



GCR affirms West Coast District Municipality's rating of A_(ZA); Outlook Stable

Rating Action

Johannesburg, 29 April 2021 - GCR Ratings ("GCR") has affirmed West Coast District Municipality's national scale issuer ratings of A_(ZA) and A1_(ZA) in the long and short-term respectively, with a Stable Outlook.

Concurrently, GCR has accorded a long-term international scale rating of B+, outlook Stable.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
West Coast District Municipality	Long Term Issuer	National	A _(ZA)	Stable Outlook
	Short Term Issuer	National	A1 _(ZA)	Stable Outlook
	Long Term Issuer	International	B+	Stable Outlook

Rating Rationale

The ratings for West Coast District Municipality ("WCDM, "the District") are anchored by its robust financial profile, supported by its large net cash position. This notwithstanding, the ratings are constrained by the District's relatively high reliance on grant income funding.

WCDM has a fairly small population with socio-economic indicators broadly in line with national averages. Positively, economic activity is diverse and includes manufacturing, agricultural and tourism industries, which continue to support the District's Gross Domestic Product (GDP) growth above the national average. This is reflected in a relatively low unemployment rate of 11%, against the 27% national average. The District continues to seek ways to strengthen economic diversification and growth, albeit that meaningful improvement will only be achieved in the longer term, whilst the COVID-19 pandemic has added some setbacks.

GCR considers district municipalities' operating structure in South Africa to be an inherent rating weakness, as most, including WCDM, maintain a significant reliance on grant funding, the growth of which is projected to remain low amidst the weak national fiscal position. WCDM's internally generated income (33% of total revenue) is derived predominantly through the provision of water services. GCR views this positively, as well as efforts to create additional sources of income through developing common infrastructure to be used by the underlying municipalities. As a result of the reliance of grants (which were not reduced during the pandemic) and water sales, the District's income was largely insulated from the financial effects of the COVID-19 pandemic. Whilst there was some additional expenditure required on protective equipment, this was largely offset by the cessation of all business travel and conferences over that period. That said, the District's financial performance could be threatened by a reduction in revenue to the underlying municipalities as low-



income households and current ratepayers struggle to pay their bills. More significantly, persistent above-inflation increases have seen staff costs rise to account for a high c.55% of expenditure.

GCR takes comfort in the fact that capex implementation has been sustained at a high 90% of budget over the review period, and capex spend is budgeted at R15m over each of the next two financial years. Also adding positively to the assessment is WCDM'S long track record of clean audit outcomes.

WCDM's strong financial profile contributes favourably to the ratings. The District maintains a conservative financial policy, with debt having amortised steadily over the review period to a low R13m at FY20 (FY19: R27m). The District anticipates raising a small amount of additional debt to fund a landfill project, but it plans to recover this loan from the three participating municipalities. This is not expected to meaningfully impact the strong net ungeared position. GCR does, however, note the limited demonstrated access to external funding, with funding concentrated to DBSA as the majority lender.

Unencumbered cash holdings of R332m (FY19: R307m) supports WCDM's robust liquidity profile, prompting high unencumbered cash coverage of 343 days in FY20 (FY19: restated to 333 days from 296 days), and generously covers all debt redemption and capex requirements. Despite the projections indicating a decreasing trend in unencumbered cash days on hand in the medium term as more internal cash is used for project implementation, GCR expects liquidity coverage to remain solid.

Outlook Statement

The Stable Outlook reflects GCR's expectations that, notwithstanding the COVID-19 disruptions and weakness of the national fiscal position, West Coast District Municipality will continue to report ample liquidity to maintain a strong financial profile.

Rating Triggers

West Coast District Municipality's ratings are at the upper limit for South African District municipalities, with further progression unlikely unless there is a fundamental change in the District's operating structure. Conversely, negative rating action could arise should the District evidence a marked reduction in government support, or should municipal revenue streams reduce.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Local and Regional Governments, June 2019
GCR's Country Risk Score report, March 2021
GCR Rating Scales Symbols and Definitions, May 2019

Ratings History

West Coast District Municipality

Rating scale	Review	Rating class	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A _(ZA)	Stable Outlook	Dec 2007
Short Term Issuer		National	A1 _(ZA)		
Long Term Issuer	Last	National	A _(ZA)	Stable Outlook	August 2020
Short Term Issuer		National	A1 _(ZA)		

Risk Score Summary

Factors & sub-factors				Risk scores
Operating environment				14.00
Country & sector risk score*				14.00
Business profile				(4.50)
LRG Profile				(3.00)
Operating performance				(1.50)
Management & governance				0.00

Financial profile					4.00
Leverage and capital structure					2.00
Liquidity					2.00
Comparative profile					0.00
Government support floor					0.00
Peer analysis					0.00
Total score					13.50

*The country risk score serves as a proxy for sector risk.

Glossary

Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.



Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process *via* management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered to be adequate, and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- The latest audited financial results (plus four years of comparative numbers)
- Budget reports
- The latest Integrated Development Plan
- Additional information regarding Debt Maturities as provided by WCDM