

CREDIT OPINION

13 April 2022

Update



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RATINGS

Johannesburg, City of

Domicile	Johannesburg, South Africa
Long Term Rating	Ba3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

CLIENT SERVICES

Americas	1-212-553-1653
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City of Johannesburg (South Africa)

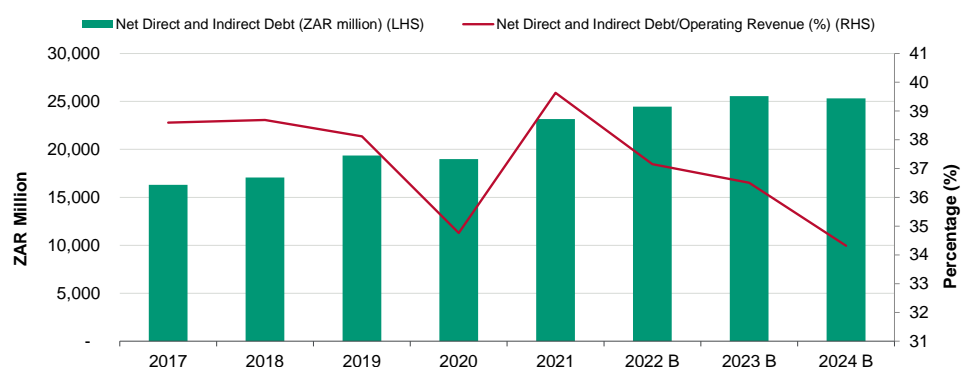
Update following Sovereign Action

Summary

The credit profile of the [City of Johannesburg](#) (Ba3 stable) reflects the city's robust financial performance supported by its large and diversified economic base. The metro is [South Africa's](#) (Ba2 stable) business capital and main financial and economic centre, which allows it to access a broad tax base. The city's credit profile is constrained capital spending pressures, related to infrastructure backlogs, which are expected to place an upward burden on the city's debt and liquidity.

Exhibit 1

Johannesburg's debt stock to slightly increase but debt ratio is expected to remain moderate



Fiscal year ending 30 June.

B: Issuer budget

Source: City of Johannesburg's financials and Moody's Investors Service

Credit strengths

- » Robust operating performance; albeit challenged by the operating environment structural challenges.
- » Large and diversified economic base
- » Relatively good governance and budget planning
- » Robust liquidity

This report was republished on 13 April 2022 with corrections to the outlook on the left of page 1, and in exhibit 6.

Credit challenges

- » Growing capital spending pressure
- » Rising debt level; but expected to remain moderate over the medium term

Rating outlook

The outlook is stable, mirroring the drivers of the stable outlook for South Africa (Ba2 stable). Moody's expects the resilient operating environment, in the context of recent shocks, to lead to moderate revenue collections for the RLG sector, resulting in moderate operating performances during the medium term.

Factors that could lead to an upgrade

A rating upgrade is unlikely, considering the stable outlook assigned to the City. Moody's will consider changing the ratings if the city displays robust operating performance and liquidity resilience to the operating environment structural challenges.

Factors that could lead to a downgrade

Moody's will consider a further downgrade of the ratings if the city experiences significant deterioration in operating performance and liquidity. A ratings downgrade will also be considered in case of a Sovereign downgrade.

Key indicators

Exhibit 2

City of Johannesburg

	2017	2018	2019	2020	2021	2022 B	2023 B	2024 B
City of Johannesburg								
Net direct and indirect debt/Operating revenue (%)	38.6	38.7	38.1	34.8	39.6	36.4	32.3	32.1
Interest Payments/Operating Revenue (%)	5.7	5.7	4.9	4.6	4.5	4.8	4.7	4.7
Gross Operating Balance/Operating Revenue (%)	2.2	5.6	10.4	5.7	7.9	7.7	8.0	7.9
Cash Financing Surplus (Requirement)/Total Revenue (%)	-6.8	-0.6	2.0	0.7	-0.4	-2.7	1.4	0.4
Intergovernmental Transfer/Operating Revenue (%)	15.5	16.0	15.5	15.7	17.3	16.3	15.5	14.9
GDP Growth (% change) [1]	1.1	1.1	-	-	-	-	-	-
GDP per capita as % of National Average	135.6	135.6	-	-	-	-	-	-
[1] GDP at Provincial level								

Fiscal year ending 30 June.

