

## Eskom Gets Rescue Option as PIC Proposes Debt-Equity Swap

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Newsdeck Eskom Gets Rescue Option as PIC Proposes Debt-Equity Swap By Bloomberg • 11 July 2019  
Caption Illustrative image. Photos: Eskom power lines are seen running through the open veld in Johannesburg, South Africa, 03 January 2017. EPA/KIM LUDBROOK / Eskom power lines run through an open field as the sun rises on a cold winters day in Johannesburg, South Africa, 08 June 2015. EPA/KIM LUDBROOK / Background: Adobe Stock A proposal by the biggest owner of Eskom Holdings SOC Ltd.'s debt to convert its \$6.4 billion holding into equity has become a rescue option as South Africa seeks to restructure the troubled power utility. In return, the Public Investment Corp., which manages about \$150 billion and is responsible for the pensions of more than 1 million state workers, wants a say over Eskom's messy finances, including board representation, said five people with direct knowledge of the talks. They asked not to be identified because the discussions over the past two years haven't been made public. The rand and government bonds gained. Public Investment Corp Chief Investment Officer Daniel Matjila Daniel Matjila Photographer: Dean Hutton/Bloomberg Daniel Matjila, former head of the PIC, evoked a debt-to-equity swap in testimony Thursday before a judicial inquiry into whether the fund was adequately safeguarding pension assets. The PIC holds 20% of all of Eskom's outstanding bonds. "When you do that, you even give the balance sheet of Eskom a bigger room to maneuver," he said. "But then it requires even more involvement in the governance structures." While the proposals have been discussed over the last 18 months to two years, they have risen in importance since President Cyril Ramaphosa said in a national speech on Feb. 8 that Eskom would be split into generation, transmission and distribution entities, two of the people said. Matjila said he spoke to Eskom's management about the option in early 2018. Biggest Problem With more than 440 billion rand (\$32 billion) in debt, about 70% of it guaranteed by the government, Eskom is Ramaphosa's biggest problem. The monopoly utility can't sell enough power to cover its costs, needs to cut 66% of its work force and hasn't properly maintained its aging coal plants. Labor unions, key allies of the president, oppose the restructuring plans and the job cuts that management says are necessary. The rand gained to its strongest level against the dollar since February. Yields on the government generic 10-year bonds dropped five basis points to 8.63% immediately after the report. If the proposal is implemented, the PIC would likely get shares in the transmission unit, which is seen as a stable part of the business, another person with knowledge of the talks said. Giving the PIC equity in the healthiest unit might not sit well with other bondholders. Legal Headaches Transmission "will be the most well run and profitable entity," said Peter Attard Montalto, head of capital markets research for Intellidex, a business-research firm. "Preferable treatment over other bondholders would create huge legal headaches for government." Work on the proposal within the PIC has slowed because of the ongoing commission of inquiry into governance at the fund manager, ordered by Ramaphosa, one of the people said. Its implementation would also be opposed by some of the unions whose members pensions it manages. The PIC, which gets almost 90% of its money from the Government Employees Pension Fund (GEPF), has drawn criticism from the Public Servants Association, the biggest union representing government workers, for the amount of Eskom bonds it holds. The PSA has said the PIC should stop buying the company's debt and should begin selling down its holdings. The union argues that pensioners' money should not be used to prop up struggling state companies that have been beset by corruption scandals, including Eskom. : Why Eskom's Power Crisis Is South Africa's Top Risk "We believe Eskom is nuclear waste," said Tahir Maepa, the PSA's deputy general manager for members' affairs. "The state should take over their mess." In February last year the PIC lent Eskom 5 billion rand for a month to help it out of a liquidity crisis. Matjila said the swap discussions with Eskom were around the that time. Also at the time, the PSA demanded proof that the loan was not a violation of the PIC's mandate. The

GEPF, which says it holds 87.6 billion rand of Eskom bonds through the PIC, said it hasn't been approached about the conversion of Eskom bonds into equity. The PIC also holds some Eskom bonds on behalf of its other clients. The National Treasury, which oversees the PIC, referred questions to the fund manager. The media teams of Eskom and the PIC acknowledged receipt of a request for comment and said a response was being worked on. Repeated requests for comment didn't draw a response. QuickTake: Why Africa's Biggest Fund Manager Is Under Fire While the PIC has accumulated Eskom bonds, including through a 20-billion-rand private placement, many other fund managers, such as Granite Asset Management, have sold their holdings as the utilities' finances deteriorated. One senior banker said the debt-to-equity plan could be legally challenged by other debt holders and questioned whether the PIC would have the requisite expertise to sit on Eskom's board. The PIC has said in various iterations of the proposals that in addition to board representation it could seek seats on key committees such as procurement, a voice in possible asset sales and an eventual exit strategy, possibly including a listing. Still, a money manager who holds the debt of a number of South African state-owned companies, including Eskom, said while all bond holders should be offered the same terms, a swap would improve the health of Eskom and could therefore be seen as positive. Both asked not to be identified because the matter is sensitive. In August last year, Jabu Mabuza, Eskom's chairman, told parliament the utility dropped plans to ask the PIC to convert some of its debt into equity because it might trigger covenants with some other lenders. (Adds rand and bonds in second and seventh paragraphs.) To contact the reporters on this story: Antony Sguazzin in Johannesburg at [email protected]; Janice Kew in Johannesburg at [email protected]; Paul Burkhardt in Johannesburg at [email protected] To contact the editors responsible for this story: John McCorry at [email protected] Anne Swardson, Gordon Bell In other news... The South African economy is choking harder than the Proteas. Although to be choking you have to actually be eating and the Proteas seem to be on some sort of juice cleanse-like fast... \* Back to the economy: In the first quarter the GDP dive-bombed by a whopping 3.2%. The sense of futility can paralyse us into inaction and moaning. But it's times like these that call for effort and action, no matter how small. Yes, South Africa is hurting. Yes the ravaged economy is evident everywhere you look. But you can make a difference, in your own personal way and by supporting independent media like Daily Maverick. We've pledged to continue the fight through producing incisive and impactful investigations and analysis, the same way we have done every day for the last decade. By becoming a Maverick Insider you can help us keep doing what we do, so that you and others who can't afford it, can keep reading the truth. For whatever amount you choose, you can support DM and it only takes a minute. Support Daily Maverick? \*Proteas, you know we love you. We'd just love you more if you won occasionally... Bloomberg Follow Save More Comments - share your knowledge and experience Please note you must be a Maverick Insider to comment. Sign up here or sign in if you are already an Insider..