AFRICAN LOAN UPDATE

MARCH 2019

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STANDARD BANK TO SEEK SMALLER REFINANCING

South Africa's Standard Bank is not immediately looking to refinance a US$1bn loan that matures in April as slower domestic growth has hampered the bank's appetite for international borrowing.

Instead, Standard Bank may look to raise a smaller US$500m three-year loan after the general election in May.

South Africa briefly entered recession last September after the economy shrunk 0.7% in the second quarter unexpectedly. It was the country's first recession since 2009, and a blow to President Cyril Ramaphosa's efforts to revive the economy after nearly a decade of stagnation.

By the end of the year, GDP growth recovered to 2.2%, pulling the country out of recession. However, domestic borrowing is expected to remain muted, especially prior to the parliamentary election in May.

"I don't see the need for another US$1bn (loan). It's going to be a slow year," said one banker. "But hopefully after the election we will see a more positive flow out of the investment bank and some additional cash of around US$500m will be needed."

Standard Bank signed the US$1bn three-year loan in April 2016, its 55th international syndicated loan.

The deal was launched at US$600m and raised US$1.27bn in syndication before being scaled back to US$1bn.

Bank of China, HSBC, ICBC, Standard Chartered, Mizuho, China Construction Bank and BayernLB acted as coordinators, bookrunners and initial mandated lead arrangers.

The loan pays a margin of 120bp over Libor.

MOZAMBIQUE SUES CREDIT SUISSE – IFR

Credit Suisse's attempt to get Mozambique to pay back US$2bn in loans looks like being further delayed after the African country filed a suit in London's High Court against the Swiss bank, several of its former employees and Abu Dhabi shipbuilder Privinvest.

The shipbuilder received payments from state-guaranteed companies in Mozambique, which had in turn been lent money through facilities arranged by Credit Suisse and VTB. The Russian bank is not the subject of the civil action.

On January 3 Andrew Pearse, former head of global financing at Credit Suisse, and former colleagues in the same team, Surjan Singh and Detelina Subeva, were arrested in London on charges detailed in an indictment dated December 19 from the US Department of Justice.

The three, who were all cited in Mozambique's High Court filing, were due to appear in court on Friday in connection with the DoJ's request to extradite them to the US to answer charges of conspiring to violate US anti-bribery law and to commit money laundering and securities fraud.

Credit Suisse declined to comment on the High Court filing. It has not been indicted by the DoJ.
US prosecutors said an alleged scam involving US$2bn of loans to Mozambique saw at least US$200m in bribes paid out. The US indictment said the loans were supposed to set up a fleet of tuna fishing boats, a coastal monitoring system and build a shipyard, but barely any revenues ever materialised. It also involved the bribery of Mozambique's former minister of finance Manuel Chang and a US$45m payment to Pearse, the indictment said.

The US is attempting to extradite Chang, who is under arrest in South Africa. Jean Boustani, who worked for Privinvest, was arrested on January 2 at New York's JFK airport. Neither is mentioned in the High Court filing.

Tim Jones, policy officer at Jubilee Debt Campaign, said: "This is hopefully an indication that the Mozambique government will declare the US$2bn debt illegal so that the people of the country do not have to pay a debt they had no say over and no benefit from.

"Campaigners in Mozambique are clear that the Mozambique government also needs to hold to account all those officials involved in contracting the secret debt without parliamentary approval."

BOND RESTRUCTURING

In November, Mozambique bondholders, some of whom had received their bonds in April 2016 in exchange for loan notes, agreed to an offer from the country two years after it had stopped servicing its debts. But the deal was conditional on cabinet and parliamentary approval in Mozambique.

No formal legal document has yet been published or sent to bondholders by White & Case, the law firm advising the government on the proposed exchange offer. Lazard is advising the government and declined to comment on the London filing. White & Case did not respond to a request for comment.

