Transnet raises R4bn for the deepening and widening of Durban’s entrance channel

March 26 2009
Embargo: none

Transnet Limited and the Japan Bank for International Cooperation (JBIC) today signed an historic ¥35 billion (about R4 billion) untied loan agreement as part of funding the Company’s R80 billion capital investment programme.

The proceeds of the loan will be used to fund the widening and deepening of the entrance to the Durban harbour, one of the strategically significant projects in Transnet’s capital programme.

The untied loan agreement was signed today by Mr Chris Wells, the Company’s Acting Group Chief Executive and Mr Toshiro Machii, JBIC’s head of the finance department: Europe, Middle East and Africa.

The project is primarily intended to accommodate larger vessels in Africa’s busiest and largest harbour.

The JBIC, which has leveraged the 40% participation of other Japanese financial institutions (including the Bank of Tokyo Mitsubishi UFJ, Mizuho Corporate Bank and Sumitomo Mitsui Banking Corporation (SMBC)) in the loan, is the international wing of the Japan Finance Corporation, Japan’s policy-based financing institution, which has a mandate to fund projects that support Japanese companies overseas. Several Japanese companies use the Durban harbour to import or export their products. The port also serves as a gateway to neighbouring countries.

Commenting on the agreement in Johannesburg, Mr Wells, until recently the Company’s CFO, says: “This is the first of several foreign funding agreements we have in our funding strategy. The agreement is in line with our strategy of diversifying our funding sources and raising funds cost-effectively whilst prudently managing liquidity risks”.

He paid tribute to JBIC for the foresight of partnering Transnet in its mandate of enabling economic growth by increasing the competitiveness of South Africa’s economy.

Mr Wells says the agreement, which cements a two-year relationship between Transnet and JBIC, underscores the strategic significance of the port.
He says: “It shows the innovation we are bringing to suit the needs of various investors to our capital programme. It highlights the attractiveness of our project portfolio. It is a further sign of confidence in Transnet’s financial strength, management expertise in project implementation, our governance processes and, generally, confidence in Transnet as an investment case. It is pleasing to us that Japan has become the launch pad for our foray into international debt capital markets”.

The funds will be used to reimburse the amount already spent on the project and the rest for the remainder of the widening and deepening project until completion.

Mr Wells says: “Whilst we continue monitoring developments in the international debt capital markets for windows of opportunity and lower costs, and utilize the already established ECA (export credit agency) umbrella facility for the funding of the imported component of our capital programme, we anticipate that the bulk of the funding will continue to originate from the domestic debt capital markets. To this end, Transnet continues to tap its current bonds (TN17, 23 and 27) for R500 million every fortnight”.

Transnet has committed to use various funding alternatives including bonds, commercial paper, bank loans, internally generated cash and funding from international Development Finance Institutions (DFIs) to finance its capital investment programme.

The R80 billion five-year capex programme is aimed at revamping and extending Transnet’s rail, pipeline and port infrastructure network. This includes buying a significant number of new and “like-new” locomotives for its rail freight division, building and expanding its ports infrastructure, as well as building the New Multi-Product Pipeline between Durban and Gauteng to replace the existing Durban to Johannesburg pipeline, which is now more than 40 years old, and to significantly increase pipeline capacity.

Mr Wells says: “We are also in talks with similar institutions (DFIs) in other countries and we anticipate that we’ll reach agreements in due course”.

Earlier this month, Transnet announced that it had concluded bilateral loans amounting to R5.7 billion with eight local and international financial institutions to finance both its capital programme and working capital needs. This sum has since increased to just over R6 billion.

Notes to editors:

About the project -
- The widening will improve navigation for vessels using the port
- Upon completion, the channel will accommodate larger vessels (Post Panamax and Super Post Panamax)
- Comprises dredging, deepening the entrance channel
- Project is to be completed by March 2010
Benefits include that:

- Significant improvement in safety standards
- The increased availability of the channel will reduce waiting times for vessels enabling shipping lines to reduce their tariffs for cargo to and from Durban. This will lower the cost of doing business
- Deployment of larger vessels will allow operators to achieve economies of scale
- Larger vessels will enable the Port of Durban to accommodate projected growth in container volumes
- It will help enable Durban develop as a hub port for the Southern Africa region

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