

NamPower Windhoeks up

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On 21 August 2002, Namibia's electricity utility, NamPower, successfully completed its second debt raising transaction in three years.

R750 million (\$70 million) has been raised from EIB and Development Bank of Southern Africa (DBSA) in an unequal weighting, with DBSA putting up R220 million. The loan has a 20-year tenor. The whole amount has been raised in South African rand, to which the Namibian dollar is indexed. Investec acted as adviser to the sponsor and says that a number of funding routes were considered, including a capital markets route. Commercial bank debt would have been possible but since subsidized funding is still an option, it was decided that this would be the cheapest option.

Debt is raised in rand because most of the equipment for the earmarked projects will be sourced from South Africa. In addition, the Namibian dollar is linked to the South African rand, so there is no currency exchange risk. The EIB loan is actually euro denominated and will be hedged by means of a currency swap. Interest rate risk is also being managed in the swap market.

The EIB portion has a government guarantee, which is reviewable in five years. If NamPower has met certain targets there is an option to cancel it and put in a commercial guarantee. The DBSA loan just carries a commercial guarantee. Lenders have additional security in the form of zero coupon paper equal to the amount of debt. With this in place, it has been possible for them to get comfortable with a very long grace period. At the start of the loan, NamPower will only be paying back interest. This is highlighted as one of the benefits of the development bank funding.

This debt has been raised specifically to fund construction and operation of two major transmission lines and associated infrastructure. The first, at 400KV, will primarily supply the new Anglo American-sponsored Skorpion Zinc Mine near Rosh Pinah. Excess will ensure reliable power supply to the southern Namibia, facilitating further mining and other industrial developments in the region. The second is a 220KV line providing additional capacity to the west coast of Namibia from Windhoek to the new indoor Kuiseb substation near Walvis Bay. The total cost of both projects is estimated at R800 million.

Debt raised will also contribute to Namibia's rural electrification program. The subsidised portion of the interest is paid into a rural development account. In this respect the transaction could serve as a template for other southern African power companies.

NamPower is widely regarded as having one of the strongest credits of all of the southern African power companies. It is state-owned but said to operate on a very robust commercial basis. It owns all of the generation capacity in Namibia, made up of hydro and thermal plants, all of the transmission assets and most of the distribution assets. The country needs more generation capacity and IPPs may start emerging. In July 2000, the Electricity Act 2 was passed opening the way for competition in the industry under the regulation of an electricity control board. NamPower is currently realigning itself in readiness for this.

NamPower

Description: Debt raised by Namibia's national power company, NamPower, in order to fund two major transmission

lines.

Status: Signed 21 August 2002

Lenders: European Investment Bank (EIB) and Development Bank of Southern Africa (DBSA)

Size: R750 million

Legal adviser to sponsor:

Denton Wilde Sapte

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