FitchRatings

Corporates
Utilities - Non US
Namibia

Namibia Power Corporation (Proprietary) Limited

Namibia Power Corporation (Proprietary) Limited's (NamPower) rating is constrained by the Namibian sovereign (BB/Negative) under Fitch Ratings' *Government-Related Entities (GRE) Rating Criteria* and *Parent and Subsidiary Linkage (PSL) Rating Criteria*. NamPower's Standalone Credit Profile (SCP) is 'bbb-', reflecting the company's monopolistic position in transmission and energy trading in Namibia and a strong financial profile.

Key Rating Drivers

Strong GRE Links: Fitch Ratings assesses the government's ownership and control of the company as 'Strong' under its GRE Criteria. This is due to the government's full ownership of the company through The Ministry of Mines and Energy and Ministry of Public Enterprises. The track record of support is 'Strong', with the most significant elements of support including government-guaranteed debt – about 5% of total debt at the end of the financial year ending June 2020 (FY20) – and historical government grants for infrastructure and fuel.

Fitch deems the socio-political and financial implications of a default by NamPower as 'Strong', given the essential character of electricity supply and significant development needs for electricity infrastructure.

Modified Single Buyer (MSB) Market Model: The MSB model came into effect in Namibia in September 2019. Fitch does not expect the MSB model to negatively affect NamPower's SCP. The MSB model allows independent power producers to generate and sell electricity output directly to regional electricity distributors, large industrial and mining companies, including municipalities, compared with the single buyer model where electricity output can only be sold to NamPower.

These agreements are initially limited to 30% of customers' energy consumption. NamPower retains its monopolistic transmission position through the introduction of an unbundled tariff, including reliability charge, and remains the supplier of last resort.

Capex Leads to Negative FCF: NamPower is undertaking four power generation projects aimed at reducing its reliance on imported electricity. Once completed, these are expected to increase generation capacity to 755 megawatts (MW) by FYE23 (including the Van Eck plant planned upgrade) from 489MW at FYE18. The four projects are being funded by cash resources, cash flow from operations, and debt.

Fitch expects the associated capex to lead to significant negative free cash flow (FCF) in FY21-FY24, and therefore does not expect tax or dividend payments in this period. We forecast NamPower to keep a net cash position across the rating horizon to FY24.

Reliance on Imported Electricity: Fitch expects NamPower to remain reliant on imported electricity, albeit at a gradually reducing level for the next five years. The level of energy imports was about 60% in FY20. Eskom Holdings SOC Ltd. (B/Negative) supplied about 34% of total imported electricity in FY20. Zimbabwe Power Company (ZPC) and Zambia Electricity Supply Corporation (ZESCO) offer limited diversification, supplying about 8% and 11% of total electricity in FY20, respectively.

Ratings

Rating type	Rating	Outlook	Last rating action
Long-Term IDR	BB	Negative	Affirmed 11 Feb 2021
National Long-Term Rating	AAA (zaf)	Stable	Affirmed 11 Feb 2021
National Short-Term Rating	F1+ (zaf)		Affirmed 11 Feb 2021

Click here for full list of ratings

Applicable Criteria

Corporate Rating Criteria (December 2020)
Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)
National Scale Rating Criteria (December 2020)
Parent and Subsidiary Linkage Rating Criteria (August 2020)
Government-Related Entities Rating Criteria (September 2020)

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SCP Commensurate with 'bbb-': NamPower has a strong capital structure, driven by over NAD8 billion of liquid investments (over 80% with short-term maturities) compared with the NAD1.4 billion of debt at FY20 and the Fitch-expected negative FCF of an average of NAD1.7 billion over the next four years. This enables NamPower to maintain a net cash position throughout the rating horizon, which is consistent with the current SCP.

Strong Performance Despite Pandemic: In FY20, NamPower reported improved performance despite the pandemic. The company's Fitch-calculated EBITDA increased by 21% to NAD1,354 million, primarily due to above average rainfall, increased operation of its relatively cheap Ruacana power plant and higher export revenue.

