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SAPH

PRESS RELEASE :

SAPH

Credit Risk Analysis

WARA assigns SAPH its first-time rating of BBB+

WARA rates BBB+ Société Africaine de Plantations d'Hévéas (SAPH), Ivory Coast's leader in natural rubber.

Abidjan, 26 March 2013 - **West Africa Rating Agency** (WARA) announced today the publication of its first rating on **Société Africaine de Plantations d'Hévéas** (SAPH). On its regional rating scale, SAPH's long-term rating is « **BBB+** », within the investment-grade category, whereas its short-term rating is « **w-3** ». These ratings reflect SAPH's dominant position on its domestic market, as well as the company's healthy financial position. The outlook is **stable**.

Simultaneously, on its international rating scale, WARA assigned iB+/Stable/iw-5 ratings to SAPH.

The ratings on SAPH remain dependent on the company's capacity to maintain its domestic leadership, and on the stability of the SICOM's performance. The SICOM is the global price index for natural rubber. As a matter of fact, the international prices of rubber directly affect SAPH's revenues, exogenously. WARA considers that it will be difficult for competitors to shake the dominant position of SIFCA's subsidiary specialized in the production of natural rubber. Consequently, such a market position, SAPH's control over the entire value chain, and its financial robustness constitute together key rating factors for the company. These same factors will likely be critical for SAPH to adapt to the possible volatility of the SICOM.

« SAPH's counterparty rating does not incorporate any uplift for external support » says Fabien Paquet, WARA's lead analyst for SAPH. « However, WARA's opinion as to SAPH's creditworthiness takes into consideration SAPH's close relationships on the one hand with its Group, SIFCA, and on the other hand with Michelin, its minority reference shareholder, which provides the company with technical, operational and managerial support » adds Mr. Paquet.

SAPH was incorporated in Abidjan in 1956, first as a government-related entity, before being privatized in 1992, and then sold to SIFCA in 1999. Exclusively dedicated to the production of natural rubber from hevea trees' latex, its revenues reached 173 billion CFA francs in 2012. « SAPH produces 100 000 tons of natural rubber a year, which represents a 40% share of its domestic market ; such historical entrenchment and the company's status as a pioneer in this sector constitute key rating factors » states Fabien Paquet.

An upgrade of SAPH's ratings will depend on : i) the improvement of industrial and management processes, especially for the better monitoring of quality and a gradual decline of theft on the plantations owned by the company ; ii) stronger middle management teams ; iii) an increase of the number and size of plantations directly owned by the company, in order to improve both profitability and quality average ; and iv) technical innovations derived from research in order to durably increase the marginal productivity of hevea trees and their resilience to contamination.

A downgrade of SAPH's ratings would result from : i) another political crisis in Ivory Coast ; ii) a decline of SAPH's market shares ; iii) a sharp decline of the SICOM for a prolonged period of time ; or iv) the contamination of hevea trees by germs, or their destruction by a massive natural disaster.

As a matter of reference, WARA considers that positive rating scenarios are more likely than negative ones in the medium term, which means in other words that SAPH's current ratings carry more upgrade potential than downgrade risks.

The methodology used by WARA for the rating of SAPH is the corporate rating methodology, published on 15 July 2012, and available on WARA's Website (www.rating-africa.org).

The sources of information used by WARA for the rating of SAPH are primarily non-public pieces of information obtained while interacting with SAPH's management, during the course of February and March 2013. Such information, together with sources available in the public domain, is considered by WARA as relevant and sufficient to carry on the rating process pertaining to SAPH.

Finally, WARA lays emphasis on the fact that SAPH's ratings are the result of a participating and solicited analytical process, meaning i) they have concluded a request from SAPH, and ii) SAPH's management team has been actively involved in interacting with WARA's analysts.

SAPH's ratings are the first WARA published since WARA has been licensed as a rating agency in West Africa. SAPH's first long-term rating of « **BBB+** » is two notches above the minimum rating required by the CREPMF (i.e. the regional market regulator) to issue market debt without a third-party guarantee.*

Full report available upon request :
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