Telkom SA SOC Ltd.

10/06/2021

Ratings Snapshot

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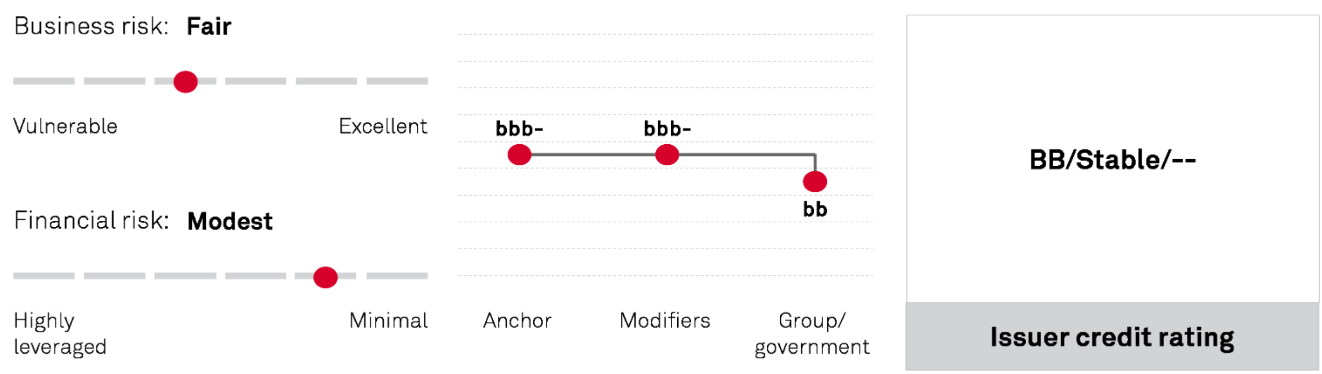

Credit Highlights

Overview

Key strengths	Key risks
Diverse product offering as the dominant provider of fixed-line services and fiber infrastructure in South Africa, with increasing presence in mobile and next-generation data business.	High exposure to structurally declining fixed voice and data business, given its status as the former fixed-line incumbent.

Strong free operating cash flow (FOCF), supported by disciplined, growth-focused capital expenditure (capex) deployment.	Weak margins relative to domestic peers', largely attributable to the sizable fixed-line business orientation, and a rigid cost structure.
Strong balance sheet with forecast adjusted debt to EBITDA below 1.5x.	Challenging operating environment, encompassing regulatory uncertainty, particularly in relation to spectrum allocation, and an evolving political landscape.
Strategic focus on high growth, with fiber to the home (FTTH) and mobile business supported by a modestly better position in terms of spectrum inventory than other South African mobile operators.	Sovereign risk exposure due to 40.5% state-ownership, resulting in the potential for change in government policy toward the entity, or a negative rating action on the sovereign.

S&P Global Ratings expects Telkom SA SOC Ltd.'s (Telkom's) revenue growth to steadily improve over the 2022-2024 period, following 0.4% in fiscal 2020 (ended March 31, 2020). In our base case for 2022-2024, we expect Telkom's revenue to increase in the low-single digits. Relative to fiscal 2020, we anticipate a recovery stemming from eased COVID-19-related restrictions and a gradual peak in business activity that will be positive for the group, especially for business segments like BCX (provides information and communications technologies [ICT] as well as an integrated portfolio of technology solutions to corporates and the public sector), which were severely hit by reduced customer spending. Furthermore, we see resilience in revenue supported by the ongoing change in revenue mix. Over the past five years, Telkom has invested significantly in new revenue streams, which have allowed the company to tilt from being a legacy-based business to one driven by new technologies (fiber and long-term evolution [LTE]/LTE-A1). At end-fiscal 2021, Telkom announced that new-technology-linked revenue now accounts for more than 65% of total revenue. Although the technological shift from legacy to new technologies negatively affects Openserve (provides wholesale infrastructure connectivity products and services), the Consumer segment continues to expand strongly, supported by growth in the Mobile business. We see further growth in Mobile being supported by data, underpinned by Telkom's network capacity relative to peers'.

