

# Namibia Power Corporation (Proprietary) Limited

## Update

### Ratings

<b>Foreign Currency</b>	
Long-Term IDR	BBB-
Short-Term IDR	F3
<b>National</b>	
Long-Term Rating	AA-(zaf)
Short-Term Rating	F1+(zaf)

### Outlooks

Foreign-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable

### Financial Data

Namibia Power Corporation (Pty) Ltd		
	30 Jun 14	30 Jun 13
Revenue (NADm)	3,967.8	3,305.6
Operating EBITDA	26.2	30.8
Margin (%)		
Free Cash Flow (NADm)	47.6	546.2
FFO Gross Interest Coverage (x)	7.2	6.4
FFO Adjusted Leverage (x)	2.3	2.5

### Key Rating Drivers

**Strong Government Support:** Fitch Ratings expects the relationship between Namibia Power Corporation (Proprietary) Limited (NamPower) and the state to remain unchanged over the medium term. This is due to the record of tangible state support and the government's involvement in NamPower's investment decisions. NamPower has previously benefited from state financial support in the form of an energy subsidy of NAD360m (USD30m) in 2008.

Fitch expects future energy subsidies to pay for the fuel used in generation before KuduPower comes into operation. The state also guaranteed 19% of NamPower's debt as of the 30 June 2014 financial year-end (FYE14) and we expect the zero dividend policy to be maintained. Further, the recently announced government support package of NAD4.93bn (USD0.4bn) will partially be used to support the balance sheet of NamPower.

**Delays in KuduPower:** Fitch expects a delay of 12-18 months before the KuduPower station will start generating power. The project has suffered a set-back as Tullow Oil Plc has withdrawn its participation from the project.

**Tariff Increase Below Expectations:** In May 2015 the regulator awarded a tariff increase of 9.53% effective from 1 July 2015. This was lower than NamPower's expectation of 13.2%. We expect the lower tariff to contribute to negative free cash flow and leverage increased by almost 2x in FY16. Despite the weaker metrics, in our view the ratings remain supported by links to the parent.

**Security of Supply:** At FYE14 NamPower imported 66% of the total energy supplied. Peak demand increased to 629 megawatts (MW) at FYE14 (FYE13:614MW). NamPower's total installed generation capacity is 501MW, of which Ruacana accounts for 346MW, depending on seasonality and rainfall. In 2015 NamPower faces the termination of longstanding power purchase agreements with Zimbabwe and Mozambique for 240MW. Fitch believes the supply will remain under severe pressure in FY16.

As a result, NamPower will invest further minority equity of up to 30% into a scalable private-public partnership project to provide up to 250MW of gas-fired modular capacity to meet domestic market demand and to strategically support security of supply.

### Rating Sensitivities

**Sovereign Upgrade:** A positive action on Namibia's rating would result in a positive rating action for NamPower, providing that the strength of parent/subsidiary linkage does not weaken.

**Decline in State Support:** A decline in state support or a negative action on Namibia's sovereign rating would probably result in negative rating action for NamPower. Long-term operating cash flow falling below Fitch's expectations, or a final investment decision on the KuduPower project in the absence of additional government support for both the project and NamPower could also be negative.

### Liquidity and Debt Structure

**Adequate Liquidity:** NamPower had a NAD1.6bn cash buffer as of FYE14 supported by a relatively liquid investment portfolio of NAD3.1bn as of FYE14 (FYE13:NAD2.9bn). This compares with NAD231m of short-term debt and Fitch's expectation of negative free cash flow of around NAD110m for 2015.

### Related Research

[2015 Outlook: EMEA Utilities \(December 2014\)](#)

### Analysts

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Peer Group

Issuer	Country
<b>AA-</b>	
Saudi Electricity Company ( SEC )	Saudi Arabia
<b>BBB+ (Local-Currency IDR)</b>	
Eskom Holdings SOC Limited	South Africa
<b>BBB+</b>	
PGE Polska Grupa Energetyczna S.A.	Poland
<b>BBB-</b>	
Namibia Power Corporation (Proprietary) Limited	Namibia