Increased export volumes offset the overall 2% reduction in local energy consumption due to national lockdowns and the Covid-19 pandemic. Electricity demand has remained stable in 2021 to date, but EBITDA for FY21 is expected to decline due to the higher cost of US dollar-denominated imports, as well as increases in other costs due to inflation. This is not offset by tariff increases as it has been agreed to keep them stable at the FY20 level.

Financial Summary

Namibia Power Corporation (Proprietary) Limited

(NADm)	Jun 2019	Jun 2020	Jun 2021F	Jun 2022F
Gross Revenue	6,580	6,892	7,030	7,100
Operating EBITDAR Margin (%)	17.1	19.6	3.0	4.5
FFO Margin (%)	21.5	24.8	8.3	8.5
FFO Interest Coverage (x)	6.9	13.0	2.9	5.3
FFO Net Leverage (x)	-8.9	-6.3	-34.1	-15.4

F – Forecast.
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

NamPower's ratings are the same as Namibia Water Corporation's (NamWater; BB/Negative). The Issuer Default Ratings (IDRs) are constrained by the Namibian sovereign (BB/Negative) in accordance with Fitch's GRE and PSL criteria. Both have SCPs of 'bbb-', which benefit from having monopoly positions and strong financial profiles.

Among its international peer group – which includes Eskom, PGE Polska Grupa Energetyzcna S.A. (BBB+/Stable) and Saudi Electricity Company (A-/Stable) – NamPower's financial profile is the strongest in terms of funds from operations (FFO) net leverage. NamPower's net cash position is mainly due to cash generated from operations supported by cost-reflective tariffs and to delays in capex for new generation capacity. However, NamPower has a weaker business profile due to smaller scale, weaker market trends, lower regulatory maturity and significant reliance on imported electricity.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Eskom Holdings SOC Ltd.	B/Neg	bb+	b+	b+	b	bb	b+	ccc	ccc	ccc
Namibia Power Corporation (Proprietary) Limited	BB/Neg	bb+	bb+	bbb	bb+	bb	bb+	bb+	a-	bbb
PGE Polska Grupa Energetyczna S.A.	BBB+/Sta	a	a-	bbb	bbb	bbb+	bb	bbb	a	bbb+
Saudi Electricity Company	A-/Sta	bbb+	bbb	bbb-	bb	bbb-	bbb-	bb+	a-	bbb

Source: Fitch Ratings.

Importance: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Eskom Holdings SOC Ltd.	B/Neg	4.0	1.0	1.0	0.0	3.0	1.0	-3.0	-3.0	-3.0
Namibia Power Corporation (Proprietary) Limited	BB/Neg	1.0	1.0	3.0	1.0	0.0	1.0	1.0	5.0	3.0
PGE Polska Grupa Energetyczna S.A.	BBB+/Sta	2.0	1.0	-1.0	-1.0	0.0	-4.0	-1.0	2.0	0.0
Saudi Electricity Company	A-/Sta	-1.0	-2.0	-3.0	-5.0	-3.0	-3.0	-4.0	0.0	-2.0

Source: Fitch Ratings.

Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

NamPower

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Positive rating action on Namibia.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Negative rating action on Namibia.

Namibia (7 December 2020)

The Main Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade Are:

- Public Finances: Credible fiscal plans and evidence of stronger ability to implement fiscal reforms sufficient to stabilise the government debt/GDP trajectory in the medium term;
- Macroeconomic Performance, Policies and Prospects: Stronger medium-term growth, for example resulting from improved prospects for the mining sector.

The Main Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Public Finances: Failure to achieve clear progress towards stabilising government debt-to-GDP in the medium term or a faster near-term increase in government debt/GDP than our current projections;
- Macroeconomic Performance, Policies and Prospects: Reduced confidence in the strength of the expected recovery following the pandemic shock or further downward revision to trend growth;
- External Finances: Increased external vulnerabilities for example from significant widening of the current account deficit or a sustained decline in international reserves.

