SOC Financial Update – 2020/21

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

ESKOM

Funding/Support Already Provided

- R49 billion in FY20,
- R56 billion in FY21, and
- R33 billion in FY22

COVID-19 impact

- Lower demand due to the lockdown which impacted revenue
- Increase in municipal non-payment due to COVID-19
- No load shedding due to lower demand
- However, with the opening of the economy some load shedding has emerged
- Eskom is updating its financial projections to incorporate the impact of COVID-19 and the sovereign downgrade
- Eskom to also consider further internal cost savings
- Eskom to operate within the allocated funding as no additional funding will be provided by Government

Challenges

- Liquidity challenges - declining revenues, onerous debt levels, high cost structure, Increasing arrear debt due to non- payment
- Regulatory uncertainty (non-cost reflective tariffs)
- Outdated operating mode i.e. not fit for purpose
- Revenue increase driven by tariff increases
- Operational challenges
- Delays, defects and cost-overruns in the capex programme (New Build)
- Year-to-date financial performance is worse than budget even due to higher impact on revenue as a result of limited economic activity amidst the COVID-19 pandemic

AIRPORTS COMPANY SOUTH AFRICA (ACSA)

Historical Performance

- ACSA Shareholding: SA Gov 74.6%, PIC 20%, Other Minority shareholders 5.4%
- ACSA's sound financial performance between 2013/14 and 2018/19 has resulted in
  - Cumulative profits of R7.9 billion between 2013/14 and 2018/19;
  - Cumulative increase in shareholder value by R8.9 billion; and
  - Cumulative total dividends paid to shareholders of R1.5 billion.

Impact Of COVID-19

- Revenue generated of R304 million in June 2020 is 83% below what was generated in June 2019.
- Loss of revenue has resulted in losses of R492 million in June 2020, whereas profits of R380 million was generated in June 2019.
- Air traffic volume may decline by over 50% in 2020/21.
- ACSA now forecasts cumulative net losses of R5 billion over the 2020 MTEF up to 2022/23 (Cumulative R10.2 billion loss by 2025/26).
- Credit metrics have deteriorated. In response, over the next 5-6 years, ACSA will be reducing opex by R1.2 billion pa (including R300 million employee costs) and capex by at least total R1.4 billion in 2020/21 to alleviate forecast liquidity pressures.
- There are complications that would arise should a direct shareholder injection be the chosen solution for relief because ACSA is not wholly owned by the state.

Support required due to COVID 19

- ACSA has requested a 3 year R3.5 billion guarantee.
- ACSA will be unable to repay the guaranteed debt without an injection from shareholders and has thus also applied for a R3.5 billion equity injection for 2020/21.

DENEL

Funding/Guarantees provided

- To support the entity, Government has provided guarantee facilities amounting to R6.93bn, recapitalisation of R1.8bn (2019/20) and further funding of R576m to be allocated in 2020/21 (to reduce guaranteed debt).

Support required due to COVID-19

- Denel has not requested additional financial support but instead requested to relax conditions of R504m to be used for working capital instead of repaying guaranteed debt.

Challenges

- COVID-19 has exacerbated Denel's financial position and has contributed to:
  - The inability of the entity to honour financial obligations as operations have come to a standstill i.e. payment of salaries, creditors, statutory payments (medical aid, tax, UIF) and debt payments (interest payments under guaranteed debt amounting to R3.415bn).
  - Failure to meet financial obligations has resulted in labour unions taking the entity to court for unpaid salaries
  - Denel still faces risk of being placed under business rescue or even liquidation.
- Slow implementation of the turnaround plan. This has resulted in the following strategic initiatives being delayed:
  - Sale of non-core assets, property portfolio and establishment of strategic equity partnerships.
  - Finalising the future state of Denel, which is anticipated to assist in identifying the role that the entity is expected to play in the defence industry, considering the country's requirements. This will also inform the appropriate funding model for Denel.
- The capital structure of the business remains overwhelmingly short-term, increasing liquidity risk
- Denel continues to report revenue losses in 2020/21 and missed budget targets due to liquidity challenges. Denel's forecasted loss at year ended March 2020 is R1.8 billion, with a forecasted negative equity position of R3.3bn (at year ended March 2020).
- The departure of the CEO in August 2020 may be perceived as exacerbating the risks associated with effective implementation of the agreed turnaround plan.

SOUTH AFRICAN POST OFFICE (SAPO)

Funding/Support Already Provided

- R2.947 billion in the in 2018 Adjustments Budget.
- R1.5 billion allocated for Universal Service Obligations (USO)/developmental mandate.
- No government guarantees currently in place.
- Inputs into changes required to governing legislation.

