



PRESS RELEASE :

Ratings on SERVAIR ABIDJAN
Affirmed, Put on Watch

WARA once again affirms its long-term rating on Servair Abidjan at **BBB+**; this ratings is put on watch with uncertain implications

WARA's ratings on the Ivorian leader in air catering, headquartered within the airport platform of Abidjan, is affirmed at BBB+. The rating is put on watch with uncertain implications.

Abidjan, 17/08/2018 — **West Africa Rating Agency** (WARA) has once again affirmed the ratings on **Servair Abidjan**. On WARA's regional rating scale, the long-term rating of Servair Abidjan remains "**BBB+**", in the investment grade category, and its short-term rating is still "**w-3**". Servair Abidjan is the Ivorian leader in air catering. The rating is however placed on **watch** with **uncertain** implications, while the outlook was previously positive.

Simultaneously, on its international rating scale, WARA's ratings on Servair Abidjan are: iB+/S-Incertaine/iw-5.

The ratings primarily reflect the company's strong growth prospects, thanks to fast-improving economic and political conditions in Ivory Coast, which in turn constitutes a favorable environment for air traffic to take off. Servair Abidjan's financial position is sound: profitability has materially improved, asset turnover is high, and financial leverage is relatively low. The operating support provided by the company's parent, Servair Group, constitutes an undeniable advantage, materialized by both brand and services agreements. In December 2016, Gategroup acquired 49.9% of the shares of Servair Group, previously held by Air France; this is a material event for Servair Abidjan, which will probably benefits from further synergies with its new parent. The company's development strategy in the non-air segment is clear, relevant, executable, and sustainable: such an approach should bring much needed operating diversification. Servair Abidjan explicitly differentiates itself through a high level of quality and hygiene, which by themselves are barriers to entry, and make it possible to win the loyalty of its highly demanding clients.

That said, the increasing attractiveness of Ivory Coast's territory is teasing the appetite of competitors, forcing Servair Abidjan to divest its "cleaning" line of business, while trying to conquer new markets, which in turn means higher investment costs. The portfolio of its B2B clients is highly concentrated, as a limited number of

airlines actually resort to Servair Abidjan's services: today, two airline companies contribute half of its revenues. The company's financial performance proved quite volatile in the past, which suggests a high degree of correlation between Servair Abidjan's business model and Ivory Coast's macroeconomic conditions, still subject to shocks. The company's much awaited growth is generating increasing pressure on human resources and equipment, both ageing. Driven by the lower profitability of the three Burger King restaurants it used to own, when compared to its other lines of business (i.e. catering and collective food), Servair Abidjan agreed to sell the Burger King line of business to SIARR CI from 31 December 2017 onwards. This decisions was made during the Board Meeting held on 14 December 2017.

"Servair Abidjan's ratings do not incorporate any external support factors" says Oumar NDIAYE, the lead analyst, for WARA, in charge of Servair Abidjan's ratings. *"Nevertheless, the ratings explicitly account for the continuous assistance and the brand advantage brought to Servair Abidjan by its reference shareholder, Servair Group, the third largest air caterer globally"* adds Mr. NDIAYE.

An upgrade of Servair Abidjan's ratings would depend on: i) improvements in the macroeconomic environment of the region in general, and that of Ivory Coast in particular, meaning rising air traffic in the country; ii) the success of its diversification strategy into the non-air segment, capable of curbing concentration risks pertaining to its client portfolio; and iii) stronger margins, keeping in mind that prices can hardly be adjusted upwards.

A downgrade of Servair Abidjan's ratings would result from: i) another political, economic or health crisis affecting Ivory Coast; ii) a leverage policy deemed excessively aggressive, which WARA would consider inappropriate to lines of business so highly correlated to the domestic macroeconomic cycle; iii) a material drift in expenses, especially staff costs, which could wipe out the benefits extracted from its foray into non-air businesses; or iv) sharply intensifying competitive pressures, be they spontaneous or orchestrated by the public authorities; as a matter of fact, some uncertainties exist as to the renewal of the concession agreement between the company and the State for providing airport services.

Servair Abidjan's long-term rating being placed on **watch** is a direct consequence of such uncertainties as to the concession agreement with the Ivorian State. WARA believes that the implications remain uncertain, given the fact that the current state of

negotiations between the company and the authorities do not allow, at this moment in time, to identify either favorable or unfavorable scenarios from the perspective of the company This is why, as per WARA's standards, the ratings will be once again reviewed by next October 30, in order to form a clearer opinion as to the status of the concession agreement with the Ivorian State.

The methodology used by WARA to rate Servair Abidjan is the credit rating methodology for the industrial and commercial companies, which was published on 15 July 2012 and revised in August 2018, and is available on WARA's website (www.emergingmarketsratings.com).

Information sources used by WARA to perform credit ratings on Servair Abidjan are mainly private information collected during discussions with the company's management team in May 2018. This information, together with publicly available sources, is considered by WARA as relevant and sufficient for carrying out the credit ratings of Servair Abidjan.

Finally, WARA emphasizes that the credit ratings of Servair Abidjan was solicited and participating, meaning that it was performed upon a request by the company, and that Servair Abidjan's management actively participated in the discussions with WARA's analytical team.

Servair Abidjan's long-term rating of "**BBB+**" is 2 notches above the credit rating accepted by the CREPMF to issue debt without a guarantee.

The comprehensive credit rating report is available upon request by e-mail at: infos@rating-africa.org

Contact

Lead Analyst

Oumar NDIAYE

Tél: +221 33 825 72 22

+225 22 50 18 44

Email : infos@rating-africa.org