We project an S&P Global Ratings-adjusted EBITDA margin of 25%-26% as a continued focus on cost efficiency supports stable profitability. Although traditional fixed-line business is reducing, it still has high EBITDA margins. In turn, investments in new technology-based businesses are yet to offset the decline in higher-margin fixed voice. As a result, Telkom's margins are still comparatively lower than those of other South African peers, which have more mature and larger mobile exposures. However, Telkom continues to make positive strides in optimizing its operating cost base. In fiscal 2021, Telkom reduced its S&P Global Ratings-adjusted operating expenses by 5.3% on the back of lower employee, handset equipment, and directories costs. As a result, S&P Global Ratings-adjusted EBITDA margin improved to 27.0% from 22.5%. We expect Telkom's cost management program (particularly further optimization of Mobile and information technology [IT] direct costs) and continuing investment in network optimization and new technologies to support margins in the short term. The pace of revenue mix evolution and the scaling up of new businesses should then influence EBITDA margin expansion in the long term.

We expect the new CEO to maintain Telkom's strategic direction. After announcing that current CEO Sipho Maseko will step down in June 2022, Telkom appointed Serame Taukobong, the current head of its Consumer business, as group CEO-designate. The new group CEO has been with Telkom since June 2018 and, under his leadership, the Mobile business segment enjoyed strong revenue and subscriber growth, becoming the third largest in South Africa. Under Mr. Taukobong, we expect no significant change in Telkom's overall strategy of investing in key growth areas and unlocking value. We also view positively that the appointment came from within Telkom. We continue to assess Telkom's management and governance as fair, reflecting the management team's overall depth and execution in turning the business from being predominantly reliant on fixed–line to delivering a convergence offering and mobile strategy.

Our ratings on Telkom are influenced by those on the South Africa sovereign, even though we assess the likelihood of support or negative intervention as low. Our ratings on Telkom are constrained at one notch above the foreign currency rating on South Africa (BB-/Stable/B). A change in our rating on the sovereign or Telkom's status within the state-owned company (SOC) framework, could affect our rating on Telkom. Currently, the South African government owns about 40.5% of Telkom, and therefore we consider the company a government-related entity (GRE). We view the likelihood of state intervention in Telkom's operations as low, based on the government's current policy, the company's for-profit focus and listed status, and the governance and management structures in place. Nonetheless, a risk remains that key exemptions from provisions applicable to SOCs could be altered.

Outlook

The stable outlook reflects Telkom's 'bbb-' stand-alone credit profile (SACP) and our view that the rating cannot exceed our long-term foreign currency rating on South Africa by more than one notch, given the company's predominantly domestic operations, as well as the government's significant minority ownership stake.

Downside scenario

We could revise the outlook on Telkom to negative if we took a similar action on South Africa, which could occur due to a prolonged weakening economic and fiscal trajectory for the country, and a surge in related operating constraints in South Africa, among other scenarios. The ratings on Telkom could also come under pressure if, in our view, its SACP were to deteriorate by more than two notches. We could also consider lowering the rating if weakened liquidity left Telkom unable to pass our sovereign stress case, and we capped the rating at the level of our foreign currency rating on South Africa.

Upside scenario

We could raise the rating on Telkom if we took a similar action on South Africa.

