Namibia Power Corporation (Proprietary) Limited

Update

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
National	
Long-Term IDR	AA-(zaf)
Short-Term IDR	F1+(zaf)

Outlooks

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

Financial Data

Namibia Power Corporation (Pty) Ltd	30 Jun 13	30 Jun 12
Revenue (NADm)	3,305.6	2,555.6
Operating EBITDA Margin (%)	33.2	30.56
Free Cash Flow (NADm)	546.2	-255.20
FFO Gross Interest Coverage (x)	6.43	5.86
FFO Adjusted Leverage (x)	2.49	3.12

Related Research

Africa Ratings Compendium (February 2014)

2014 Outlook: EMEA Utilities (December 2013)

Analysts

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Key Rating Drivers

Strong Government Support Expected: Fitch Ratings expects the relationship between Namibia Power Corporation (Proprietary) Limited (NamPower) and the state to remain unchanged in the medium term. There is a track record of tangible state support with NamPower benefiting from an energy subsidy for NAD360m in 2008. In addition, Fitch expects future energy subsidies to pay for the fuel used in generation before the Kudu Power Station comes into operation.

The state guaranteed 21% of NamPower's debt as of the end of the financial year to June 2013 (FYE13), and the government is involved in the company's investment decisions.

Imports Weigh on Business: NamPower will continue to import an increasing amount of electricity to satisfy domestic demand, until the Kudu project is commissioned around 2018. Therefore, Fitch expects NamPower's operating margin to decrease due to the high cost of imports compared with its own hydro power. Electricity imports will probably dilute the profit margin, even though the tariff regulation allows for cost pass through.

Weakening in Credit Metrics: Fitch expects a near-term material weakening in NamPower's credit ratios due to the margin reduction and increased investments, with a recovery expected after the commissioning of the Kudu project. As a result, we believe NamPower will probably face pressure on some of its loan covenants with the development financial institutions (DFIs), but we expect that the DFIs will take a longer-term view and allow a relaxation of covenants in the medium term.

Kudu Power Capital Structure: Kudu Power will play a crucial role in executing electrification policies and ensuring sufficient electricity supply to Namibia. The final investment decision is expected second half of 2014 and Fitch provides an overview of the proposed structure. (See Appendix 1 for more details on Kudu Power).

Rating Sensitivities

Sovereign Upgrade: A positive action on Namibia's sovereign 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 Kudu 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 NAD1.7bn cash buffer as of FYE13, supported by a relatively liquid investment portfolio amounting to NAD2.9bn (FY12:NAD2.5bn) and committed facilities for NAD364m (expiry June 2014). This can be accessed at short notice to bolster its liquidity position and investment needs. This compares to NAD219m of short-term debt and Fitch's expectation of negative free cash flow of around NAD22m for 2014.

Peer Group

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

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
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[a]	Trend
Operations	Average	Neutral
Market Position	Strong	Neutral
Finances	Average	Worsening
Governance	Average	Neutral
Geography	Weak	Neutral

[a] Relative to peer group

Related Criteria

Corporate Rating Methodology (August 2013)

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

	PGE BBB+/Stable 2012	SEC AA-/Stable 2012	Eskom BBB+/Stable 2013	NamPower BBB-/Stable 2013
Revenue (ZARm)	103,303	92,595	128,869	3,306
Operating EBITDAR/revenue (%)	27	39.8	18.2	30.6
FFO Interest Coverage (x)	123	12	2.8	6.4
FFO Adjusted Leverage (x)	0.24	2.4	7.2	2.5

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).

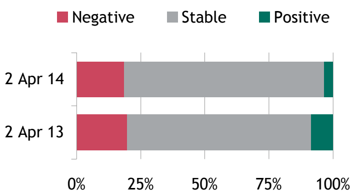
Saudi Electricity Company (SEC) (AA−/Stable) – the ratings factor in the scale of its investment programme, including its expected weight on SEC's balance sheet over the next few years. SEC is 74% state owned, 7% owned by state-owned Saudi Arabian Oil Company and the remaining 19% listed on the domestic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

Eskom Holdings SOC Limited (Eskom, BBB+/Stable) – is 100% owned by the South African state, benefiting from explicit debt guarantees by the state, and holds a monopoly position in electricity generation and transmission. Eskom generates more than 90% of its electricity from coal and is spending ZAR337bn on new power plants, and renovating older ones.

