



PRESS RELEASE :

Credit rating of Société Africaine de Plantations d'Hévéas (SAPH)

WARA affirms once again SAPH's rating at 'BBB'; the outlook is revised from stable to positive.

WARA affirms at 'BBB' the long-term rating of SAPH, Ivory Coast's leader in natural rubber. The outlook changes to positive.

Abidjan, 22/05/2018 - **West Africa Rating Agency** (WARA) has once again affirmed the ratings of Société Africaine de Plantations d'Hévéas (SAPH). On its regional rating scale, SAPH's long-term rating was affirmed at **"BBB"**, within the investment grade category, while its short-term rating remains **"w-4"**. However, the outlook is revised from stable to **positive**.

On the international rating scale, SAPH's ratings also remained unchanged, with the outlook changed to positive; they are now iB/Positive/iw-6.

SAPH's ratings reflect the company's leading market position, its sound governance and, above all, its strong resilience to adverse market conditions (price volatility, competitive pressure and fluctuating operating environment).

« WARA emphasizes that SAPH to adapt to an unfavorable environment (with a prolonged period of low SICOM prices) thanks to the implementation in 2014 of a strategy that consisted on increasing its production capacity and curb costs, which has started to bear some fruit » says Hamza HAJI, the analyst in charge of SAPH's ratings. In addition, SAPH has benefited from higher rubber prices in late 2016 and early 2017, enabling its margins to partially recover.

However, the ratings remain constrained by the fact that SAPH is a « monoline », its structural dependence on the

international price of rubber and the domestic environment, which is unstable both politically and economically. In particular, on a market for rubber that is structurally in excess of capacity, a sustainable increase of prices will likely not occur by 2020. *« Given such a context, SAPH will have no other choice but to go on with its efforts to grow its capacity and saturate its production plants in order to reinforce its position as the market leader ».*

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. SAPH is today a major player on the market of natural rubber in Africa, with 28% market share in Ivory Coast, 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, allowing it to produce 160,000 tons of natural rubber annually.

An upgrade in SAPH's ratings would depend on: i) a sustainable and structural increase in SICOM prices; ii) technical innovations derived from agronomic research (especially done) allowing it to increase the marginal productivity of hevea trees and their resilience to germs; iii) continuous investment and cost optimization in order to curb the breakeven point; and iv) further improvements of its industrial and management process, especially in view of a better control of the quality of purchased inputs.

A downgrade in SAPH's ratings would be the result of: i) another political or sanitary crisis in Ivory Coast; ii) a material loss of market shares in Ivory Coast; iii) a sharp and sustained decline in SICOM prices; iii) the contamination of hevea trees by germs, or their destruction by a massive natural disaster (these risks being difficult to cover by available insurance policies).

The outlook is positive. WARA considers that favorable rating scenarios are more likely to occur than

unfavorable 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 September 2016), and available on WARA's Website (www.emergingmarketsratings.com).

The sources of information used by WARA for the rating of SAPH are primarily non-public information collected while interacting with SAPH's management, during the course of March 2018. Such information, together with sources available in the public domain, is considered by WARA as relevant and sufficient to carry out 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 they are the result of a rating request from SAPH, and that the management team of the company has had active and transparent collaboration with WARA's analytical team.

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 debt without a third-party guarantee.

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

Contacts

Lead Analyst

Hamza HAJI

Fixe : +225 22 50 18 44

+221 33 825 72 22

Email : infos@rating-africa.org