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
6 Nov 14	BBB-	Stable
4 Apr 14	BBB-	Stable
12 Dec 13	BBB-	Stable
10 Apr 13	BBB-	Stable
1 Nov 12	BBB-	Stable
12 Apr 12	BBB-	Stable
12 Dec 11	BBB-	Stable
15 Apr 11	BBB-	Positive
14 Dec 10	BBB-	Positive
29 Apr 10	BBB-	Stable
30 Sep 09	BBB-	Stable
27 Mar 09	BBB-	Stable
11 Apr 08	BBB-	Stable
20 Mar 07	BBB-	Stable
16 Feb 06	BBB-	Stable
8 Dec 05	BBB-	Stable

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status <sup>a</sup>	Trend
Operations	Average	Neutral
Market Position	Strong	Neutral
Finances	Average	Worsening
Governance	Average	Neutral
Geography	Weak	Neutral

<sup>a</sup> Relative to peer group

Related Criteria

[Corporate Rating Methodology \(May 2014\)](#)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Integrated power utilities generally benefit from reasonably predictable electricity demand, but are exposed to commodity price risks. These can be mitigated by increased vertical integration, diversification of the fuel mix, and effective hedging/trading strategies. The Southern African electricity sector has historically been hampered by significant under-investment in generation and transmission capacity, and a lack of cost-reflective electricity tariffs.

Financial Risks

The financial profiles of electricity utilities are affected by the highly capital-intensive nature of the industry. During investment cycles, these businesses can be significantly FCF negative, using debt to fund capex expansion. Utilities such as NamPower tend to have long-term debt maturity profiles – matching long-term asset bases, relatively predictable earnings, and high financing requirements.

Peer Group Analysis

	PGE BBB+/Stable 2013	SEC AA-/Stable 2013	Eskom BBB+/Negative 2014	NamPower BBB-/Stable 2014
Revenue (ZARm)	97,368	114,507	139,506	3,968
Operating EBITDAR/revenue (%)	27	41	18.6	26
FFO Interest Coverage (x)	181.3	n.a	3.7	7.2
FFO Adjusted Leverage (x)	0.30	3.4	5.9	2.3

Source: Fitch, Companies

Key Credit Characteristics

The degree of vertical integration, generation mix, characteristics of regulatory frameworks, and earnings diversification are key qualitative rating factors for electricity utilities. Generally stable demand supports cash-flow predictability, and allows for relatively high leverage compared with other corporate sectors for a given rating level, but risks can surface in an environment of sovereign and macroeconomic stress.

Overview of Companies

**PGE Polska Grupa Energetyczna S.A.** (PGE, BBB+/Stable) – is 62% owned by the Polish state. It has vertically integrated operations in the Polish electricity market, a dominance in power generation (40% of the country's generation) and has a strong position in electricity distribution and supply (26% share).

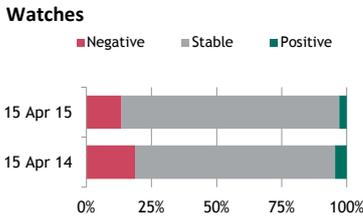
**Saudi Electricity Company** (SEC, AA-/Stable) – the ratings factor in the scale of its investment programme, including its expected weight on SEC's balance sheet over the next few years. SEC is 74% state owned, 7% owned by state-owned Saudi Arabian Oil Company and the remaining 19% listed on the domestic stock exchange.

**Eskom Holdings SOC Ltd** (Eskom, BBB+/Negative) – is 100% owned by the South African state, benefiting from explicit debt guarantees by the state in terms of the ZAR350bn guarantee framework agreement. A record of equity injections further underpins our view of the strong links between the two.

**Namibia Power Corporation** (NamPower, BBB-/Stable) – is the monopoly power generation and transmission company in Namibia, 100% owned by the state. The company relies heavily on a key hydro plant, but has smaller back-up plants for periods of peak demand. It imports approximately 66% of its electricity to meet demand.

## Distribution of Sector Outlooks

### Directional Outlooks and Rating



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

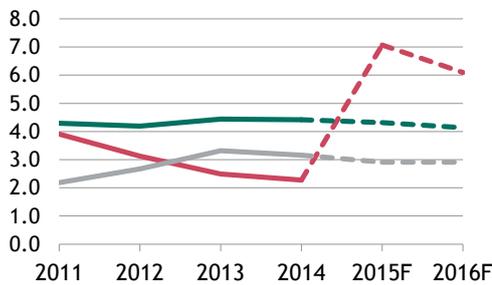
- revenue growth to be supported by above-inflation tariff increases;
- operating margins to contract due to more expensive imports;
- negative FCF in FY15-F18, due to capex;
- liquidity to remain adequate, in light of access to cash and short-term investments.