Liquidity and Debt Structure

Strong Liquidity: As at end-December 2020, NamPower had Fitch-defined cash and cash equivalents of approximately NAD10 billion (including short-term investments of over NAD8 billion). This compares favourably with short-term debt of NAD69 million at end-December 2020 and Fitch's expectation of FCF of negative NAD1.5 billion over the next 12 months.

Liquidity and Debt Maturity Scenario with No Refinancing

Namibia Power Corporation (Proprietary) Limited – Liquidity Analysis

(NADm)	2021F	2022F	2023F
Available liquidity			
Beginning cash balance	8,857	7,245	4,478
Rating-case FCF after acquisitions and divestitures	-1,109	-2,642	-1,854
Total available liquidity (A)	**7,748**	**4,603**	**2,624**
Liquidity uses			
Debt maturities	-502	-125	-90
Total liquidity uses (B)	**-502**	**-125**	**-90**
Liquidity calculation			
Ending cash balance (A+B)	7,245	4,478	2,534
Revolver availability	0	0	0
Ending liquidity	**7,245**	**4,478**	**2,534**
Liquidity score (x)	15.4	36.7	29.3

F – Forecast
Source: Fitch Ratings, Fitch Solutions, Namibia Power Corporation (Proprietary) Limited

Scheduled Debt Maturities (NADm)	Original 30 June 2020
2021	502
2022	125
2023	90
2024	22
2025	0
Thereafter	689
Total	**1,429**

Source: Fitch Ratings, Fitch Solutions, Namibia Power Corporation (Proprietary) Limited

Key Assumptions

- Electricity sales volumes to increase at low-single digits per year over the medium term
- Introduction of MSB and increase in own generation as planned to lead to lower reliance on imports
- No tariff increase in FY21 to be partially offset by support under the Long Run Marginal Cost Fund
- Increase in capex to over NAD2 billion per year over 2021-2024
- Net working capital outflow of over NAD300 million for FY21
- No dividend distribution during FY21-FY24