Support Requested as part of the COVID-19 impact

- SAPO has requested R4.9 billion in support
- R2.7 billion is required for operations, R1.4 billion in liabilities owed to Postbank, R300 million for voluntary severance packages, R525 million for other liabilities

Challenges

- SAPO is at a critical juncture. If the shareholder department does act to restructure and repurpose the entity, SAPO will collapse. Government must decide whether SAPO has a role to play as a delivery arm to government, if not, then SAPO must be drastically restructured, as the entity will not be able to continue in its current form without yearly funding from government to cover its losses
- The entity's management structures are in disarray, the entity currently has an acting COO, CFO and CEO. There has been no accountability in respect of the poor implementation of its strategy.
- The Board is also new to the entity and have not actively demonstrated their responsibility as set out in Section 9 of the SAPO Act of 2011, which charges the Board with giving effect to the strategy of the entity and directing the CEO regarding the duties of SAPO.
- The DCDT has also not done enough to repurpose SAPO, the draft SAPO Bill has still not been passed. This Bill deal with a revised mandate for SAPO and solidifies its strategic intent as a citizens post office.
- The DCDT will have to consider placing SAPO into administration in order to fully restructure the entity.
- SAPO did not achieve any of the financial sustainability targets in Q1 and attributes this to the Covid-19 pandemic which resulted in a national lockdown
- revised financial targets for the 2020/21 indicate that a net loss of R2.1 billion is projected for the year compared to the initial budget for the year of a loss of R177 million.

South African Broadcasting Corporation (SABC)

national treasury
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STAY HOME
SAVE SOUTH AFRICA

Funding/Support Already Provided

- R3.2 billion recap in 2019/20
- No government guarantees currently in place.
- The entity has a balance of R1.7 billion remaining from the funds provided under the recap.

Support Requested Due to Covid-19

- The SABC has indicated that it anticipates a revenue loss of R1.5 billion for the 2020/21 financial year, as a result of COVID impact on revenue and the displacement costs due to public service announcements.
- ***The SABC has now confirmed that it is in fact requesting R1.5 billion support.***
- The entity has advised that it will prioritise and fast track a number of revenue enhancing initiatives which includes restructuring its sales teams, the introduction of additional revenue lines, partnerships and a move into digital platforms for the distribution of its content.
- The entity's operations have been significantly impacted due to Covid given that the SABC has to provide additional coverage of current events, which leads to the displacement of its content line-up and as a result a loss in advertising revenue.
- The entity is also assisting through the provision of educational content on its platforms.
- Finally the entity is attempting to claw back some of the costs that it paid in sports rights for events which will no longer be taking place as a result of Covid.

Challenges

- The SABC has reported a preliminary loss of R489 million for the year ending March 2020.
- The SABC will have to reduce its staff compliment if it wants to be sustainable, this will require the support of its shareholder.
- The shareholder must conduct a review of the SABC's mandate, as it is currently too wide and unclear.
- Poor Q1 results with losses exceeding what was budgeted for and forecasts for the full year loss of R1.22bn for 2020/21.
- Financial sustainability will depend on future profitability given that financial metrics are currently being met by ring-fenced funds from the government bailout provided in 2019.

Land Bank

Following from Land Bank experiencing on-going liquidity challenges and debt default, the following has happened:

- On 24 June 2020 a R3 billion appropriation for Land Bank was approved as part of the Adjustments Appropriation Bill (B10B-2020).
- Land Bank interest payments to lenders resumed from 11 August 2020. The recommencement of these interest payments is a step towards the Land Bank's aim of meeting its commitments to its financial creditors.
- However, on 18 August 2020, Standard Chartered Bank served an application out of court on the Land Bank to recover certain debt from the Land Bank. Land Bank is working with its advisers and will be opposing the application.
- Also on 18 August 2020, the President assented to the Adjustments Appropriation Act, 2020
- The Land Bank has also continued to disburse to farmers, although at a reduced scale.

The restructuring and long term liability solution of the Land Bank is focussing on the following:

- Curing the existing events of defaults and cross defaults on the Land Bank's funding instruments;
- Land Bank's capital structure should be strengthened to enable it to perform its legally-prescribed developmental role:
  - restructure funding obligations in a manner that will allow the Land Bank to continue to service these obligations according to a profile that better matches its lending book, whilst not unduly impacting the financial outcomes for funders; and
  - an equity solution to ensure adequate equity support, in addition to the restructured liabilities above, to allow the Land Bank to fulfil its legally mandated functions on a sustainable basis.
- Reviewing of Land Bank loan book and full audit process.
- Finalising the Repurposing Strategy by the end of September 2020.