

Fitch affirms Steinhoff rating after announcement

Fitch Ratings has affirmed South African furniture retailer Steinhoff International Holdings's national long-term rating at A-(zaf) and national short-term rating at F2(zaf).

The outlook for the long-term rating was stable, Fitch said on Tuesday, 1 February 2011.

Conforama aquisition

"The affirmation follows Steinhoff's announcement on 1 February that it had reached an agreement with PPR to acquire 99.8% of the share capital of Conforama Holdings (Conforama), a leading European furniture and household goods retailer operating primarily in France.

"The acquisition is expected to total EUR1,207 million and Fitch expects it to be financed through 50% of new equity to be raised, with the remainder coming from a mix of new debt and free cash," Fitch said.

The ratings group added that, despite the fact that Steinhoff's leverage profile would slightly weaken due to the additional acquisition debt to be incurred to partially fund the acquisition, the consolidated group's credit profile would normalise at levels consistent with the current rating by 2012.

"Adjusted net leverage is expected to peak at 3.8 times in 2011, but to normalise below 3.4 times in 2012 and be sustained about three times over the medium term.

"Furthermore, the acquisition will improve Steinhoff's scale and geographical diversification, and boost the groups' EBITDA (earnings before interest, tax, depreciation and amortisation) and cash generation," the group said.

Expectations

Fitch expects operating margins to contract for the consolidated group directly following the acquisition, but to improve partially in 2012 as planned cost-saving measures take hold.

Conforama's operating margins are expected to benefit from access to Steinhoff's extensive furniture manufacturing and distribution network, but benefits may be delayed by the significant execution risk around a successful integration given the size of the acquisition.

"The rating remains constrained by continuing high adjusted leverage levels relative to its rating peers, calculated as adjusted net debt to operating EBITDAR, which improved to 3.3 times at 2010, largely in line with Fitch's previous

expectations," Fitch concluded.

Steinhoff is a medium-sized diversified retail and manufacturing company with activities across continental Europe, the UK, the Pacific Rim and southern Africa.

Business segments include furniture manufacture and sales, sourcing and logistics, as well as retail motor dealerships and building supplies.

For more, visit: <https://www.bizcommunity.com>