Barloworld upbeat on sales despite downgrade

By Nick Hedley

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Barloworld's stock has remained resilient this year despite a ratings downgrade by Fitch and share-price weakness among its listed competitors.

Annuity income from mining and construction will keep Barloworld's earnings strong. Image: Barloworld.

Fitch Ratings on Monday (10 February) said it had downgraded Barloworld's national long-term rating and domestic medium-term notes rating to A+ from AA-. Its short-term rating was also downgraded, with a stable outlook.

Fitch said Barloworld's relative rating profile was more accurately reflected at the changed rating level, rather than any perceived deterioration in the economic fundamentals of Barloworld.

Fitch said the group's operating risk relative to its peers is heightened by the exposure of its equipment and automotive and logistics divisions to the economic cycle.

"This is further exacerbated by the group's concentration of operating activities in Southern Africa," Fitch said.

Barloworld's share price has weakened only marginally in the days since, and has appreciated by almost 7% in the year to date. Meanwhile, competitors Imperial Holdings' shares have shed just more than 17% of their value, while Bidvest has lost 10% since the start of the year.

Minimal impact

Avior Research industrial analyst Mark Hodgson said that while the rating downgrade was worth noting, it was a general outlook and was unlikely to affect Barloworld's cost of funding in the short-term. Barloworld's bond issues in December achieved lower costs than previous issues in 2011.

Hodgson said Barloworld's outlook would depend on factors such as the group's ability to reduce its net gearing levels and new mining investments. While mining investments have slowed globally, Barloworld had a large portion of annuity type business in its equipment division that was likely to remain resilient.

Barloworld's Clive Thomson is confident that earnings growth will continue, particularly from the automotive sector. Image: Barloworld.

Hodgson said Barloworld's stock had been reasonably solid and defensive in the year to date.

Barloworld grew its revenue by 11% in its financial year ended September last year, and chief executive Clive Thomson said the group could continue this pace of earnings for the next two years.

"Our service and maintenance business enjoys higher volumes of business even though demand for new mining equipment drops," he said. He added that last year the company increased automotive sales by 28%. "We can do this again," he said.

But Fitch expects lower revenue growth given weaker economic conditions, particularly in the group's automotive and logistics divisions.

Source: Business Day via I-Net Bridge