 4 | 2 | 3 |
| Healthcare | Aspen | 2.50 | 5 | 2 | 3 | 4 | 2 | 2 | 3 |
| Healthcare | Life Healthcare | 1.61 | 3 | 2 | 3 | 2 | 2 | 1 | 3 |
| Industrial Engineering | Barloworld | 2.86 | 2 | 3 | 3 | 3 | 3 | 5 | 4 |
| Industrial Engineering | Hulamin | 2.68 | 2 | 2 | 3 | 4 | 3 | 4 | 4 |
| Industrial Engineering | Hudaco | 2.50 | 2 | 2 | 4 | 4 | 4 | 2 | 3 |
| Industrial Engineering | Invicta | 1.79 | 2 | 2 | 3 | 1 | 3 | 3 | 3 |
| Industrial Engineering | Ellies | 1.61 | 2 | 3 | 3 | 3 | 3 | 1 | 1 |
| Mining | Kumba | 4.64 | 5 | 3 | 5 | 5 | 5 | 5 | 5 |
| Mining | ARM | 4.46 | 5 | 3 | 5 | 5 | 5 | 5 | 4 |
| Mining | Exxaro | 3.21 | 5 | 3 | 3 | 3 | 3 | 4 | 4 |
| Mining | Wescoal | 2.32 | 5 | 3 | 2 | 2 | 2 | 3 | 3 |
| Software & Computer | Altron | 2.32 | 3 | 2 | 3 | 3 | 3 | 2 | 4 |
| Software & Computer | Adapt IT | 0.98 | 2.5 | 3 | 1 | 1 | 1 | 1 | 3 |
| Software & Computer | EOH | 0.63 | 2.5 | 2 | 1 | 1 | 1 | 1 | 2 |
| Support Services | Metrolife | 3.04 | 3 | 3 | 4 | 3 | 4 | 4 | 3 |
| Support Services | Adcorp | 1.79 | 3 | 1 | 4 | 2 | 4 | 1 | 2 |
| Telecommunications | Vodacom | 3.39 | 4 | 4 | 3 | 3 | 3 | 4 | 5 |
| Telecommunications | Telkom | 3.04 | 4 | 4 | 2 | 3 | 2 | 4 | 5 |
| Telecommunications | MTN | 2.32 | 4 | 4 | 2 | 3 | 2 | 2 | 3 |
| Telematics | Mix Telematics | 3.75 | 3 | 2 | 5 | 4 | 5 | 5 | 4 |
| Telematics | Cartrack | 3.75 | 3 | 2 | 5 | 4 | 5 | 5 | 4 |
| Travel & Leisure | Famous Brands | 2.32 | 4 | 4 | 3 | 3 | 3 | 1 | 2 |
| Travel & Leisure | City Lodge | 1.88 | 1.5 | 2 | 3 | 4 | 2 | 1 | 4 |
| Travel & Leisure | Comair | 1.61 | 1 | 2 | 4 | 1 | 4 | 2 | 2 |
| Travel & Leisure | Phumelela | 1.61 | 1 | 2 | 4 | 1 | 1 | 4 | 3 |
| Travel & Leisure | Tsogo Gaming | 1.07 | 1 | 2 | 4 | 1 | 1 | 1 | 3 |
| Travel & Leisure | Sun International | 0.54 | 1 | 2 | 1 | 2 | 1 | 1 | 2 |

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