SOC performance

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DENEL

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Funding/Support already provided

- Government has provided guarantee facilities amounting to R5.93bn, recapitalisation of R1.8bn (2019/20) and further funding allocated R576m allocated in 2020/21.

Future financial support required

- Denel indicates that additional financial support is required for operating requirements to generate cash.

Challenges

- Liquidity challenges – difficultly in meeting payment of salaries, creditors, statutory payments (medical aid, tax, UIF) and debt payments
- Continued decline in operational activities, resulting in non-realisation of sales targets, while costs remain high.
- Suppliers refusing to extend credit and other suppliers demanding upfront payment as a condition for accepting purchase orders. As a result of non-payment of previous lines of credit extended to Denel.
- Inability to raise performance bonds to support the conclusion of new contracts.
- Delays in the implementation of critical drivers of the turnaround plan:
    - 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.
- Trade restrictions attributed to lockdown instituted due to COVID-19.
- Due to the non-payment of financial obligations creditors and labour unions have instituted legal action against Denel. Court proceedings are on-going.
- The capital structure of the business remains overwhelmingly short-term, increasing funding risk
- Rating downgrade on Denel's Standalone Credit Profile (SCP), with no upward notching for Sovereign support as was considered previously
- Denel continues to report revenue losses in 2020/21 and missed budget targets due to liquidity challenges. Denel's
- For the 2019/20 year, the Auditor-General has issued a disclaimer audit opinion based on the matters that Denel had not been able to sufficiently resolve with respect to the 2017/18 and the 2018/19 opinions and additional findings with respect to 2019/20 as detailed in the Auditors Report.
- As at end of December 2020, Denel recorded net losses of R1.2 billion and is forecasting net losses of R1.6 billion by end of March 2021

South African Post Office (SAPO)

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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.*
- *No further funding has been allocated to SAPO.*

Challenges

- SAPO is at a critical juncture. **If the entity is not restructured and repurposed, it 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 National Treasury has advised the DCDT to undertake a market study to determine whether and the extent to which government involvement is required in the postal sector. The outcome of this study should determine the extent to which SAPO is restructured.
- SAPO is overstaffed, its current VSP process is not yielding the reductions that are required.
- SAPO's Q3 results indicate a net loss of R1.987 billion
- As at Q3, SAPO recorded expenditure of R4.734 billion, staff costs make up 61% of this.
- SAPO's postal revenue continues to decline.
- It is expected that the AG will not sign off on SAPO's financials statements as a going concern.
- As at end of December 2020, SAPO had outstanding creditors of R2.54 billion. This will affect its operations, which in turn will cause further deterioration of its revenue performance.

South African Broadcasting Corporation (SABC)

Funding/Support Already Provided

- R3.2 billion recap in 2019/20
- No government guarantees currently in place.
- The entity has a balance of R1.18 billion remaining from the funds provided under the recap.

Challenges

- The SABC Board has faced tremendous pressure in the face of the Section 189 process currently being implemented. The processes followed has however been upheld and the Board is proceeding with the matter. In a concession, the entity agreed to reduce the affected personnel to ca.300 from ca.600 planned.
- The reduction of staff costs was identified as one of the main causes of its unprofitability.
- There are a number of policy matters that require review within the broadcasting sector. This includes how to define public service broadcasting within a converged and digital environment.
- The SABC's mandate is also in need of review, currently its mandate is very wide and as a result costly to implement.
- There is also a need to review numerous onerous regulations to which the entity is subject to.
- As at end of December 2020, the SABC recorded a net loss of R504 million, the SABC projects a full year loss of R909 million.
- Including the cash on hand from the recap, the SABC has R1.78 billion cash on hand.
- In order to reduce the risk associated with its going concern assessment, the SABC must focus on the implementation of its revenue growth and profitability indicators.

ESKOM

Funding/Support Already Provided

- R49 billion in FY20,
- R56 billion in FY21, and
- R31.7 billion in FY22

COVID-19 impact

- Lower demand due to the lockdown which impact revenue
- Increase in municipal non-payment due to COVID-19
- No load shedding due to lower demand
- However, with the opening of the economy, load shedding has emerged due to system constraints.
- Eskom updated its financial projections to incorporate the impact of COVID-19 and the sovereign downgrade
- Eskom also considered 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 target due to load shedding, limited economic activity amidst the COVID-19 pandemic, with increasing non-payment risk from Municipalities expected to continue.
- The majority of financial ratios have not achieved projected targets.