Under the proposed deal, holders of Mozambique's US$726.5m 10.5% 2023 notes will receive US$189.4m in unpaid interest and will face only a small haircut to the principal. The bond maturity will be extended by 10 years to 2033.

Bondholders will also receive extra payments linked to anticipated state revenues from offshore gas projects. Originally the government had said it would treat all its creditors similarly, including holders of the loans mentioned in the DoJ indictment.

The bondholder deal made no mention of how Mozambique planned to treat the loans, however. Given the sovereign is now suing one of the banks that arranged the deal, it is unlikely loanholders would get the same treatment as bondholders.

Part of the loans to state tuna fishing company Ematum, arranged by Credit Suisse and VTB, were exchanged into these bonds in 2016.

A PIVOTAL TIME FOR SOUTH AFRICAN POWER – PFI

Nearly a year removed from the long-awaited signing of power purchase agreements by the REIPPP4 winners with Eskom, South Africa's power market has many issues to address.

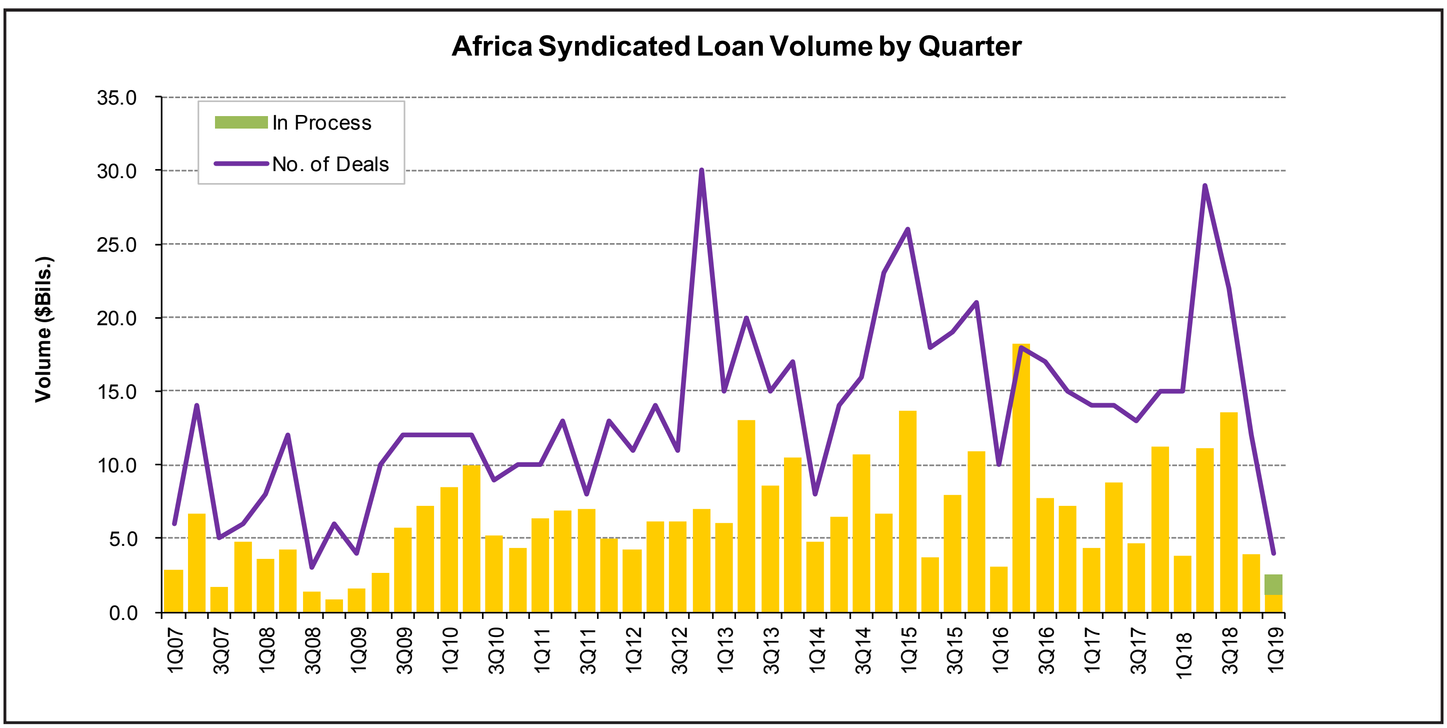
In April 2018, 27 projects received power purchase agreements (PPAs) from state-utility Eskom after nearly two years of delays. In the months that followed, every one of those projects – save the 100MW Redstone concentrated solar power (CSP) scheme – reached financial close through a variety of capital structures and lender groups.

