MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Letshego Holdings Limited's corporate family rating at Ba2; stable outlook

12 Nov 2020

London, 12 November 2020 -- Moody's Investors Service ("Moody's") has today affirmed Letshego Holdings Limited's (Letshego) corporate family ratings (CFRs) at Ba2 and issuer ratings at Ba3/NP. The outlook on Letshego remains stable.

RATINGS RATIONALE

The affirmation of the Ba2 CFR is driven by the expected resilience of Letshego's capital and profitability, which will continue to offset the company's weak asset quality, liquidity and cash flow in a challenging operating environment.

Letshego's capital and profitability, although somewhat reduced by the pandemic, remain the key strengths of Letshego's credit profile. Its tangible common equity will remain elevated for the rating level despite the expected decline from the sound 39% of assets at end-June 2020. The company's return on assets, at 5.2% in the first six months of 2020, will also somewhat reduce by year-end owing to higher cost of credit and pressure on interest income, however it will continue to be strong for the rating level.

More negatively Moody's expects problem loans, at 7.9% of loans at end-June 2020, to remain elevated in 2020 and 2021, representing a challenge for Letshego. Further, Moody's considers the company's liquidity and funding structure to remain a key weakness, in light of a covenant structure under its secured funding arrangements which led to a temporary reclassification of these debts as short-term, given a breach in Letshego's cash collection in eSwatini. While the covenant breach has been healed in the meantime and liquidity has been restored, Letshego remains exposed to volatility in its liquidity position, in turn depending on its effective and timely debt collection capabilities.

Moody's notes that the weaker financial profile does not translate in a lower rating, because the Ba2 CFR is constrained by the operating environment and industry risk in the countries where the company operates. Letshego currently derives the bulk of its profits from payroll (deduction at source) consumer lending to public sector employees in Botswana, Namibia and Mozambique. The company has embarked on a transformation strategy which will widen the income streams of the group over the next four years. The company plans to widen its product offerings - including non-credit intensive products - as well as geographic penetration in seven other Sub-Saharan countries and enhancing digital delivery. This will reduce the legal and regulatory risk arising from any single country but is not without execution risk.

The affirmation of Letshego's Ba3 long-term issuer ratings captures the affirmation of its CFR and the application of Moody's "Loss Given Default for Speculative-Grade Companies" methodology published in December 2015. Under this framework, Letshego's issuer ratings remain one notch lower than its CFR due to the structural subordination of unsecured obligations relative to secured obligations representing 39% of total debt at end-June 2020.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook incorporates Moody's expectations that Letshego's credit profile will weaken moderately but remain consistent with the current rating and that the transformation strategy will not significantly increase the company's risk profile over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade the company's ratings if Letshego strengthens its asset quality, liquidity and cash flow. Moody's could also upgrade Letshego's issuer ratings due to a reduction of the secured portion of debt, which would increase the recovery rate for senior unsecured debt classes.

Conversely, Moody's could downgrade Letshego's ratings if the operating environment in the countries in which the company operates weakens further or asset quality, liquidity and cash flow deteriorate more than the rating agency's expectations. Moody's could also downgrade Letshego's issuer ratings following an increase of the secured portion of debt, which would lower the recovery rate for senior unsecured debt classes.

LIST OF AFFECTED RATINGS

Issuer: Letshego Holdings Limited

..Affirmations:

....Long-term Corporate Family Ratings, affirmed Ba2

....Long-term Issuer Ratings, affirmed Ba3

....Short-term Issuer Ratings, affirmed NP

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187099 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Carlo Gori
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454