Financial Data

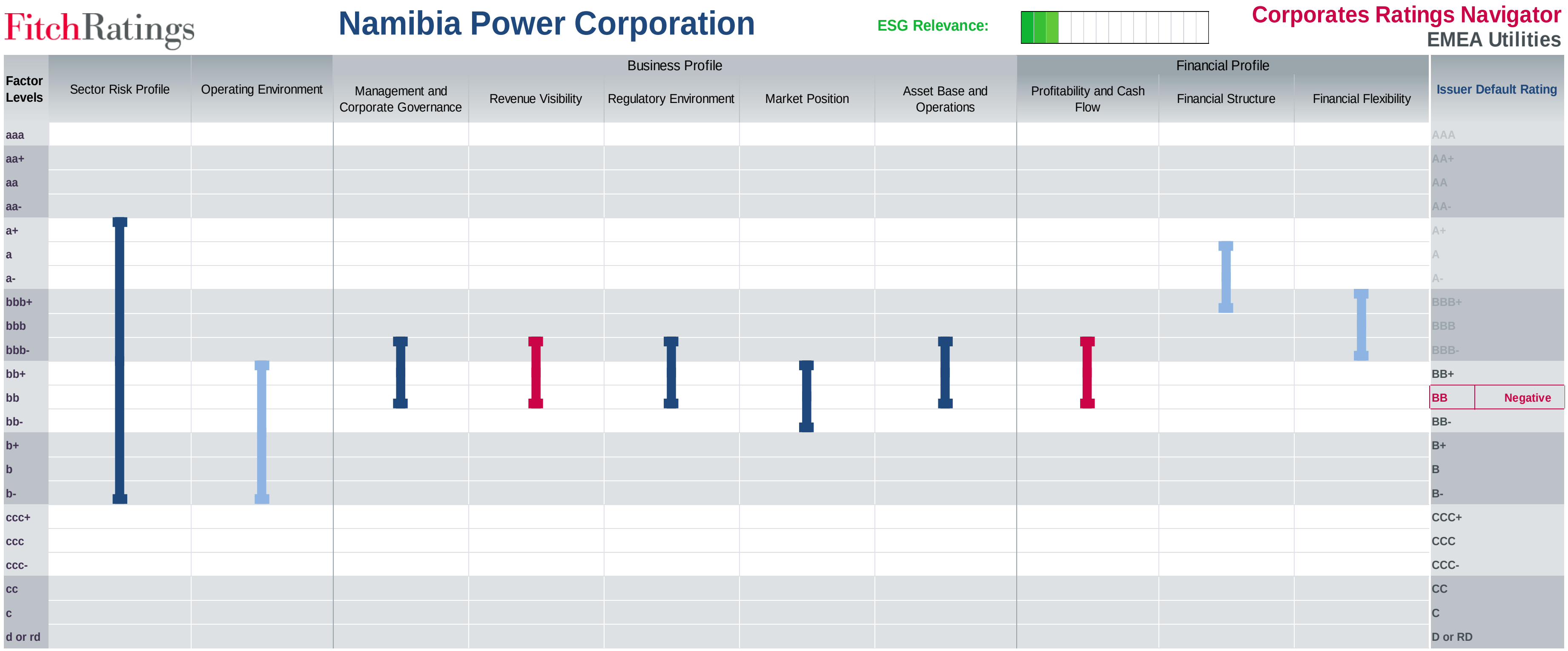
Namibia Power Corporation (Proprietary) Limited						
(NADm)	Historical			Forecast		
	Jun 2018	Jun 2019	Jun 2020	Jun 2021F	Jun 2022F	Jun 2023F
Summary Income Statement						
Gross Revenue	6,595	6,580	6,892	7,030	7,100	7,172
Revenue Growth (%)	11.4	-0.2	4.8	2.0	1.0	1.0
Operating EBITDA (Before Income from Associates)	1,986	1,123	1,354	208	317	405
Operating EBITDA Margin (%)	30.1	17.1	19.6	3.0	4.5	5.6
Operating EBITDAR	1,986	1,123	1,354	208	317	405
Operating EBITDAR Margin (%)	30.1	17.1	19.6	3.0	4.5	5.6
Operating EBIT	1,110	340	533	-693	-693	-768
Operating EBIT Margin (%)	16.8	5.2	7.7	-9.9	-9.8	-10.7
Gross Interest Expense	-193	-172	-141	-76	-63	-149
Pretax Income (Including Associate Income/Loss)	1,735	1,050	355	-332	-425	-603
Summary Balance Sheet						
Readily Available Cash and Equivalents	7,764	8,880	8,857	8,894	6,282	5,313
Total Debt with Equity Credit	2,032	1,824	1,429	1,279	1,147	1,978
Total Adjusted Debt with Equity Credit	2,032	1,824	1,429	1,279	1,147	1,978
Net Debt	-5,732	-7,056	-7,428	-7,615	-5,135	-3,335
Summary Cash Flow Statement						
Operating EBITDA	1,986	1,123	1,354	208	317	405
Cash Interest Paid	-132	-114	-91	-76	-63	-149
Cash Tax	-647	-551	-334	0	0	0
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	413	218	165	15	16	16
Funds Flow from Operations	2,231	1,415	1,710	584	601	585
FFO Margin (%)	33.8	21.5	24.8	8.3	8.5	8.2
Change in Working Capital	-470	88	-332	-409	40	81
Cash Flow from Operations (Fitch Defined)	1,761	1,503	1,379	176	642	666
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-663	-276	-311			
Capital Intensity (Capex/Revenue) %	10.1	4.2	4.5			
Common Dividends	0	-61	-83			
Free Cash Flow	1,098	1,166	985			
Net Acquisitions and Divestitures	1	5	2			
Other Investing and Financing Cash Flow Items	-564	-737	-111	1,296	162	54
Net Debt Proceeds	-95	-202	-509	-150	-132	831
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	441	232	367	37	-2,612	-969
Leverage Ratios						
Total Net Debt With Equity Credit/Operating EBITDA (x)	-2.9	-6.3	-5.5	-36.6	-16.2	-8.2
Total Adjusted Debt/Operating EBITDAR (x)	1.0	1.6	1.1	6.1	3.6	4.9
Total Adjusted Net Debt/Operating EBITDAR (x)	-2.9	-6.3	-5.5	-36.6	-16.2	-8.2
Total Debt with Equity Credit/Operating EBITDA (x)	1.0	1.6	1.1	6.1	3.6	4.9
FFO Adjusted Leverage (x)	1.2	2.3	1.2	5.7	3.4	4.7
FFO Adjusted Net Leverage (x)	-3.3	-8.9	-6.3	-34.1	-15.4	-7.9
FFO Leverage (x)	1.2	2.3	1.2	5.7	3.4	4.7
FFO Net Leverage (x)	-3.3	-8.9	-6.3	-34.1	-15.4	-7.9
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-662	-331	-392	-1,285	-3,284	-2,520
Free Cash Flow After Acquisitions and Divestitures	1,100	1,171	987	-1,109	-2,642	-1,854
Free Cash Flow Margin (After Net Acquisitions) (%)	16.7	17.8	14.3	-15.8	-37.2	-25.9
Coverage Ratios						
FFO Interest Coverage (x)	13.3	6.9	13.0	2.9	5.3	2.8
FFO Fixed Charge Coverage (x)	13.3	6.9	13.0	2.9	5.3	2.8
Operating EBITDAR/Interest Paid + Rents (x)	15.1	9.8	14.8	2.7	5.0	2.7
Operating EBITDA/Interest Paid (x)	15.1	9.8	14.8	2.7	5.0	2.7
ADDITIONAL METRICS						
CFO-capex/Total Debt with Equity Credit (%)	54.0	67.3	74.7	-86.8	-230.4	-93.7
CFO-capex/Total Net Debt with Equity Credit (%)	-19.2	-17.4	-14.4	14.6	51.5	55.6