Our Base-Case Scenario

Assumptions

- South African GDP growth of 6.7% in 2021, 3.7% in 2022, and 2.6% in 2023.
- Revenue growth of 1.0% in fiscal 2022, driven mainly by the growth in Telkom Consumer and offset by sluggish growth in BCX and Openserve. We anticipate revenue growth of 2%-3% in fiscals 2023 and 2024, based on improved economic activity.
- Stable EBITDA margins of about 25%-26%, supported by ongoing cost optimization, resulting in EBITDA of South African rand (ZAR) 11.0 billion-ZAR11.6 billion over the forecast period.
- Working capital outflows of about ZAR500 million per year.
- No debt raising in fiscals 2022 and 2023, and about ZAR2.5 billion in fiscal 2024.
- Capex of about ZAR8.0 billion-ZAR8.5 billion in fiscals 2022-2024, reflecting capex intensity of 18%-19%.
- Telkom is exploring several initiatives to unlock value but the timing and magnitude is uncertain at this stage. Therefore, we currently do not incorporate potential acquisitions or disposals during the forecast period.
- Dividends of about ZAR1.7 billion in fiscal 2024.

Metrics

Telkom--Key Metrics*

Bil. ZAR	2020a	2021a	2022e	2023f	2024f
Capital expenditure	7.7	8.1	8.0-8.5	8.0-8.5	8.0-8.5
Debt	12.1	11.0	11.5-12.0	11.5-12.0	13.0-14.0
EBITDA margin (%)	22.5	27.0	25-26	25-26	25-26
Debt to EBITDA (x)	1.3	0.9	1.0-1.5	1.0-1.5	1.0-1.5

FFO to debt (%)	57.1	73.5	70.0-75.0	70.0-75.0	65.0-70.0
FOCF to debt (%)	21.2	26.6	5.0-10 .0	5.0-10 .0	5.0-10 .0
DCF to debt (%)	4.3	21.7	3.0-5.0	3.0-5.0	(8.0)- (10)

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. ZAR--South African rand.

Telkom's credit metrics are strong and stable, but higher levels of planned capex and potential negative discretionary cash flow (DCF), following the resumption of dividends, could weigh on them in the forecast period. We expect Telkom's capex to remain at the upper end of the capex cycle due to continual investment in strategic areas, which include expansion of existing networks and services and mobile networks, the Next Generation Network program, and Network Evolution initiatives. However, we view the company's commitment to its financial policy as strong and note that it is currently below its target reported leverage range of 1.5x (at 0.9x reported debt to EBITDA as of fiscal 2021 from 1.3x in fiscal 2020), which implies ample headroom on both net debt and EBITDA.

Company Description

Telkom owns and operates South Africa's largest national wholesale telecommunications infrastructure, comprising integrated copper and fiber lines linked to a high-speed backhaul network. Fixed broadband internet and mobile voice and data services are available to individuals and small and midsize enterprises, while a diversified ICT product offering--including access to telecommunications, data centers, and IT services--is aimed at the enterprise market. On March 31, 2021, Telkom had 0.6 million fixed broadband subscribers, 1.3 million fixed access lines, and 15.3 million mobile subscribers. The company also undertakes property and tower management services (through Gyro) and print and digital marketing services (through Yellowpages). Telkom generated annual revenue of ZAR43 billion (about $3 billion) in fiscal 2021 and is listed on the Johannesburg Securities Exchange with a current market capitalization of ZAR19.6 billion (about $1.4 billion) as of Sept. 9, 2021).

Peers

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Telkom SA SOC Ltd.--Peer Comparisons

	Telkom	MTN	Turkcell	Turk Telekom	Rostelecom PJSC
Foreign currency issuer credit rating	BB/Stable/--	BB-/Stable/--	BB-/Stable/--	BB-/Stable/B	BB+/Stable/--
Local currency issuer credit rating	BB/Stable/--	BB-/Stable/--	BB-/Stable/--	BB-/Stable/B	BB+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-03-31	2020-12-31	2020-12-31	2020-12-31	2020-12-31
Mil.	ZAR	ZAR	ZAR	ZAR	ZAR
Revenue	42,939	178,951	56,333	55,819	108,372
EBITDA	11,579	77,605	20,004	23,994	37,894
Funds from operations (FFO)	8,063	49,539	15,303	19,053	29,375
Interest	1,280	21,449	2,177	5,140	7,117
Cash interest paid	1,322	19,662	3,754	4,496	7,285

