

Citibank pulls plug on bankrupt SAA

By [Linda Ensor](#)

28 Aug 2017

Banks are feeling increasingly nervous about an implosion of bankrupt state-owned airline SAA with Citibank being the second bank to refuse to extend its loan to the sinking company, in this case R1.8bn.



In June, Standard Chartered Bank refused to roll over its loan of R2.2bn to SAA. The move required the Treasury to step in with an urgent bail-out to settle the debt because the unprofitable airline had run out of cash and was not generating enough income to cover its operating expenses.

SAA has had to reach repayment terms with suppliers owed R750m and will not be able to repay the R1.8bn it owes Citibank, which is due at the end of September. The Citibank loan is one of several totalling R6.8bn, which all become payable at the end of September.

DA deputy finance spokesman Alf Lees - quoting from a secret cabinet memorandum in the National Assembly on Thursday, 24 August - said Citibank "has stated its unwillingness to extend their lending facility". The memorandum also says that the inability of SAA to pay its suppliers was "deteriorating and untenable" and an urgent recapitalisation was necessary.

The failure by SAA to honour its R6.8bn debt at the end of September, Lees said, would trigger cross-default clauses and

render an additional R7.8bn in SAA debt payable immediately by the state, worsening its already weak fiscal position. This R7.8bn becomes payable between 2019 and 2022. State guarantees to SAA already amount to R19bn.

Approached to explain the reasons for its refusal to extend the loan, especially as it is backed by a state guarantee, Citibank said: "Citi chooses not to comment on the matter at this time." SAA chief financial officer Phumeza Nhantsi confirmed that Citibank had written a letter to SAA saying that it was unwilling to extend its loan, but said that SAA was still in talks with the bank in an attempt to get it to change its mind. It was also engaging with all the other lenders.

Treasury spokesman Mayihlome Tshwete said Finance Minister Malusi Gigaba would also meet Citibank in a bid to get it to change its mind. But he said the attitude of lenders, including Citibank, had hardened with the statement by Lees that a R10bn recapitalisation of SAA was on the cards. Quoting from the memorandum, Lees said Gigaba was planning to give SAA R10bn by possibly selling the state's shares in Telkom, which were worth about R14bn.

Tshwete said this disclosure had added to the precariousness of SAA's situation and strengthened the hand of lenders in the negotiations as they now knew that funds would be forthcoming and would choose to take their money. "It has blown the negotiations." SAA had lost its leverage, Tshwete said.

Citibank's refusal to extend the loan adds to the urgency for the government to provide SAA with an equity injection. The R10bn recapitalisation would provide R6.8bn to repay maturing debt and R750m for working capital and would include the R2.2bn already paid to SAA. It would be financed through a special appropriation bill which the Treasury is planning to present to Parliament. Gigaba has stressed that any money given to SAA would be conditional on its aggressive implementation of its long-term turnaround plan.

Lees said in an interview that SAA was totally bankrupt and in a "very, very parlous situation". In normal circumstances it would be in liquidation. It had been unable to pay its suppliers in July and August and would not be able to do so in September either. The airline could face a liquidation application at any moment if an unpaid supplier decided to go to court.

It appears that Nhantsi was not frank with Parliament's standing committee on finance when she and SAA executives appeared before it on Wednesday to explain irregular, fruitless and wasteful expenditure. She told MPs that SAA was engaging with its lenders for the extension of the R6.8bn due at end-September and while there were as yet no confirmed agreements to extend loans she did not foresee any decision not to extend. When asked by committee chairman Themba Godi what gave her the assurance that the loans would be extended, Nhantsi said that one of the issues of concern to lenders was the absence of a permanent CEO, which had been addressed by the appointment of Vodacom executive Vuyani Jarana.

Godi said on Thursday that if at the time of making this statement Nhantsi knew that Citibank had refused an extension then it was wrong of her not to disclose this. "It is something that she should have been upfront about it," Godi said. However, Nhantsi explained that what her statement meant was that SAA was still in negotiations with lenders, including Citibank, and that it was hopeful of a successful outcome.

Source: Business Day