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	□	Stable

FitchRatings

Namibia Power Corporation

Corporates Ratings Navigator
EMEA Utilities

Operating Environment

bbb-	Economic Environment	bb	Below-average combination of countries where economic value is created and where assets are located.
bb+	Financial Access	a	Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	bbb	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'bbb'.
b-			
ccc+			

Management and Corporate Governance

bbb	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb-	Governance Structure	bbb	Good governance track record but board effectiveness/independence less obvious. No evidence of abuse of power even with ownership concentration.
bb+	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bb	Financial Transparency	bb	Financial reporting appropriate but with some failings (eg lack of interim or segment analysis).
bb-			

Revenue Visibility

bbb	Size and Integration	a	Top-tier position in more than one market. Vertically integrated (typically including generation, transmission, distribution and supply).
bbb-	Earnings from Regulated Network Assets	bb	Less than 25% of EBITDA comes from high-quality regulated network assets.
bb+	Quasi-Regulated Earnings	b	Small amounts of income from quasi-regulated assets or long-term contracts.
bb			
bb-			

Regulatory Environment

bbb	Regulatory Framework and Policy Risk	bb	Opaque or overly demanding frameworks with limited track record, short-term tariffs; significant political risk.
bbb-	Cost Recovery and Risk Exposure	bbb	Tariff setting that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag, price and volume risk.
bb+			
bb			
bb-			

Market Position

bbb-	Fundamental Market Trends	bb	Markets with structural challenges.
bb+	Generation and Supply Positioning	bb	Weak position in the merit order; limited hedging. Own generation not in balance with marginal position in supply and services.
bb	Customer Base and Counterparty Risk	bb	Structurally challenged economy in area served; high counterparty risk; supply operations with high doubtful debt levels.
bb-			
b+			

Asset Base and Operations

bbb	Asset Quality	bbb	Mid-range asset quality not likely to affect opex and capex requirements compared with peers.
bbb-	Asset Diversity	bb	Limited diversification by geography, generation source, supplied product.
bb+	Carbon Exposure	a	Energy production mostly from clean sources and low carbon exposure (< 300gCO2/kWh).
bb			
bb-			