In total, 2.3GW of renewable power was financed, with the projects advancing on schedule towards a 2020 commissioning date. The patience and resilience of all stakeholders during the prolonged PPA negotiations was undoubtedly rewarded.

Fast forward to present day, and all the good work could soon be undone.

Eskom's debt-servicing costs are nearly twice its free cashflow. It has been on the brink of bankruptcy following years of mismanagement under former president Jacob Zuma.

Last month, the government unveiled the largest bailout in the country's history, a R69bn (US$4.8bn) package over three years to help stabilise Eskom's US$30bn debt.



The decision was revealed in the annual budget speech in February.

The bailout is predicated on Eskom committing to cutting costs by more than R20bn (US$1.4bn) a year and the treasury appointing a chief reorganisation officer to the utility.

Phakamani Hadebe, Eskom's chief executive, said the cash injection would support two-thirds to three-quarters of the utility's debt servicing costs over three years.

Eskom will be made to unbundle, splitting its generation, distribution and grid businesses into separate entities. This decision, an added cost in itself, will be partly financed by letting private investors take stakes in the new state transmission grid company.

The unbundling has met with significant opposition from trade unions, with at least one – the National Union of Metalworkers of South Africa (Numsa) – declaring mass action in defence of Eskom.

Numsa's leaders claim the separation of Eskom's businesses would not solve anything, and are demanding an independent commission to investigate the IPP procurement process, which they say contributed to the crisis.

In his budget speech, finance minister Tito Mboweni said the unbundling would "allow for more competition, transparency and a focused funding model".

PPA renegotiation

As a cost-saving effort, government minister Pravin Gordhan has said it would consider renegotiating PPAs with winners from the first two rounds of the REIPPP programme to reduce some of the pressure on Eskom.

The prices agreed in the first two rounds, held in 2011 and 2012, were significantly more expensive than the subsequent rounds, which saw huge price drops as a result of technological improvements and a more comfortable market.

Solar prices from last year's fourth round, for example, were less than a quarter of what they were in round one, falling from R4.02/kWh to R0.96/kWh. Eskom officials have said that the contract costs from the first two rounds are partly responsible for its spiralling debt.

Many in the press and the wider renewable energy community have criticised the decision, arguing that asking developers to forgo earnings would damage investor confidence, possibly irreparably.

The 2013 and 2014 debacle in Spain over retroactive changes to renewables subsidies is clear, recent evidence of how far back a market can be set once investors have lost faith in it.

However one South African banker from a leading renewables lender said they were "not worried" about potential renegotiations because there are specific provisions in the contracts protecting developers and lenders from precisely this sort of action.

Any changes made to the contracts, they said, would result in substantial financial costs for Eskom. No calculation has been made public as to the cost-effectiveness of taking a short-term hit of this kind in return for lower pay-outs in the long-term.

SAPVIA, South Africa's PV association, released a statement cautioning against the decision, arguing that "to stimulate and grow the SA economy, these elements are critical: predictability, consistency, lower risk and policy certainty".

"A one-dimensional renegotiation does not afford the opportunity to create value for South Africa," it added.

SAPVIA instead argued for 10-year PPA extensions to complement the lower tariffs to provide investors with better long-term value.