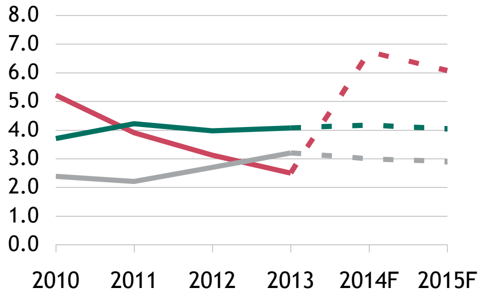
Namibia Power Corporation (NamPower, BBB−/Stable) – is the monopoly power generation and transmission company in Namibia, 100% owned by the state. The company relies heavily on a key hydro plant, but has smaller back-up plants for periods of peak demand. It imports 50% to 60% (driven by water levels at the Ruacana hydro plant) of its electricity from the Southern African Development Community region to meet demand.

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

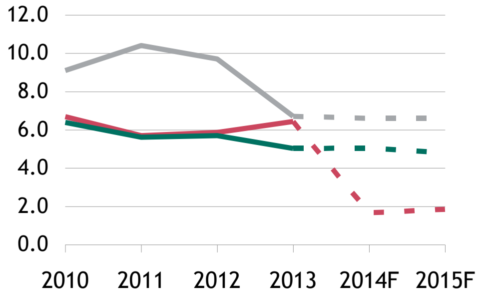
Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



Leverage
including Fitch expectations



Interest Cover
including Fitch expectations



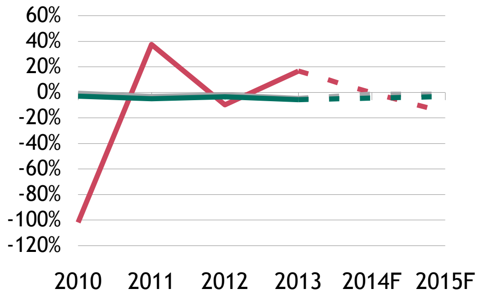
Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- revenue growth to be supported by cost-reflective tariffs;
- operating margins to contract due to more expensive imports;
- negative FCF in FY14-F17, due to Capex;
- liquidity to remain sound, in light of access to cash and short-term

Debt Maturities and Liquidity at 30 June 13

Debt maturities	(NADm)
2014	231
2015	220
2016	222
2017	294
After 2018	1,874
Cash and equivalents	1,658
Undrawn Committed Facilities (Expiry June 14)	
General Banking Facilities	364

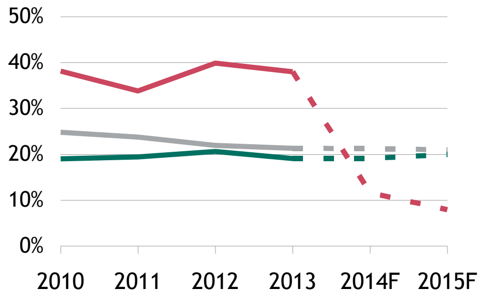
FCF/Revenues
including Fitch expectations



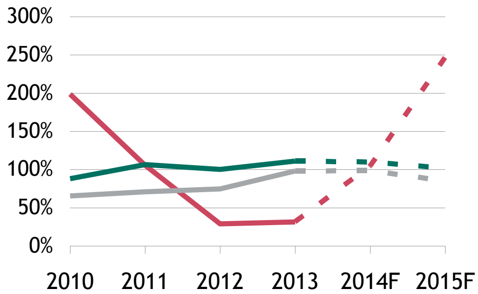
Definitions

- 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.

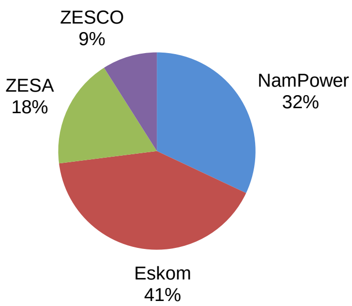
FFO Profitability
including Fitch expectations



Capex/CFO
including Fitch expectations

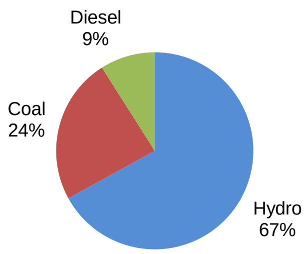


Energy Supply



Source: NamPower

Energy Production Breakdown



Source: NamPower

Appendix 1: Kudu Power Project

NamPower will be the controlling partner for the combined cycle gas turbine project with estimated total costs USD1,240m, including financing costs and with 70/30 debt to equity ratio. The project is strategic for both the country and NamPower. However, the size is beyond the company's financial capacity. As such, the government will provide a significant contribution, including guarantee undertakings, limiting the financial and commercial risks for NamPower.