Telkom SA SOC Ltd.--Peer Comparisons

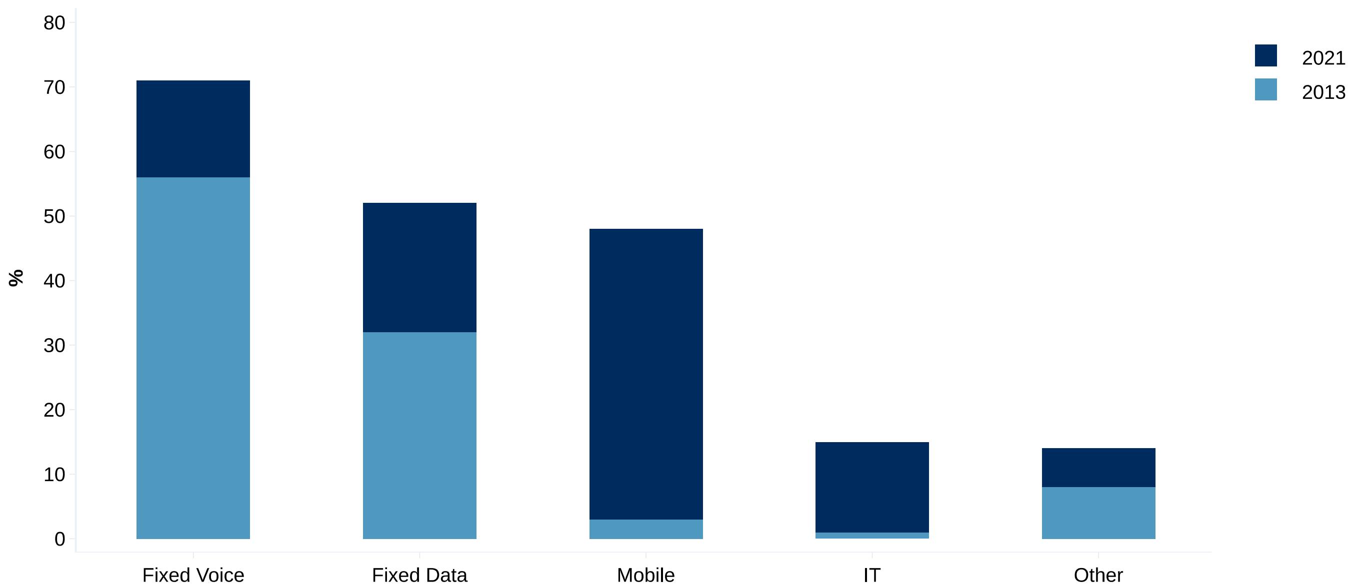
Operating cash flow (OCF)	11,060	52,427	21,555	22,885	27,460
Capital expenditure	8,141	30,180	10,880	12,028	26,716
Free operating cash flow (FOCF)	2,919	22,247	10,675	10,857	744
Discretionary cash flow (DCF)	2,377	13,692	8,989	9,670	(2,842)
Cash and short-term investments	5,003	40,799	23,403	8,623	8,461
Gross available cash	5,003	40,799	23,403	8,623	8,461
Debt	10,965	159,872	22,628	36,502	93,055
Equity	31,341	106,225	38,352	23,752	43,135
EBITDA margin (%)	27.0	43.4	35.5	43.0	35.0
Return on capital (%)	11.7	19.4	18.4	26.8	12.1
EBITDA interest coverage (x)	9.0	3.6	9.2	4.7	5.3
FFO cash interest coverage (x)	7.1	3.5	5.1	5.2	5.0
Debt/EBITDA (x)	0.9	2.1	1.1	1.5	2.5
FFO/debt (%)	73.5	31.0	67.6	52.2	31.6
OCF/debt (%)	100.9	32.8	95.3	62.7	29.5
FOCF/debt (%)	26.6	13.9	47.2	29.7	0.8
DCF/debt (%)	21.7	8.6	39.7	26.5	(3.1)