### Definitions

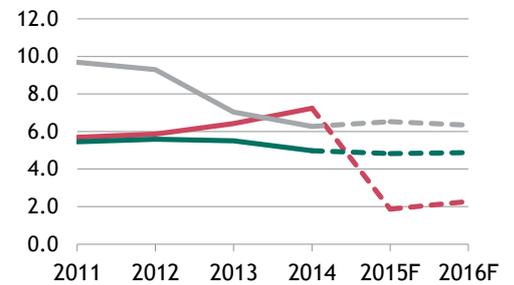
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format" Special Report, dated 25 November 2009 and available at [www.fitchratings.com](http://www.fitchratings.com).

Namibia Power Corporation (Proprietary) Limited — Utilities Median — Emerging BBB Cat Median —  
Source: Company data; Fitch.

## Leverage including Fitch expectations



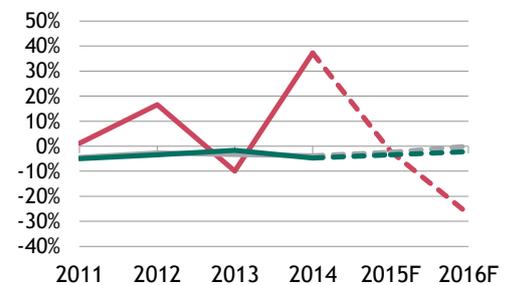
## Interest Cover including Fitch expectations



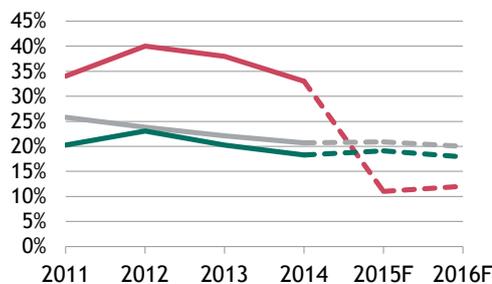
## Debt Maturities and Liquidity at 30 June 14

Debt maturities		NADm
2015		231
2016		188
2017		188
2018		190
After 2018		1,875
Cash and equivalents		1,609
Undrawn Committed Facilities		
(Expiry June 15)		
General Banking Facilities		364

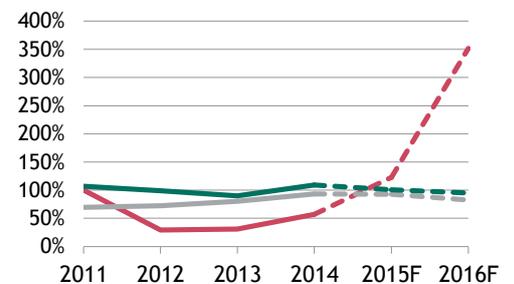
## FCF/Revenues including Fitch expectations



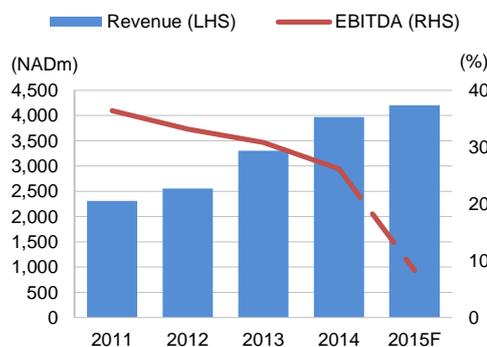
## FFO Profitability including Fitch expectations



