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PRESS RELEASE :

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

SAPH

WARA affirms SAPH's ratings at BBB/Stable/w-4

WARA has decided to affirm the long-term ratings of SAPH, Ivory Coast's leader in natural rubber, to BBB, at BBB.

Abidjan, on 09/06/16 — **West Africa Rating Agency** (WARA) today affirmed the ratings of **SAPH**. On its regional rating scale, SAPH's long-term rating was affirmed at "BBB", within the investment-grade category. Its short-term rating remained unchanged at "**w-4**". 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 affirmed SPAH's ratings at iB/Stable/iw-6.

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. That said, 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 Ndeye Thiaw, 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, i.e. SIPH and SIFCA, and on the other hand with Michelin.

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 36% 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. Thaiw. 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) a sustainable rebound of the SICOM index; ii) technical innovations derived from research in order to durably increase the marginal productivity of hevea trees and their resilience to contamination; iii) the success of its diversification strategy, which consists on also planting palm trees on top of hevea trees; and iv) 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.

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 (these risks not being insured as there is no specialized insurance counterparty to cover them).

The outlook is **stable**. As a matter of reference, WARA considers that positive rating scenarios are as likely as negative ones in the medium term, which means in other words that SAPH's current ratings carry as much 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 March 2016. 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

Contacts

Lead Analyst
Ndeye THIAW
Fixe : +225 22 50 18 44 / + 221 33 825 72 22
Email : infos@rating-africa.org