Its wind power equivalent, SAWEA, went further, alleging that any renegotiation would be a “clear breach of contract”.

CEO Brenda Martin said that investor confidence in any public private programme is “contingent on government’s consistent, assured application of procurement law”.

SAWEA confirmed in its statement that the idea had not been formalised yet.

“Thus far, no formal requests for re-negotiation of contracts have been received by any Round 1 preferred bidder,” Martin confirmed, though she ended her statement requesting “formal clarity” from Minister Gordhan.

REIPPP 5

Under this backdrop of controversy, Cyril Ramaphosa’s government will soon unveil the final version of its integrated resource plan (IRP), setting out energy allocations until 2030.

A draft version, released in September, did not provide for any new wind or solar capacity until 2025, when 200MW and 670MW would be available, respectively. 1GW of solar and 1.5GW of wind would then be on offer every subsequent year until 2030.

At the time, the analysis within the IRP stated that “that the pace and scale of new developments needed up to 2030 must be curtailed” compared with previous IRP estimates for the 2010-2030 period. Determination of renewable energy capacity beyond the 27 Round 4 projects “must be reviewed and revised”.

Should the allocation date remain unchanged, the launch date of the eagerly awaited fifth round might not arrive before 2021/2022.

The REIPPP competition has been one of the most attractive investment opportunities in South Africa, to-date raising more than R200bn (US$14.4bn), of which 24% was foreign direct investment (FDI).
Round five was originally slated to be launched in November, with a further 1.8GW of capacity up for grabs.

The updated IRP will hopefully be finalised before May 8, when Ramaphosa’s government will have to contest new elections that could cause more delays to the energy market.

Government ministers have said recently that it would be launched “soon”, however it is unlikely to occur before the IRP has been passed and the elections have concluded.

The general consensus is that the ruling ANC will retain its majority, with the possibility that it will be reduced by small gains from opposition parties.

Two advisers spoken to for this article said the final IRP would be brought to parliament before the elections, with one of them believing the renewables allocation date “is likely to change”, therefore paving the way for REIPPP5 to be launched earlier.

