Eskom to overcome challenges by 2023

Eskom has secured 73% of its funding requirements for 2018/19, while it faces several operational and financial challenges.

Releasing its 2018/19 interim results at its Megawatt Park offices, the utility said it had secured R52bn (73%) of funding requirements for 2018/19 and 22% of funding for 2019/20 also secured.

Revenue went up 3% to R98.1bn, while the entity recovered irregular expenditure of approximately R1bn.

The utility said the international bond issue was oversubscribed, despite tough operating conditions and Fitch Ratings lifted the negative ratings watch.

While progress has been achieved in laying the building blocks for a sustainable turnaround of Eskom, the company's operational and financial performance continued to deteriorate in the six months to the end of September 2018.

This situation is expected to worsen before it improves by 2023.

"There will be pressure in the short- to medium-term as we transition towards financial and operational sustainability, a move that will require resolute, tough and decisive leadership.

“Eskom has defined an ambitious turnaround plan, largely within its own control, to improve financial performance by 2023,” said Eskom’s Group Chief Executive Phakamani Hadebe.

He said Eskom is currently in a debt reliant liquidity situation as a result of low tariffs, limited growth in sales, increased costs, and the rising capital investment programme.

In addition to this, the company is facing reduced generation performance, low coal stockpiles, and increases in municipal debt.

“Notwithstanding the challenges, Eskom’s board and executive management team have dedicated their efforts on five key priorities to create a platform for future growth. These include addressing poor governance controls; improving liquidity; ensuring a financially viable entity; completing phase 1 of the of the strategic review, and executing a nine-point generation recovery programme,” said Hadebe.

Newly appointed Chief Financial Officer, Calib Cassim, said most of Eskom’s financial ratios had deteriorated during the period under review, and that the situation is expected to worsen further in the second half of the financial year.

Revenue rose marginally to R98.1bn from R95.5bn previously, largely driven by a 5.2% tariff increase that was implemented in April this year. Net profit decreased 89% to R671m from R6.3bn last year.

Although coal costs were contained to 7%, independent power producer costs surged 29%, mainly due to volumes being 25% higher.

The recent wage increases for workers in the bargaining forum have also put pressure on costs. Employee costs rose 12% to R16.9bn, up from R15.1bn in the same period last year.

Historically, any profitability generated during the first half of the year is eroded during the second half, due to lower summer tariffs and higher planned maintenance.

The full impact of the wage settlement will also be experienced over the next six months, combined with higher diesel usage to avoid or minimise load shedding.

“Eskom cannot solve the financial and operational sustainability challenges that it faces alone. The shortfall in tariff cannot be solved though cost reductions alone, and further indebtedness adds to the problem,” said Cassim.

Chief Operating Officer Jan Oberholzer said the power system would remain constrained for the foreseeable future, until generation plant performance and coal stock levels improved. This means that load shedding in the coming month’s remains a risk.

The results were released a day after the utility and the African Development Bank Group (AfDB) signed a R2.886bn and $25bn loan agreement. Signed on Tuesday, the agreement will be used to improve power transmission in Southern Africa.

Eskom, which contributes about three quarters of the total installed power generation capacity in the Southern African power pool, exports power to at least six countries in the region.