

Trans-Caledon Tunnel Authority (TCTA)

WSP3 (LHWP)	ZAG000019993
WSP4 (LHWP)	ZAG000020009
WSP5 (LHWP)	ZAG000020017

As established by Notice No 2631 in Government Gazette No 10545 of 12 December 1986, and revised by Notice No 277 in Government Gazette No 21017 of 24 March 2000.
A Schedule 2 Public Finance Management Act no. 1 of 1999 entity.

FITCH AFFIRMS 5 TCTA PROJECTS AT AA+ (Zaf); F1+ (Zaf) - OUTLOOK STABLE

Fitch Ratings announced on 19 February 2019 that it retains the South African National Scale ratings on 5 TCTA Projects at AA+(zaf) with National Short-Term ratings at 'F1+(zaf). Fitch sees the outlook on all the projects as "Stable".

The projects are:

- Berg Water Project (BWP);
- Vaal River Eastern Sub-System Augmentation Project (VRESAP);
- Mooi-Mgeni Transfer Scheme phase 2 (MMTS-2);
- Komati Water Scheme Augmentation Project (KWSAP); and
- Mokolo Crocodile Water Augmentation Project Phase 1 (MCWAP-1)

The projects are funded through long term loans with liquidity support from revolving credit facilities and unlisted Commercial Paper Programs.

Outstanding amounts on Commercial Paper at 18 February 2019 were:

- **BWP:** R nil of a R450 million Program;
- **VRESAP:** R470 million of a R500 million Program;
- **MMTS-2:** R319 million of a R400 million Program;
- **KWSAP:** R nil of a R500 million Program; and
- **MCWAP-1:** R nil or a R nil Program

The Lesotho Highlands Water Project (LHWP) issues explicitly government guaranteed debt and is not rated.

Note on Impact of Fitch Deregistration

As a consequence of the Financial Services Board's (FSB) deregistration of Fitch Ratings, TCTA is in the process of procuring the services of another Ratings Agency and investors will be updated with the results of that process.

In the interim: because the FSB has extended Fitch Ratings' exemption to rate South African SOEs and the sovereign to 31 December 2019 from 31 December 2017 as per their media release of 24 November 2017; the current ratings by Fitch will remain in force for 12 months or until a new ratings agency issues replacement ratings.

For further information please contact:

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The Fitch statement is quoted below:

Fitch Affirms 5 TCTA Projects at 'AA+(zaf)'; Outlooks Stable

Fitch Ratings-London-19 February 2019: Fitch Ratings has affirmed Berg Water Project's (BWP), Vaal River Eastern Sub-System Augmentation Project's (VRESAP), Mooi-Mgeni Transfer Scheme Phase 2's (MMTS-2), Komati Water Scheme Augmentation Project's (KWSAP) and Mokolo Crocodile Water Augmentation Project Phase 1's (MCWAP) National Long-Term Ratings at 'AA+(zaf)' with Stable Outlooks. Fitch has also affirmed the projects' National Short-Term Ratings at 'F1+(zaf)'.

The projects are water-storage dams and transport pipelines in South Africa. The grantor is Trans-Caledon Tunnel Authority (TCTA), a state-owned entity established by the National Water Act to develop water projects in South Africa.

KEY RATING DRIVERS

Under Fitch's Government Related Entities (GRE) Criteria and on the national rating scale, the five TCTA projects' long-term debt are rated at 'AA+(zaf)', i.e. one notch below the South African sovereign. The short-term ratings are 'F1+(zaf)'.

Our assessments of the Key Ratings Drivers under the GRE Criteria, combined with our view that it is not meaningful to derive a standalone credit profile, indicate a top down approach from the sovereign's rating.

State-Owned Entity, Functions Directed by Minister: Status, Ownership and Control - Very Strong

TCTA is a state-owned entity specialising in water management, mandated by the South African government to implement and fund the projects. TCTA can only perform functions as directed by the Minister. TCTA'S Notice of Establishment indicates that their liabilities would be covered by the government if required.

Government's Demonstrated Support: Support Track Record and Expectations - Very Strong

The tariff framework demonstrates governmental policies' strong support for the projects' financial stability.

The tariff re-setting exercise is normally annual, and TCTA obtained approval to reset tariffs semi-annually in exceptional circumstances. There are no legal, regulatory or policy restrictions on government support.

Operations Would Continue in Case of Default: Socio-Political Implications of Default – Moderate

In our view, the Department of Water and Sanitation (DWS) would continue to operate the projects even in case of default. This removes much of the risk of socio-political events in this scenario.

Proximity of Projects with Government: Financial Implications of Default – Strong

Given the proximity of the TCTA projects with the government, their financial default would have an impact on availability and cost of financing.

Standalone Rating Assessment is Not Meaningful

Due to the linkages between TCTA and the DWS, it is not possible to derive a standalone rating.

PEER GROUP

Rand Water and Umgeni Water are bulk water utilities, rated under Fitch's GRE criteria and on the national scale, at one notch below the sovereign, i.e. 'AA+(zaf)/Stable/'F1+(zaf)'.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Indications that the DWS and/or the government will not support the projects in case of financial difficulties

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- An upgrade is unlikely, as a financial default is unlikely to lead to a disruption of the services and therefore some risk remains that the government will not support the projects.

CREDIT UPDATE

Performance Update

TCTA reported significant drops in water demand projections in 2018. However, tariffs are adjusted accordingly at tariff consultations and Fitch believes that the framework is working as expected.

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