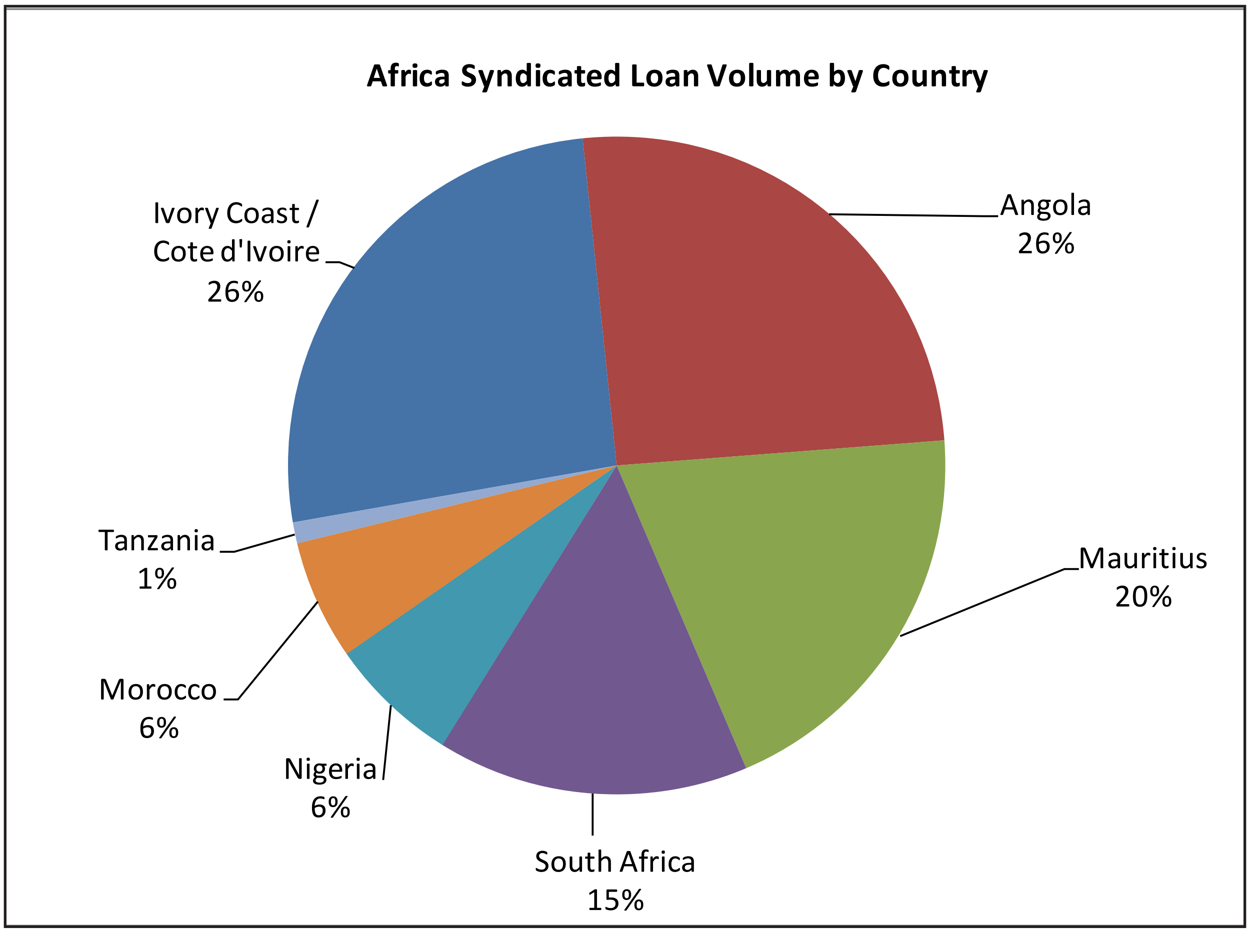
Round 4.5, known as the expedited round, for which bids from the 19 preferred sponsors expired in June, was also suggested to be in the discussion.

One strategy could be to re-introduce the round instead of round five, where the 19 sponsors would have to re-apply due to the expiration of their offers. Another was to launch a fifth round with a preference for any expedited bidder to participate in it.

The situation with Eskom, however, will continue to loom over any new renewable energy projects, with many market players sceptical of its ability to proceed. The result of the bailout and restructure will be waited on with bated breath by investors.

Considering coal

In Energy Minister Jeff Radebe's keynote address at the African Energy Indaba earlier this month, he emphasised the role of coal power to the country.



Most of South Africa's power mix is provided by ageing coal-fired power plants, but 12GW of projects are expected to be decommissioned between now and 2030.

The minister insisted that "our vast coal deposits cannot be sterilised simply because we cannot exploit technological innovations to exploit them".

"The timing of the transition to a low carbon economy must be in a manner that is not insensitive to the potential impacts on jobs and local economies".

These statements will appear to justify the inclusion of 500MW of coal power in 2023 and 2024. However, the government clarified at the time of the draft IRP that the capacity had already been procured from two projects, and that no "new coal" would be planned.

Radebe's recent comments seem to indicate a possible change of heart, and it may be that coal will feature again in the final IRP.

The financing of ACWA Power's 300MW Khanyisa and Marubeni's 557MW Thabametsi schemes is proving challenging, to say the least.

The projects were awarded to their respective sponsors in the October 2016 new-coal IPP programme. Having endured legal challenges from environmental groups throughout 2017, the plants were thought to be back on track before an exodus of banks from coal-to-power projects.

Standard Bank was first, in September 2018, to withdraw financing from any coal-fired power plants – which included ending its involvement in both Khanyisa and Thabametsi.