Business Risk

Telkom's fair business risk profile reflects its diverse product offering as the dominant provider of fixed-line services and fiber infrastructure in South Africa as well as an increasing presence in mobile and next-generation data-based business. Telkom has leveraged its legacy fixed-line infrastructure to roll out fiber, and now has the largest fiber network in South Africa, with 165,900 kilometers (km) deployed and a fiber connectivity rate of 51% (market leader) in fiscal 2021 versus 48.2% in fiscal 2020. Given Telkom's committed capex toward fiber and mobile, including LTE rollouts, we see continued good growth prospects in its broadband (both fixed and mobile) and ICT solutions businesses, which will help it offset volume losses in the traditional fixed-line voice business. We also expect Telkom's operating efficiency to improve over time, as it realizes greater value from investments in new revenue streams, supported by cost-control initiatives across its business lines.

Telkom- Revenue Mix: 2013 Compared with 2021

Revenue Segmentation



Source: S&P Global Ratings, Telkom SOC Ltd. Annual Report 2021.

As a result of recent investments, particularly in mobile (15 million subscribers; third position in South Africa) and IT, Telkom has managed to diversify its revenue streams and offset some declines in traditional fixed voice and fixed data. At end-fiscal 2013, fixed voice and fixed data constituted a combined 88% of revenue. By 2021, revenue from fixed voice and fixed data had declined to 35%, with mobile and IT revenue increasing to a combined 59% from 4%. Moreover, the acquisition of BCX has further aided the shift from voice reliance by increasing Telkom's footprint in the Enterprise business. Although the current environment (COVID-19 and slow economic growth) has negatively influenced BCX customers' capex and reduced IT spending, we believe Telkom is well positioned to capture new business models and data use cases that are emerging in the future digital economy. It will also enjoy some normalization in business operations post COVID-19.

Our business risk assessment is constrained by a challenging operating environment, which includes regulatory uncertainty, slow economic growth, and structural weaknesses, among them, very high unemployment and social inequality, and rising social tensions. The business risk assessment also considers that Telkom still has much lower mobile market penetration than MTN Group, which has about 32.1 million South African mobile subscribers, and Vodacom Group, which has about 44.6 million. Nonetheless, Telkom's scale is increasing, and its mobile subscriber growth has significantly outstripped that of earlier-to-market peers in the past three fiscal years.

Financial Risk

Telkom's modest financial risk profile reflects our expectation that the company's leverage will remain below 1.5x, supported by positive free operating cash flow (FOCF) and a conservative capital structure through to fiscal 2024. The financial risk assessment also recognizes the company's capex intensity to support strategic investments and shareholder dividends In June 2020, Telkom suspended its dividend policy (annual dividend of 60% of headline earnings, with an interim dividend of 40% of interim headline earnings) for three years, starting in fiscal 2021. We have factored in our forecast period dividends of ZAR1.7 billion in fiscal 2024 based on the resumption of the existing dividend policy in fiscal 2024. This results in our DCF to debt forecast of 3%-5% in fiscals 2022 and 2023 and negative 8.6% in fiscal 2024. However, we understand the company plans to make an announcement on its dividend policy toward the end of calendar 2021, which may result in an earlier reintroduction of dividends that is not incorporated in our base case

Debt maturities

As of March 31, 2021:

- Maturities within the next 12 months: ZAR1.2 billion.
- Maturities in 12-24 months: ZAR2.5 billion.
- Thereafter: ZAR7.2 billion.