## Capex/CFO including Fitch expectations

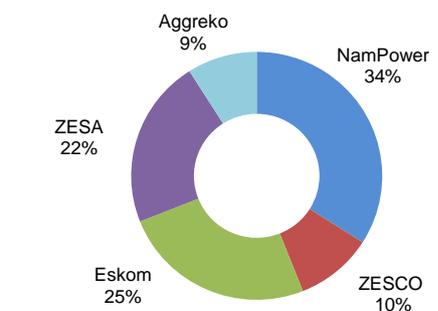


## NamPower Revenue and EBITDA



Source: Fitch

## Energy Supply MWh (FY14)



Source: NamPower

Historical Financial Information

**Namibia Power Corporation (Proprietary) Limited**  
**FINANCIAL SUMMARY**

	30 Jun 2014 NADm Year End	30 Jun 2013 NADm Year End	30 Jun 2012 NADm Year End	30 Jun 2011 NADm Year End	30 Jun 2010 NADm Year End
<b>Profitability</b>					
Revenue	3,968	3,306	2,556	2,309	1,804
Revenue Growth (%)	20.03	29.35	10.67	27.99	18.32
Operating EBIT	508	506	153	175	474
Operating EBITDA	1,038	1,019	848	841	713
Operating EBITDA Margin (%)	26.16	30.82	33.20	36.41	39.54
FFO Return on Adjusted Capital (%)	9.26	9.24	7.82	6.18	7.16
Free Cash Flow Margin (%)	1.20	16.52	(9.99)	37.26	(102.09)
<b>Coverages (x)</b>					
FFO Gross Interest Coverage	7.23	6.43	5.86	5.69	6.69
Operating EBITDA/Gross Interest Expense	6.41	5.75	5.15	6.93	8.97
FFO Fixed Charge Coverage (inc. Rents)	7.23	6.43	5.86	5.69	6.69
FCF Debt-Service Coverage	0.53	1.83	(0.22)	4.26	(12.13)
Cash Flow from Operations/Capital Expenditures	1.75	3.23	3.45	1.00	0.47
<b>Debt Leverage of Cash Flow (x)</b>					
Total Debt with Equity Credit/Operating EBITDA	2.58	2.79	3.55	3.21	3.89
Total Debt Less Unrestricted Cash/Operating EBITDA	1.03	1.16	2.02	1.94	3.62
<b>Debt Leverage Including Rentals (x)</b>					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	n.a.	n.a.	n.a.	n.a.	n.a.
Gross Lease Adjusted Debt/Operating EBITDAR	2.58	2.79	3.55	3.21	3.89
Gross Lease Adjusted Debt /FFO+Int+Rentals	2.28	2.49	3.12	3.91	5.21
FFO Adjusted Net Leverage	0.91	1.04	1.78	2.37	4.86
FCF/Lease Adjusted Debt (%)	1.78	19.26	(8.48)	31.86	(66.44)
<b>Debt Leverage Including Leases and Pension Adjustment (x)</b>					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	2.56	2.77	3.52	3.19	3.89
<b>Balance Sheet Summary</b>					
Readily Available Cash	1,608	1,658	1,292	1,068	189
Restricted/Not Readily Available Cash	n.a.	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	231	219	256	109	66
Long-Term Senior Debt	2,442	2,618	2,753	2,592	2,707
Subordinated debt	n.a.	n.a.	n.a.	n.a.	n.a.
Equity Credit	n.a.	n.a.	n.a.	n.a.	n.a.
Total Debt with Equity Credit	2,672	2,837	3,009	2,701	2,772
Off-Balance-Sheet Debt	n.a.	n.a.	n.a.	n.a.	0
Lease-Adjusted Debt	2,672	2,837	3,009	2,701	2,772
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	n.a.	22
Pension Adjusted Debt	2,672	2,837	3,009	2,701	2,794
<b>Cash Flow Summary</b>					
Operating EBITDA	1,038	1,019	848	841	713
Gross Cash Interest Expense	(162)	(177)	(165)	(121)	(80)
Cash Tax	n.a.	n.a.	n.a.	n.a.	0
Associate Dividends	2	2	2	n.a.	n.a.
Other Items before FFO (incl. interest receivable)	435	413	333	61	54
<b>Funds from Operations</b>	<b>1,314</b>	<b>1,257</b>	<b>1,018</b>	<b>781</b>	<b>688</b>
Change in Working Capital	(26)	16	179	128	136
<b>Cash Flow from Operations</b>	<b>1,288</b>	<b>1,273</b>	<b>1,197</b>	<b>909</b>	<b>824</b>
Total Non-Operating/Non-Recurring Cash Flow	(503)	(333)	(1,106)	861	(893)
Capital Expenditures	(738)	(394)	(347)	(909)	(1,772)
Dividends Paid	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Free Cash Flow</b>	<b>48</b>	<b>546</b>	<b>(255)</b>	<b>860</b>	<b>(1,842)</b>
Net (Acquisitions)/Divestitures	(1)	(1)	0	(0)	5
Net Equity Proceeds/(Buyback)	n.a.	n.a.	n.a.	n.a.	66
Other Cash Flow Items	67	(7)	171	90	100
Total Change in Net Debt	114	538	(85)	950	(1,671)
<b>Working Capital</b>					
Accounts Receivable Days	50	47	53	45	40
Inventory Days	37	40	52	61	136
Accounts Payable Days	179	196	209	137	198