The KuduPower station will be built through a turnkey engineering, procurement and construction contract which will be owned by KuduPower, a special purpose vehicle, created for owning and managing the power station, with NamPower as a minimum 51% shareholder. KuduPower will operate and maintain the power station through an operations and maintenance company under its control.

The plant will be located at Uubvley, 25km north of Oranjemund (approximately 800 km from Namibia's capital city, Windhoek). The plant configuration will be that of an 850MW-1,000MW nominal methane gas-based combined cycle gas turbine power station. The gas will be supplied under a gas supply agreement. All electricity generated by the plant will be sold under the terms of a power purchase agreement (PPA) between NamPower and KuduPower. Electricity not sold in Namibia will be exported to regional off-takers, under separate power export agreements (PXAs) for similar contract periods and electricity purchased under the PPA will be transmitted by NamPower via the Namibian transmission grid for Namibian utilisation and delivery to the Namibian/Zambian and Namibian/South African borders for delivery to regional purchasers.

In the 2014/2015 budget, the Namibian government has provided for NAD1.6bn (USD150m) and a further NAD2.6bn (USD245m) is likely to be provided in the 2016/2017 budget for NamPower to support KuduPower. NamPower's minimum 51% equity component for the KuduPower SPV is estimated by Fitch at USD190m. Considering the proposed funding structure, including project-level debt with limited recourse to NamPower, Fitch will focus on NamPower's credit metrics on an unconsolidated basis, initially reflecting NamPower's equity contribution to KuduPower.

Copperbelt Energy Corporation (CEC) has signed a joint development agreement and will hold a stake of approximately 20%-30% in the KuduPower SPV. NamPower will on-sell 200MW-300MW to CEC. Further equity (19%-29%) will be sourced from other strategic investors and off-take counterparties.

All the power produced by Kudu Power Station will be sold to NamPower through a long-term PPA. This is expected to create a secure revenue stream sufficient to support all KuduPower's costs including debt servicing, operational commitments and investor returns. NamPower will sell about half of the power on the domestic market under the existing cost pass-through regulation with the remainder exported under a long-term PXA.

All substantial commercial risks (price, volume, FX) are thus expected by Fitch to be pass-through for NamPower. Similarly power delivery obligation under the PXAs will mirror the project's ability to deliver the power to the system with the key risk for NamPower relating to its ability to upgrade its transmission capacity and maintain its availability. Counterparty risk under the PXA should be mitigated by the equity contribution. We assume that the government will provide a direct financial undertaking for the project to secure its financeability and thus indirectly guarantee NamPower's obligation under the PPA.