This was followed by a similar announcement from Nedbank, which was also understood to be on both projects.

Now, Rand Merchant Bank, which was on the lending team for Thabametsi, has also declared that it is withdrawing from the project, leaving Absa as the only remaining commercial bank in South Africa not to exit the projects.

The likes of ICBC and DBSA were also understood to be involved with the projects, but new lenders will probably be needed to complete the projects. The two schemes have a combined capex of US$1.3bn.

Looking ahead

Ultimately, the make-up of the final IRP will shed much-needed clarity on the future of South Africa's energy market.

However, the uncertainty caused by Eskom's failings and attempted saving will be the source of much investor scrutiny over the coming months.

Should the utility not be in a position to provide developers with competitive offtake agreements, there would be much less of an incentive to launch the tender.

As for coal power, the difficulties facing ACWA Power and Marubeni's projects could discourage investors on any remaining schemes that are preparing for financing.

KORE POTASH SEEKS US$1.4BN PF – PFI

London's Kore Potash is seeking a debt financing of US$1bn–$1.4bn for its Kola potash project in the Republic of Congo.

The Australia and London-listed company has released its definitive feasibility study (DFS), putting the project's pre-production capital cost at US$2.1bn.

Export credit agencies (ECAs) are expected to feature heavily in the debt-raising, with the remainder to come from development finance institutions (DFIs) and commercial banks.

The company is already in discussions with prospective lenders, with Rothschild & Co as financial adviser.

The equity portion, which could be US$700m–$1bn, is expected to come from two existing strategic shareholders and potentially another cornerstone investor or joint venture partner.

The current shareholders are Chilean company SQM (18%) and Oman sovereign wealth fund SGRF (19%). Kore Potash is seeking clarity from the government regarding the transfer of a 10% stake in the project company as required by the country's mining convention, which was passed into law late last year.

The DFS, performed by a French consortium of Vinci Construction, Technip France, Egis Group and Louis Dreyfus, revealed opportunities to reduce the capital costs through design changes by up to US$331m, and reduce the construction timeline to 40 months from 46 months.

The consortium is delivering an open-book, fixed-price EPC proposal within the next three months.

A final investment decision (FID) is not expected until an EPC agreement has been concluded, which Kore expects to achieve within 2019. A 12-month extension is available if needed.

An environmental and social impact assessment (ESIA), the only outstanding permitting issue, also needs to be approved by the government.

The project has ore reserves of 152.4m tonnes and a nameplate production target of 2.2m tonnes per year over a 33-year life-cycle – 23 years based on the ore reserves and a further 10 years based on inferred mineral resources.

SQM and SGRF hold a right of first refusal to product offtake proportional to their interest in the project, with the remainder uncontracted.

Kola is expecting a real ungeared internal rate of return of 17%, assuming a life of mine potash price of US$360 per tonne, including the cost of delivery. The average annual free cash return would be US$500m based on pre-tax earnings of US$585m a year.

2019 AFRICA MANDATED LEAD ARRANGER (FULLY SYNDICATED)

Rank	Lender	Pro Rata ($)	Deals	Market Share
1	**Japan Bank for International Cooperation**	643.00	1	26%
2	**African Trade Insurance Agency**	330.04	1	14%
3	**Africa Finance Corp**	330.04	1	14%
4	**Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden**	162.50	1	7%
5	**Standard Chartered Bank**	125.00	1	5%
6	**Sumitomo Mitsui Financial Group**	125.00	1	5%
7	**Mizuho Financial Group**	125.00	1	5%
8	**Citi**	125.00	1	5%
9	**Nedbank Ltd**	121.71	2	5%
10	**FirstRand Bank**	95.71	1	4%
11	**Standard Bank Group**	95.71	1	4%
12	**KfW Bankengruppe**	74.60	1	3%
13	**European Investment Bank**	74.60	1	3%

Year to date 2019 figures include both completed issuance as well as deals in market.