Eskom bonds will continue to be attractive for as long as the company is stable and its debt is guaranteed by government

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By: Matshela Koko, Eskom's Group Executive for Generation

Let me start off by borrowing a phrase from former President Thabo Mbeki's seminal I am an African speech, and say that, "On an occasion such as this, we should, perhaps, start from the beginning. So, let me begin": The bonds of Eskom will continue to be attractive for as long as Eskom is stable and its debts are guaranteed by government. The Public Investment Corporation is the single largest investor in Eskom debt and their support of Eskom's debt programme is not in question.

Eskom has approximately R300-billion of debt on its balance sheet, and Futuregrowth holds only R4-billion of Eskom bonds. Put differently, the execution of our funding plan of R327-billion going forward does not rely on Futuregrowth's participation.

In November 2014, the South African Government setup the War Room to deal with Eskom's inability to keep the lights on. The unplanned breakdowns averaged 8000MW and sometimes peaked at 10 000MW. Eskom faced serious governance, technical, profitability and liquidity challenges that resulted in the Deputy President being tasked to intervene and turnaround Eskom. It was arguably the worst uncertainty Eskom ever faced and yet bondholders continued to back it. For the financial year ending 31 March 2016, Eskom was able to raise funding of R54-billion. This included R8-billion from domestic bond markets and R 10-billion from a private placements of domestic bonds.

Energy experts and industry analysts expected that the trend of load shedding would continue for the next 3-5 years, with some saying it could take up to 10 years. Throughout this challenges, bondholders including Futuregrowth and Jyske Bank AS continued to buy and hold on to Eskom bonds.

Today, Eskom has stabilised. Its operational turnaround has surprised many pundits. Over one year has passed without load shedding. Cash from operations increased from R 24-billion in 2014 to R 37-billion in 2016; 57 percent of the required debt funding for financial year 2017 is secured and yet Futuregrowth and others choose to suspend new lending to Eskom and other six state-owned companies (SOCs). Why? The National Treasury, which has nominal guarantees in place for SOC debt of R467-billion, should

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actively lead the charge to resolve this matter that will compromise the depth and liquidity of the South African domestic bond market.

On August 31 2016, the day Eskom reported to Parliament that it had turned the corner; the day that Eskom reported to Parliament that the Energy Availability Factor had improved from 69.6% to 79.1%; that diesel consumption has decreased from R1-billion a month to zero for the months of July and August; that more than 12 months has passed without load shedding; that it has R 37-billion cash in the bank and 57 percent of its funding plan for the 2016/17 financial year is secured, that Ingula power plant is connected to the national grid and is generating 1000MW, and on the eve of connecting Medupi unit 5 to the grid for the first time, Futuregrowth suspends new lending to six SOCs, including Eskom.

This decision is allegedly motivated by “growing concerns about the governance and decision structures of the state-owned companies”. Denmark’s Jyske Bank AS followed suit and announced that it has “pulled the plug on Eskom…” and “could easily see more lenders follow suit.” Other South African asset managers expressed support for Futuregrowth but stopped short of doing the same.

The fact is, the uncertainties over Eskom liquidity and the governance issues of 2014/2015 did not deter the demand for its government guaranteed, rand denominated debt. Hence Eskom was able to raise funding of R54-billion for the year ended 31 March 2016. It was the same Jyske Bank that was quoted on the media report of 17 August 2015 as saying, “Forget that South Africa’s state power utility is struggling to keep the lights on and that its profit has fallen. In the world of sovereign-linked bonds, its debt is attractive.” It is indeed correct that the fight to keep the lights on did not turn off Eskom bondholders precisely because the bonds are guaranteed by government.

Rune Hejrskov of Jyskes Bank is quoted in the middle of Eskom liquidity problem as saying: “They do need more money and they will get it, because the country cannot run without Eskom being functional”.

The bonds of Eskom will continue to be attractive for as long as Eskom is stable and its debts are guaranteed by government. The National Treasury cannot be silent when sovereign-linked bonds are under attack.

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