**Reconciliation of Key Financial Metrics for NamPower**

(NADm)	30 Jun 14	30 Jun 13
<b>Interest bearing loans and borrowings</b>	<b>2,672</b>	<b>2,837</b>
+ Subordinated debt	0	0
- Equity credit	0	0
<b>= Total debt with equity credit</b>	<b>2,672</b>	<b>2,837</b>
+ Total off-balance sheet debt (8 x long-term leases)	0	0
<b>= Total lease-adjusted debt (a)</b>	<b>2,672</b>	<b>2,837</b>
- Cash and equivalents (unrestricted)	1,608	1,658
= Net lease-adjusted debt (b)	1,065	1,179
<b>Cash flows from operating activities (as reported)</b>	<b>1,143</b>	<b>1,153</b>
+ Reversal of taxation paid	0	0
<b>= Net cash from operating activities (adjusted by Fitch)</b>	<b>1,143</b>	<b>1,153</b>
- Gross interest paid (c)	162	177
+ Interest received (d)	305	294
- Taxation paid	0	0
+ Dividend received (recurring)	0	0
= Cash flow from operations	1,286	1,270
- Change in working capital	-26	16
<b>= Funds from operations (FFO) (e)</b>	<b>1,311</b>	<b>1,254</b>
Long-term (LT) leases (f)	0	0
<b>FFO adjusted gross leverage (x)</b>		
Gross lease-adjusted debt/(FFO + net finance charge + LT leases) (a/(e+c-d+f))	2.3	2.5
<b>FFO fixed charge cover (x)</b>		
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases) ((e+c-d+f)/(c+f))	7.2	6.4
<b>FFO gross interest coverage (x)</b>		
(FFO + net interest) / gross interest ((e+c-d)/c)	7.2	6.4

Source: Fitch

## Glossary

<b>FFO interest cover</b>	<ul style="list-style-type: none"> <li>Funds flow from operations plus gross interest paid minus interest received plus preferred dividends; divided by gross interest paid plus preferred dividends.</li> </ul>
<b>FFO net interest cover</b>	<ul style="list-style-type: none"> <li>Funds flow from operations plus gross interest paid minus interest received plus preferred dividends; divided by gross interest paid minus interest received plus preferred dividends.</li> </ul>
<b>FFO fixed charge cover</b>	<ul style="list-style-type: none"> <li>Funds flow from operations plus gross interest paid minus interest received plus preferred dividends plus rental expenditure; divided by gross interest paid plus preferred dividends plus rental expenditure.</li> </ul>
<b>FFO adjusted leverage</b>	<ul style="list-style-type: none"> <li>Gross debt, plus lease-adjustment minus equity credit for hybrid instruments plus preferred stock; divided by funds flow from operations plus gross interest paid minus interest received plus preferred dividends plus rental expense.</li> </ul>
<b>FFO adjusted net leverage</b>	<ul style="list-style-type: none"> <li>Gross debt plus lease-adjustments minus equity credit for hybrid instruments plus preferred stock, minus unrestricted cash and marketable securities; divided by funds flow from operations plus gross interest paid minus interest received plus preferred dividends plus rental expenses.</li> </ul>
<b>FCF/total adjusted debt</b>	<ul style="list-style-type: none"> <li>Free cash flow divided by gross debt plus lease-adjustments minus equity credit for hybrid instruments plus preferred stock.</li> </ul>
<b>Total adjusted debt/operating EBITDAR</b>	<ul style="list-style-type: none"> <li>Total balance sheet debt adjusted for equity credit and off-balance-sheet debt divided by operating EBITDAR.</li> </ul>
<b>Notching</b>	<ul style="list-style-type: none"> <li>The practice of establishing a given rating relative to a defined "anchor rating".</li> </ul>
<b>Total financing and commitments (TFC) ratio</b>	<ul style="list-style-type: none"> <li>Measures the total debt, financing, and capital markets footprint of an organisation and its overall reliance on ongoing access to funding sources.</li> </ul>

Source: Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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