Telkom SA SOC Ltd.--Financial Summary

Period ending	Mar-31-2016	Mar-31-2017	Mar-31-2018	Mar-31-2019	Mar-31-2020	Mar-31-2021
Reporting period	2015a	2016a	2017a	2018a	2019a	2020a
Display currency (mil.)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
Revenues	38,606	40,970	41,018	41,583	42,764	42,939
EBITDA	11,780	11,582	11,301	11,394	9,642	11,579
Funds from operations (FFO)	10,420	9,583	8,757	9,326	6,896	8,063
Interest expense	825	1,017	1,273	1,214	1,623	1,280
Cash interest paid	1,071	818	1,051	1,123	1,426	1,322
Operating cash flow (OCF)	8,617	8,073	8,662	8,084	10,222	11,060
Capital expenditure	5,838	8,278	7,638	7,525	7,660	8,141
Free operating cash flow (FOCF)	2,779	(205)	1,024	559	2,562	2,919
Discretionary cash flow (DCF)	1,377	(2,610)	(1,993)	(1,334)	519	2,377
Cash and short-term investments	2,548	1,612	4,237	3,001	4,889	5,003
Gross available cash	2,548	1,612	4,237	3,001	4,889	5,003
Debt	6,774	8,550	8,975	11,309	12,076	10,965
Common equity	26,607	27,906	27,385	29,768	29,475	31,341
Adjusted ratios						
EBITDA margin (%)	30.5	28.3	27.6	27.4	22.5	27.0
Return on capital (%)	18.8	15.5	14.6	13.7	7.0	11.7
EBITDA interest coverage (x)	14.3	11.4	8.9	9.4	5.9	9.0
FFO cash interest coverage (x)	10.7	12.7	9.3	9.3	5.8	7.1
Debt/EBITDA (x)	0.6	0.7	0.8	1.0	1.3	0.9
FFO/debt (%)	153.8	112.1	97.6	82.5	57.1	73.5
OCF/debt (%)	127.2	94.4	96.5	71.5	84.6	100.9
FOCF/debt (%)	41.0	(2.4)	11.4	4.9	21.2	26.6

Telkom SA SOC Ltd.--Financial Summary

DCF/debt (%)	20.3	(30.5)	(22.2)	(11.8)	4.3	21.7

Reconciliation Of Telkom SA SOC Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. ZAR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Mar-31-2021									
Company reported amounts	10,866	31,366	43,222	11,703	4,833	1,249	11,579	11,091	257	8,172
Cash taxes paid	-	-	-	-	-	-	(2,194)	-	-	-
Cash interest paid	-	-	-	-	-	-	(1,291)	-	-	-
Lease liabilities	4,972	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	0	-	-	(49)	(49)	0	-	-	-	-
Accessible cash and liquid investments	(5,003)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	0	0	31	(31)	(31)	-	(31)
Share-based compensation expense	-	-	-	203	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	189	-	-	-	-	-
Noncontrolling/ minority interest	-	(25)	-	-	-	-	-	-	-	-
Debt: Guarantees	16	-	-	-	-	-	-	-	-	-
Debt: other	114	-	-	-	-	-	-	-	-	-
Revenue: Finance/interest income	-	-	(283)	(283)	(283)	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	5	5	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	200	-	-	-	-	-

Reconciliation Of Telkom SA SOC Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. ZAR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Total adjustments	99	(25)	(283)	(124)	62	31	(3,516)	(31)	0	(31)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	10,965	31,341	42,939	11,579	4,895	1,280	8,063	11,060	257	8,141

Liquidity

We assess Telkom's liquidity as adequate. We anticipate that Telkom's cash flows and available facilities will exceed its commitments and obligations by more than 1.2x over the 12 months started July 1, 2021.

Principal liquidity sources

For the 12 months started July 1, 2021 we estimate the following principal liquidity sources:

- Unrestricted cash and cash equivalents of about ZAR2.1 billion.
- Undrawn committed revolving credit facilities (RCFs) totaling ZAR1.5 billion.
- Our expectation of cash funds from operations (FFO) of about ZAR8.4 billion.

Principal liquidity uses

For the same period, we estimate the following principal liquidity uses:

- Debt maturities of about ZAR1.2 billion.
- Negative (nonseasonal) working capital outflows of about ZAR500 million.
- Capex of about ZAR8.3 billion, of which about 30% is considered discretionary.
- No planned dividends, acquisition, or mergers.

