

Announcement: Moody's issues annual credit report on Ekurhuleni Metropolitan Municipality

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Johannesburg, July 25, 2014 -- In its annual report on Ekurhuleni Metropolitan Municipality, Moody's Investors Service says that Ekurhuleni's Aa3.za/P-1.za national scale issuer and debt ratings, with negative outlook, reflect the city's good financial performance, which reflect strong revenue growth in 2013 and conservative approach to financial management. They also reflect its strong liquidity position, which reflects the city's continued focus on revenue collections and tight control over expenditure dynamics.

However, the ratings also reflect the challenges associated with growing, albeit moderate, debt levels (including exposure to municipally owned entities' anticipated increasing debt) and the city's high expenditure requirements over the medium term. Moody's notes that, including the recent ZAR785 million bond issuance, Ekurhuleni's debt exposure will result in total debt stock of ZAR5.7 billion (\$538 million) or a moderate 22% of operating revenues as of 30 June 2014. Debt levels are expected to moderately increase in the medium-term, due to growing capital expenditure which will be largely funded through capital grants from the national government and new borrowings. That said, Ekurhuleni has the lowest debt levels relative to its rated peers.

Moody's expects the city's debt levels to increase moderately in the medium term as a result of (1) ongoing bond issuances under the domestic medium-term note programme for financing capital expenditure and (2) its exposure to the ZAR550 million debt guarantee available for drawdown by East Rand Water Care Company (A2.za negative). Nonetheless, the rating agency expects growing revenue to mitigate the fiscal pressure stemming from rising debt levels.

Ekurhuleni displays a large and relatively dynamic economic base. The city has a population of 3.2 million, accounting for 26% of Gauteng Province's and 6.2% of South Africa's total population. Ekurhuleni is one of South Africa's largest metropolitan cities, with total revenue of ZAR22.2 billion (US\$2.1 billion) for the fiscal year ending June 2013.

The negative outlook on Ekurhuleni's rating mirrors the negative outlook on South Africa's sovereign rating and reflects systemic pressure.

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This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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