Press Release:
WARA downgrades the ratings of SAPH to BBB/Stable/w-4

SAPH

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WARA downgrades by one notch the long-term rating of Société Africaine de Plantations d'Hévéas (SAPH), Ivory Coast's leader in natural rubber, to BBB

Abidjan, 3 August 2015 — **West Africa Rating Agency** (WARA) has downgraded the ratings of **Société Africaine de Plantations d'Hévéas** (SAPH). On its regional rating scale, SAPH's long-term rating has been downgraded to **BBB** from BBB+, within the investment-grade category, whereas its short-term rating has been downgraded to **w-4** from w-3. These ratings reflect the sharp drop of commodities prices in general, and those of natural rubber in particular, as well as SAPH's dominant position on its domestic market, and its strong control over the value chain of natural rubber in Ivory Coast. The outlook remains **stable**.

Simultaneously, on its international rating scale, WARA has also been downgraded SPAH's ratings to iB/Stable/iw-6 from iB+/Stable/iw-5.

The ratings on SAPH remain dependent on the relative stability of Ivory Coast's macroeconomic environment, and on the volatility of the SICOM, the international market where natural rubber is priced, in US dollar terms. 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.

"*SAPH's counterparty rating does not incorporate any uplift for external support*" says Christelle N'Doua, 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 Mrs. N'Doua.

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. SAPH commands a 35% share of its domestic market, which is equivalent to a 1% market share globally.

SAPH owns 5 production plants specialized in manufacturing natural rubber in Ivory Coast, well spread across the domestic territory.

SAPH being a specialized entity entirely dedicated to natural rubber, it is a "monoline", which ways on its ratings, adds Mrs. N'Doua. In rating SAPH, WARA takes into consideration the concentration risks inherent to SPAH's activities, with a negative adjustment of 11% in the scorecard: SAPH does not control the sale price of its output (exogenously determined on global markets), which constitutes a structural risk difficult to mitigate.

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 ; iv) technical innovations derived from research in order to durably increase the marginal productivity of Rubber trees and their resilience to contamination; and et v) the success of its diversification strategy, which consists on also planting palm trees on top of Rubber trees.

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 rubber 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 the 15th of July 2012 (revised in August 2013), 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 April 2015. 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 long-term rating of « **BBB** » is one notch above the minimum rating required by the CREPMF (i.e. the regional market regulator) to issue market debt without a third-party guarantee.

The full rating report is available on request, by email at: infos@rating-africa.org

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