Profitability and Cash Flow

bbb	Free Cashflow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb-	Volatility of Profitability	bb	Lower stability and predictability of profits than utility peers.
bb+			
bb			
bb-			

Financial Structure

a+	FFO Leverage	bbb	5.0x
a	FFO Net Leverage	a	3.0x
a-			
bbb+			
bbb			

Financial Flexibility

a-	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
bbb+	Liquidity	aa	Very comfortable liquidity; no need to use external funding in the next 24 months even under a severe stress scenario. Well-spread debt maturity. Diversified sources of funding.
bbb	FFO Interest Coverage	bb	3.5x
bbb-	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bb+			

Credit-Relevant ESG Derivation

				Overall ESG
Namibia Power Corporation has no ESG rating drivers	key driver	0	issues	5
	driver	0	issues	4
	potential driver	0	issues	3
	not a rating driver	0	issues	2
		0	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

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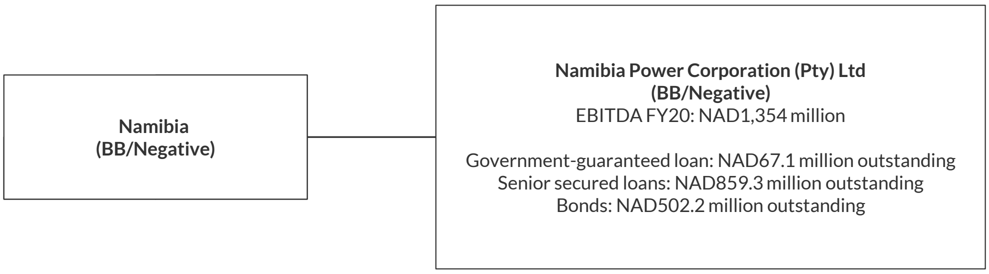
Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Namibia Power Corporation (Proprietary) Limited, as of June 2020

Peer Financial Summary

Company	Issuer Default Rating	Financial Statement Date	Gross Revenue (USDm)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Net Leverage (x)	FFO Interest Coverage (x)
Namibia Power Corporation (Proprietary) Limited	BB						
		2020	439	19.6	24.8	-6.3	13.0
		2019	467	17.1	21.5	-8.9	6.9
		2018	500	30.1	33.8	-3.3	13.3
Eskom Holdings SOC Ltd.	B						
		2019	13,068	17.0	-2.5	15.1	0.8
		2018	13,639	25.8	6.0	9.5	1.2
		2017	12,578	21.9	12.7	7.2	1.6
Saudi Electricity Company	A-						
		2019	17,344	39.0	39.7	3.6	6.8
		2018	17,084	35.7	39.9	3.7	7.5
		2017	13,497	38.9	51.9	3.4	9.1
PGE Polska Grupa Energetyczna S.A.	BBB+						
		2019	9,799	19.1	15.2	1.7	19.0
		2018	7,181	24.8	20.5	1.7	17.8
		2017	6,126	33.0	28.6	1.1	22.8
Namibia Water Corporation	BB						
		2019	118	25.0	24.3	-1.4	6.6
		2018	118	27.7	27.8	-0.2	11.7
		2017	91	16.6	19.2	-2.1	11.2

Source: Fitch Ratings, Fitch Solutions.

