Govt throws troubled Transnet R47bn lifeline

By Nelson Banya

1 Dec 2023

National Treasury said on Friday, 1 December, it has issued state-owned rail and ports firm Transnet support of R47bn to help with a recovery plan, which includes meeting its immediate debt obligations.

Source: Archive | Transnet

{{iamge}}
Transnet has struggled to provide adequate freight rail and port services in South Africa due to equipment shortages and maintenance backlogs after years of under-investment.

The logistics utility's underperformance has impacted commodity exports and other sectors such as manufacturing and retail, weakening Africa's most advanced economy.

"The financial support package provided for the entity is a R47bn guarantee facility against which Transnet will drawdown an initial amount of R22.8bn to deal with immediate liquidity matters such as settling maturity debt," the National Treasury and Department of Public Enterprises said.

Pepkor's CEO said this week the discount retailer is struggling to import goods due to Transnet's problems and had nearly $40 million worth of stock stuck at sea.

Restoring freight volumes and return

Transnet, which has debts of R130bn and recorded a loss of R5.7bn in the financial year to March, has seen freight volumes decline to 150 million metric tonnes in the financial year 2022/23 from 226 million tonnes in 2017/18.

Its new board is pursuing a recovery plan which seeks to restore freight volumes and return the company to profitability over the next 18 months. The turnaround plan includes splitting the freight rail subsidiary into two - an infrastructure management company and an operating unit.

The company is also targeting reduced port backlogs and will make another attempt to open up parts of its rail network to private operators after last year's false start.

Transnet on 26 October said it had requested funding from the government, reported to be around R100bn, including an equity injection, to help fund the recovery.

But South Africa's government said on Friday it had not considered an equity injection, saying its budget for the 2023/24 financial year was closed.

Transnet's single $1 billion international bond, which matures in 2028, rose on the news, with its price up as much as 1.8c to 98.9c, its highest price since 1 August, according to Tradeweb data.

Andrew Bahlmann, chief executive of Deal Leaders International's corporate and advisory arm, said the government had no choice but to bail out Transnet, "given the appalling impact that Transnet's incapacity has on the economy and particularly our vital export markets."

"The business and investment community will expect to see some immediate improvements in port delays and rail performance to feel the financial package is justifiable or just good money thrown after bad," Bahlmann said in a note.

ABOUT THE AUTHOR

Reporting by Bhargav Acharya and Nelson Banya; Additional reporting by Rachel Savage; Editing by Sonali Paul, Tom Hogue and Toby Chopra.