AIRPORTS COMPANY SOUTH AFRICA

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Historical Performance

- ACSA Shareholding: SA Gov 74.6%, PIC 20%, Other Minority shareholders 5.4%
- ACSA's sound financial performance between 2013/14 and 2019/20 has resulted in
  - - Cumulative profits of R9.1 billion between 2013/14 and 2019/20;
  - - Cumulative increase in shareholder value by R9.5 billion; and
  - - Cumulative total dividends paid to shareholders of R1.5 billion.
- ***Challenges***
- Revenue for the 9 month period to 31 December 2020 declined by 70.9% as compared to the 9 month period ended 31 December 2019.
- Total losses for the 9 month period ended 31 December 2020 amount to R1.9 billion whereas profits of R424 million were generated in the 9 month period ended 31 December 201
- Consolidated passenger numbers for the first half of the year were 1.5 million against previous half-year averages of 20.3 million— a 93% decline.
- ACSA now forecasts cumulative net losses of approximately R5 billion over the 2020 MTEF up to 2022/23 and a further R5.2 billion by 2025/26 (cumulative R10.2 billion losses).
- Debt levels improved marginally in FY20 but are likely to deteriorate over the next few years as traffic volumes recover. As at end of December 2020 group debt was at R6.7 billion with gearing at 18%. Management indicated that debt levels are likely to reach R11 billion within the next four years— resulting in a 53% gearing level.
- To alleviate liquidity challenges, ACSA secured R810 million term funding from DBSA, disposal of 10% shareholding in Mumba International Airport is underway, capex and opex reductions are on track and process to monetise property portfolio is progressing.
- **Government has committed to support ACSA through the purchase of preference shares of R2.3 billion as highlighted in the Appropriation Bill**

LAND BANK

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Funding support

- The Shareholder recapitalized the Bank with R3 billion in the current fiscal year (2020 Special adjustment budget).
- Guaranteed amounts of R74m called and paid in July and August 2020
- Recap amount was transferred in September 2020, net of guaranteed amounts called.
- In October 2020 MTBPS, indication that Land Bank requires further request for R7 billion.
- Land Bank has R4 billion unutilised Government guarantees.

Challenges

- Liquidity challenges since credit rating downgrade and default.
- Total R40bn debt is currently due and payable.
- Challenging and protracted negotiation processes currently underway with Land Bank lenders around new repayment terms.
- Land Bank may be required to make R400 million payment to Standard Chartered as per the court order granted to them against the Land Bank for non-payment.

Liability solutions

- Purpose to cure defaults and repay debt. The initial proposed LS rejected: required guaranteeing up to 60 per cent of the Land Bank's existing defaulted debt of approx. R20 billion. The terms and conditions would have led to the Land Bank defaulting.
- New LS proposed: Pay back outstanding debt over a 5-year period through an amortizing note.
  - ❖ No government guarantee, but assumes R7 billion recapitalization.
  - ❖ Use proceeds from the repayment of clients and selling down of loan book assets.
  - ❖ Cash flow forecast underpinning repayment of note does not provide comfort that Land Bank will successfully repay note over the 5-year period.
  - ❖ Possibility of another default by the end of the 5-year period highly likely.

Audit Report

- The AG was unable to express an opinion on the audited financial statements of the Bank for the 2019/20 financial year. Lack of internal control and adherence to governance processes was sighted.
- Audit report from the Auditor-General (AG) contains significant findings on the status of the Land Bank:

1. Inability of the AG to confirm the going-concern status of the Land Bank;
2. Inability of the Land Bank to meet debt repayment obligations; and
3. Insufficient evidence that management had accounted properly for expected credit loss due to inadequate internal controls.
4. Failure to ensure compliance with applicable legislation. Further to this, financial statements were prepared without proper evidence.

- Remedial plan on the audit outcomes has been submitted for monitoring by the shareholder