RATING ANNOUNCEMENT

GCR affirms KAP Limited's national scale issuer rating at A+(ZA) with the Outlook revised to Negative on weaker-than-expected performance and still high leverage

Rating action

Johannesburg, 11 November 2025 – GCR Ratings (GCR) has affirmed KAP Limited's long and short term national scale issuer ratings at A+(ZA) and A1(ZA) respectively. The Outlook has been revised to Negative from Stable.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
KAP Limited	Long Term Issuer Short Term Issuer	National National	A+(ZA) A1(ZA)	Negative Outlook

Rating rationale

The Negative Outlook on KAP Limited (KAP or the group) reflects limited rating headroom given lower-than-expected earnings and delays in deleveraging. We forecast that leverage metrics will remain outside our rating sensitivities through to financial 2027 (ending 30 June), one year later than previously expected. We also note increased event risk associated with pending litigation with Sasol, its sole supplier of ethylene. That said, the ratings continue to reflect the group's operational diversity, its strong competitive position across various sectors, and a history of solid cash flow generation through the cycle.

The group experienced mixed results in financial 2025, reporting softer profitability compared with our base expectations that assumed a progressive recovery due to various restructuring and optimisation initiatives being implemented. Specifically, after a positive performance in financial 2024, the logistics division (Unitrans) underperformed expectations due to reduced business activity and operational challenges. The group is taking further measures to improve profitability at Unitrans, however, several past interventions have yet to translate into sustainably stronger earnings in this business. At the same time, and although anticipated, profitability of the wood products division is expected to remain below historical levels over the rating horizon due to startup costs and lower margin exports as it fills the expanded capacity at its newly commissioned medium-density fibreboard plant. Positively, the three core business segments (making up 85% of revenue and profits) have remained profitable through the cycle, including the chemicals business (Safripol) which introduces higher cyclicality and remains susceptible to persistently challenging global conditions.

Kap's credit ratios are weaker than previously anticipated, due to earnings pressure and slower deleveraging post the large capital investments. Net debt only moderated by ZAR220 million in financial 2025 compared to management's commitment for a ZAR1 billion reduction. Although we expect a modest improvement in earnings and cash flow, credit metrics are only likely to restore within rating sensitivity levels by financial 2027, which leaves no headroom for any operational setbacks or negative events regarding its litigation issues. Net debt to EBITDA remained flat at 2.4x in financial 2025 but is projected to improve to 2x by financial 2026 and further to around 1.5x in financial 2027. Net interest cover dipped to 3.5x from 3.7x, narrowing headroom to the covenant of 3.25x for financial 2025, but is expected to widen as the covenant reverts to its original level of 3.5x by year-end financial 2026.

KAP's strong business profile supports its ratings, based on its solid market positions in most of its businesses and its broad product and end-market diversity. However, the inability to sustainably turnaround Unitrans and ongoing challenges at its other businesses may reflect a weakening in the group's competitive position. Moreover, the uncertainty regarding the current litigation with Sasol, in terms of ethylene price and volume commitments, has heightened the credit risks facing the group which could lead to structurally lower earnings if there is an adverse outcome.

KAP's liquidity profile remains a ratings strength. GCR's calculated liquidity coverage is estimated at a strong 2x over the next 12 months and 1x over 24 months. To this end, liquidity sources include a significant ZAR3.3 billion in committed and uncommitted facilities and ZAR2.1 billion cash on hand at financial 2025. GCR also expects that free cash flows will benefit from lower capital intensity and reduced dividends as debt reduction is prioritised. The group continues to demonstrate strong relationships with a wide base of funders and good access to debt capital markets.

Outlook Statement

The Negative Outlook reflects the likelihood of a downgrade if the anticipated earnings recovery or deleveraging does not result in a sufficient improvement in KAP's credit ratios. Uncertainty around litigation matters, as well as broader disruptions to some of the industries it operates in, adds additional event risk.

Rating Triggers

Downward rating action is likely if earnings do not improve as projected. This would likely further delay meaningful progress on reducing debt, particularly if net debt to EBITDA remains above 2.0x, or if net interest cover remains below 4.5x or operating cash flow remains below 25% of debt. Weaker liquidity or adverse litigation outcomes would also be negatively viewed.

The Outlook could return to Stable if the group can sustainably strengthen operating profitability, which is in conjunction with the successful execution of a turnaround in the logistics division. We could also change the outlook if net debt to EBITDA falls to 2x or below; operating cash to debt improves sustainably above 25%; and EBITDA interest coverage consistently above 4.5x. At the same time, liquidity sources would need to be sufficient to sustain continuous capex activity to support business competitiveness.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Corporate Companies, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, October 2025
GCR Corporate Sector Risk Scores, July 2025

Ratings history

KAP Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issuer	Initial	National	A-(ZA)	Stable	April 2014
Short Term Issuer		National	A2(ZA)		
Long Term Issuer	Last	National	A+(ZA)	Stable	November 2024
Short Term Issuer		National	A1(ZA)		

Risk score summary

Rating Components & Factors	Score
Operating environment	**10.75**
Country risk score	7.00
Sector risk score	3.75
Business profile	**1.50**
Competitive position	1.50
Sustainability	0.00
Financial profile	**1.25**
Earnings	0.25
Leverage & cash flow	0.00
Liquidity	1.00
Comparative profile	**0.00**
Group Support	0.00
Peer comparison	0.00
Total Risk Score	**13.50**

Glossary

Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.

Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- The audited annual financial statements to 30 June 2025 (plus four years of audited comparative numbers)
- The 2025 integrated report
- A breakdown of debt facilities at June 2025
- Results presentations
- Medium-term cash flow projections

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