Covenant

Compliance expectations

We expect Telkom will maintain sufficient headroom under its financial covenants, with headroom well in excess of 15% on its interest coverage and net debt to EBITDA ratios.

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors have an overall neutral influence on our credit rating analysis for Telkom. We view the inherent social tensions and inequalities in South Africa as having the potential to translate into weaker business and investment conditions. Furthermore, increasing risk of infrastructure damage from human encroachment and criminality may affect the stability and quality of Telkom’s network. We see potential exposure to governance risks, stemming mainly from Telkom's SOC status, and regulatory risks. Although Telkom is an SOC, we believe its listed status and solid management have protected it from the governance weaknesses to which many other South African SOCs have been exposed. The regulatory environment exposes Telkom to mobile and data price reduction policies, plus data protection and SIM registration requirements, which may pressure future revenue or margin expectations. Furthermore, delays in new spectrum allocation have the potential to drive up capex, if Telkom experiences spectrum constraints in the future. However, given its mobile market challenger status, Telkom is currently significantly less spectrum constrained than its main peers, MTN and Vodacom.

Group Influence

The Telkom SA SOC group comprises the parent company and its subsidiaries. In line with our criteria, we consider an assumed group credit profile (GCP) at the same level as the issuer credit rating (ICR) on parent company Telkom. The assumed GCP is based on the scope of consolidation and Telkom can be referred to in terms of the assumed GCP, in accordance with our criteria.

Government Influence

Our foreign and local currency sovereign credit ratings on South Africa are 'BB-' and 'BB' with stable outlooks (see "South Africa Ratings Affirmed At 'BB-/B' Foreign Currency And 'BB/B' Local Currency; Outlook Stable, published May 21, 2021, on RatingsDirect). We consider Telkom to be a GRE, with a limited link and limited importance to the South African government. We therefore believe there is a low likelihood of government support for Telkom, given the government's minority (about 40.5%) shareholding, the company's listed status, and the commercial operating model.

Rating Above Sovereign

Based on our view of the low likelihood of government support, we do not cap the rating on Telkom at the foreign currency rating on South Africa ('BB-'). We consider that Telkom may be rated one notch above the foreign currency rating on South Africa since it passes our sovereign stress test. This points to our view of the company's resilience under a hypothetical sovereign default scenario, which includes a 20% earnings stress and a 50% depreciation of the South African rand.

Rating Component Scores

Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Fair**
Country risk	Moderately High
Industry risk	Intermediate
Competitive position	Fair
Financial risk	**Modest**
Cash flow/leverage	Modest
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- South Africa's Social Unrest Is A Reminder Of Constraints To A Fragile Recovery, July 26, 2021
- South Africa Ratings Affirmed At 'BB-/B' Foreign Currency And 'BB/B' Local Currency; Outlook Stable, May 21, 2021,

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Rating Actions Taken On Various Corporate And Infrastructure Issuers Following Downgrade Of South Africa, published May 12, 2020, on RatingsDirect.

Glossary

- Anchor: The starting point for assigning an issuer a long-term rating, based on its business risk profile assessment and its financial risk profile assessment.
- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).
- Comparable rating analysis: This involves taking a holistic review of a company's stand-alone credit risk profile(SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the mid-point, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- Competitive advantage: The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- Creditworthiness: Ability and willingness of a company to meet its debt and debt-like obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Diversification/portfolio effect: Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.

- Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a predesignated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage) or set for the respective rating level. Significant headroom would allow for larger deviations.
- Financial risk profile: This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- Free operating cash flow: Cash flow from operations minus capital expenditure.
- Funds from operations: EBITDA minus interest expense minus current tax.
- Industry risk: This addresses the major factors that affect the risks that companies face in their respective industries.
- Leverage: The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Management and governance: This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Rating above the sovereign assessment: Our assessment of whether an entity can be rated above the sovereign rating on a jurisdiction it has a material exposure to.
- Scale, scope, and diversity: The concentration or diversification of business activities.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.