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Fitch Adjusted Financials

(NADm)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	Other Adjustments	Adjusted Values
30 June 2020						
Income Statement Summary						
Revenue		6,892				6,892
Operating EBITDAR		1,354				1,354
Operating EBITDAR After Associates and Minorities	(a)	1,354				1,354
Operating Lease Expense	(b)	0				0
Operating EBITDA	(c)	1,354				1,354
Operating EBITDA After Associates and Minorities	(d) = (a-b)	1,354				1,354
Operating EBIT	(e)	533				533
Debt and Cash Summary						
Total Debt with Equity Credit	(f)	1,429				1,429
Lease-Equivalent Debt	(g)	0				0
Other Off-Balance-Sheet Debt	(h)	0				0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	1,429				1,429
Readily Available Cash and Equivalents	(j)	8,858	-2	-3	1	8,857
Not Readily Available Cash and Equivalents		0				0
Cash Flow Summary						
Operating EBITDA After Associates and Minorities	(d) = (a-b)	1,354				1,354
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	617				617
Interest (Paid)	(m)	-91				-91
Cash Tax (Paid)		-334				-334
Other Items Before FFO		165				165
Funds from Operations (FFO)	(n)	1,710				1,710
Change in Working Capital (Fitch-Defined)		-332				-332
Cash Flow from Operations (CFO)	(o)	1,379				1,379
Non-Operating/Nonrecurring Cash Flow		0				0
Capital (Expenditures)	(p)	-311				-311
Common Dividends (Paid)		-83				-83
Free Cash Flow (FCF)		985				985
Gross Leverage (x)						
Total Adjusted Debt/Operating EBITDAR[a]	(i/a)	1.1				1.1
FFO Adjusted Leverage	(i/(n-m-l-k+b))	1.2				1.2
FFO Leverage	(i-g)/(n-m-l-k)	1.2				1.2
Total Debt with Equity Credit/Operating EBITDA[a]	(i-g)/d	1.1				1.1
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	74.7%				74.7%
Net Leverage (x)						
Total Adjusted Net Debt/Operating EBITDAR[a]	(i-j)/a	-5.5				-5.5
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	-6.3				-6.3
FFO Net Leverage	(i-g-j)/(n-m-l-k)	-6.3				-6.3
Total Net Debt with Equity Credit/Operating EBITDA[a]	(i-g-j)/d	-5.5				-5.5
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	-14.4%				-14.4%
Coverage (x)						
Operating EBITDA/(Interest Paid + Lease Expense)[a]	a/(-m+b)	14.8				14.8
Operating EBITDA/Interest Paid[a]	d/(-m)	14.8				14.8
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	13.0				13.0
FFO Interest Coverage	(n-l-m-k)/(-m-k)	13.0				13.0

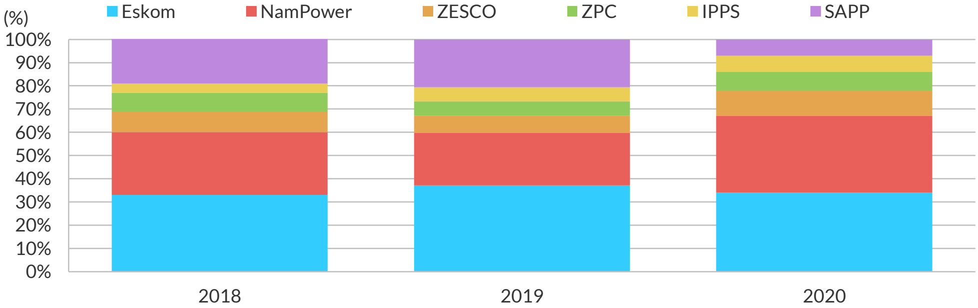
[a]EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, NamPower

Key Rating Issues

The Namibian economy is highly reliant on imported energy as outlined in the chart below.

Composition of Energy Supply in Namibia

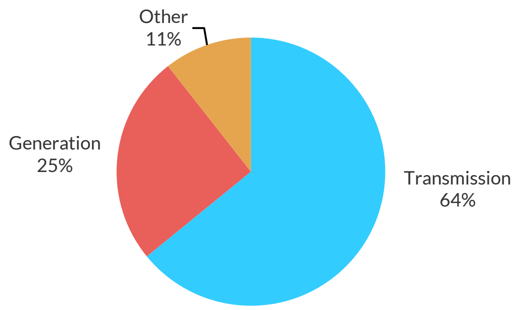


Source: Fitch Ratings, NamPower

In order to overcome an overreliance on imports, the Namibian government implemented a new MSB framework for the local energy market. The MSB aims to increase Namibian self-sufficiency through private participation in generation and renewables in particular. The MSB allows licenced independent power producers (IPPs), referred to as "eligible sellers", to sell directly to "contestable buyers/customers". This is initially limited to 30% of their demand but will increase over time depending on market dynamics.