Namibia Power Corporation (Proprietary) Limited
FINANCIAL SUMMARY

	30 Jun 2013 NADm Year End	30 Jun 2012 NADm Year End	30 Jun 2011 NADm Year End	30 Jun 2010 NADm Year End	30 Jun 2009 NADm Year End
Profitability					
Revenue	3,306	2,556	2,309	1,804	1,525
Revenue Growth (%)	29.35	10.67	27.99	18.32	20.88
Operating EBIT	498	153	175	474	204
Operating EBITDA	1,010	848	841	713	432
Operating EBITDA Margin (%)	30.56	33.20	36.41	39.54	28.32
FFO Return on Adjusted Capital (%)	9.24	7.82	6.18	7.16	6.62
Free Cash Flow Margin (%)	16.52	(9.99)	37.26	(102.09)	2.05
Coverages (x)					
FFO Gross Interest Coverage	6.43	5.86	5.69	6.69	4.95
Operating EBITDA/Gross Interest Expense	5.70	5.15	6.93	8.97	7.00
FFO Fixed Charge Coverage (inc. Rents)	6.43	5.86	5.69	6.69	4.95
FCF Debt-Service Coverage	1.83	(0.22)	4.26	(12.13)	0.67
Cash Flow from Operations/Capital Expenditures	3.23	3.45	1.00	0.47	0.64
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	2.81	3.55	3.21	3.89	3.44
Total Debt Less Unrestricted Cash/Operating EBITDA	1.17	2.02	1.94	3.62	2.11
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	n.a.	n.a.	n.a.	0	0
Gross Lease Adjusted Debt/Operating EBITDAR	2.81	3.55	3.21	3.89	3.44
Gross Lease Adjusted Debt /FFO+Int+Rentals	2.49	3.12	3.91	5.21	4.87
FFO Adjusted Net Leverage	1.04	1.78	2.37	4.86	2.99
FCF/Lease Adjusted Debt (%)	19.26	(8.48)	31.86	(66.44)	2.11
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	2.79	3.52	3.19	3.89	3.42
Balance Sheet Summary					
Cash and Equivalents (Unrestricted)	1,658	1,292	1,068	189	574
Restricted Cash and Equivalents	n.a.	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	219	256	109	66	78
Long-Term Senior Debt	2,618	2,753	2,592	2,707	1,408
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	2,837	3,009	2,701	2,772	1,486
Off-Balance-Sheet Debt	n.a.	n.a.	n.a.	0	0
Lease-Adjusted Debt	2,837	3,009	2,701	2,772	1,486
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	22	10
Pension Adjusted Debt	2,837	3,009	2,701	2,794	1,496
Cash Flow Summary					
Operating EBITDA	1,010	848	841	713	432
Gross Cash Interest Expense	(177)	(165)	(121)	(80)	(62)
Cash Tax	n.a.	n.a.	n.a.	0	(63)
Associate Dividends	2	2	n.a.	n.a.	n.a.
Other Items before FFO (incl. interest receivable)	422	333	61	54	237
Funds from Operations	**1,257**	**1,018**	**781**	**688**	**544**
Change in Working Capital	16	179	128	136	264
Cash Flow from Operations	**1,273**	**1,197**	**909**	**824**	**808**
Total Non-Operating/Non-Recurring Cash Flow	(333)	(1,106)	861	(893)	482
Capital Expenditures	(394)	(347)	(909)	(1,772)	(1,259)
Dividends Paid	n.a.	n.a.	n.a.	n.a.	n.a.
Free Cash Flow	**546**	**(255)**	**860**	**(1,842)**	**31**
Net (Acquisitions)/Divestitures	(1)	0	(0)	5	121
Net Equity Proceeds/(Buyback)	n.a.	n.a.	n.a.	66	250
Other Cash Flow Items	(7)	171	90	100	(3)
Total Change in Net Debt	538	(85)	950	(1,671)	400
Working Capital					
Accounts Receivable Days	47	53	45	40	37
Inventory Days	40	52	61	136	164
Accounts Payable Days	196	209	137	198	230

Reconciliation of Key Financial Metrics for NamPower

(NADm)	30 Jun 13	30 Jun 12
Interest bearing loans and borrowings	2,837	3,009
+ Subordinated debt	0	0
- Equity credit	0	0
= Total debt with equity credit	2,837	3,009
+ Total off-balance sheet debt (8 x long-term leases)	0	0
= Total lease-adjusted debt (a)	2,837	3,009
- Cash and equivalents (unrestricted)	1,658	1,292
= Net lease-adjusted debt (b)	1,179	1,717
Cash flows from operating activities (as reported)	1,153	1,142
+ Reversal of taxation paid	0	0
= Net cash from operating activities (adjusted by Fitch)	1,153	1,142
- Gross interest paid (c)	177	165
+ Interest received (d)	294	217
- Taxation paid	0	0
+ Dividend received (recurring)	0	0
= Cash flow from operations	1,270	1,194
- Change in working capital	16	179
= Funds from operations (FFO) (e)	1,254	1,016
Long-term (LT) leases (f)	0	0
FFO adjusted gross leverage (x)		
Gross lease-adjusted debt/(FFO + net finance charge + LT leases) (a/(e+c-d+f))	2.5	3.1
FFO fixed charge cover (x)		
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases) ((e+c-d+f)/(c+f))	6.4	5.8
FFO gross interest coverage (x)		
(FFO + net interest) / gross interest ((e+c-d)/c))	6.4	5.8

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.