NamPower retains its position as the transmission systems operator (TSO). Existing power-purchase agreements (PPA) with IPPs and imported energy from Eskom, ZESCO (Zambia) and ZPC (Zimbabwe) will be retained at the TSO level. NamPower will continue to assume the role of market operator, balancing agent and supplier of last resort. In order to accommodate the new market design, NamPower has instituted a capex plan, as outlined in the chart below.

Capex Plan for 2021-2025



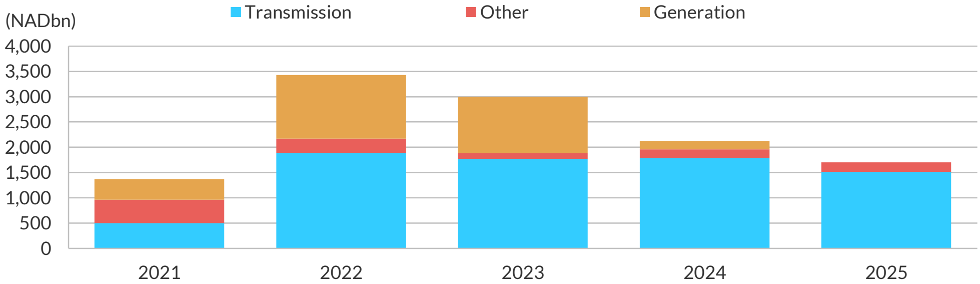
Source: Fitch Ratings, NamPower

Transmission Capex (NAD7.5 Billion or 64% of Total): Transmission will be the largest share of capex across the forecast period. This will be spent largely on strengthening the network (measured through a reduction of load losses), increasing resiliency, improving cross border/import capacity and linking new renewable sources to the grid.

Generation Capex (Around NAD3 Billion or 25% of total): Most of the new generation projects are planned for the southwest of the country. More specifically, it is based on one wind project (40MW), one solar project (20MW) and a firm power/baseload project (CCGT; 50MW).

The above capex plan is being funded by NamPower's cash resources, cash flow from operations and debt. Fitch expects this to lead to significant negative FCF in FY21-FY24, resulting in likely no tax or dividend payments but enabling NamPower to keep a net cash position across the rating horizon to FY24, albeit at gradually reducing levels.

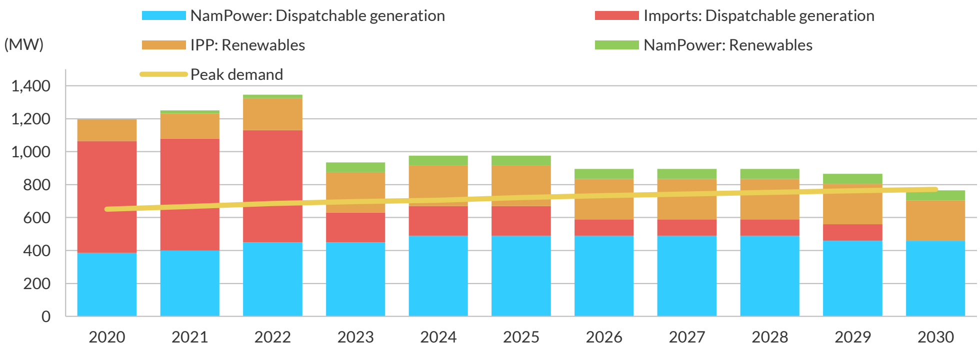
Capex Plan Across Rating Horizon



Source: Fitch Ratings, NamPower

Below we highlight a 10-year forecasted capacity against peak load demand based on currently planned capex. There will most likely be a continuation of some international contracts as clearly, the gap between peak demand and dispatchable generation grows over time according to NamPower's current forecast, which could see the introduction of further IPPs or international contracts to ensure continuation of supply during peak demand periods.

Forecasted Notional Capacity and Demand in Namibia



Source: Fitch Ratings, NamPower

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.