B: Issuer budget

Source: City of Johannesburg's financials and Moody's Investors Service

Detailed credit considerations

On 7 April 2022, Moody's affirmed the City of Johannesburg's long-term global scale (LT GSR) and long term national scale (LT NSR) issuer and debt ratings of Ba3/A1.za to reflect the city's resilient operating performance and liquidity. The moderate debt level, together with the city's liquidity reserves places the city in a favorable position to raise funding. With better than expected fiscal performance and economic growth forecasts, the operating balance is forecast to remain moderate in the medium-term.

The credit profile of the City of Johannesburg, as expressed in its Ba3 rating combines the city's Baseline Credit Assessment (BCA) of ba3 and a low likelihood of extraordinary support from the national government, if the city faces acute liquidity stress.

Baseline credit assessment

Robust operating performance; though likely to be constrained by rising consumer debtors and macroeconomic challenges.

The metro demonstrated resilience in its operating performance during fiscal 2021, with gross operating balance (GOB) of 7.9% of operating revenue. With the expected improvement in fiscal performance, the GOB/operating revenue is forecast to average 7.9% over the next 3 years.

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.moody's.com for the most updated credit rating action information and rating history.

The city has high revenue-generating capacity, with its own source revenue contributing 83% of its operating revenue according to the fiscal 2021. Property taxes and service charges were the primary drivers of the city's operating revenue, amounting to an estimate of 79% of operating revenue in fiscal 2021. Own source revenue will likely contribute the same proportion, on average, over the medium term.

Regarding expenditure, fixed cost items — such as bulk purchases and salary costs — accounted for 59% of total expenditure in fiscal 2021 estimates, which limits the city's expenditure flexibility. Moody's does not expect changes in the operating expenditure structure over the next three fiscal years.

Large and diversified economic base

Johannesburg is South Africa's largest city and the country's business capital. The city is home to most of the corporate headquarters in the country. Gauteng province, where Johannesburg is located, contributes more than one-third of the country's GDP. Johannesburg has the largest metropolitan economy in the country, contributing about 15% of South Africa's GDP.

Diversified economic sectors support Johannesburg's large economic base. Johannesburg's economy is dominated by the services sector, which is responsible for 76% of the city's economic output. The finance sector is the largest, accounting for 28% of the city's economy, while community services contribute 24% and other sectors collectively account for 48% of economic activity. The city's infrastructure is also well developed, which allows it to continue to expand its economic base. However, maintaining the existing infrastructure may prove to be a challenge if Johannesburg does not realise its capital spending plans. A failure to execute capital infrastructure spending against a backdrop of high unemployment and rapid population growth will intensify the service delivery backlog and exert further spending pressure on the city.

Relatively good governance and budget planning

The City of Johannesburg's strong administration has implemented a number of strategies aimed at strengthening its financial management and reporting. The city achieved an unqualified audit opinion in fiscal 2021 for the ninth year in a row, indicating a continued improvement in its financial management. The city's status as the country's business capital and its very large revenue base has helped it achieve sound financial management and budget planning. Due to the deteriorating operating environment and the likely capital spending pressure the city will face, it will have to carefully manage borrowing and liquidity.

Robust but moderate liquidity

The city has continued to demonstrate robust though moderate liquidity, with its cash position covering its most immediate obligations at an estimated cash ratio (Cash And Cash Equivalents) / (Current Liabilities + Current/ Short-Term Debt) of 0.5x for fiscal 2021. Though resilience in the liquidity position is expected over the medium term, growing capital spending needs are expected to keep at a moderate level, resulting in a forecasted average cash ratio of 0.3x between fiscal 2022-2024.

Growing capital spending pressure

The infrastructure backlog and rapid population growth continue to exert pressure on the city to increase capital investments. The city uses a combination of debt, grants and own source funding in order to finance its capital spending programme. In the medium term, the city will fund up to 31% of its total infrastructure investment from borrowing, while its own funds and government grants will contribute 32% and 37%, respectively. Significant reliance on borrowing could be challenging in the event of a further deterioration in the operating environment. The projected capital investments will focus on key infrastructure requirements such as electricity; water-related services; and economic development infrastructure, including social housing, roads and the public transportation system. Although its capital investments have increased substantially over the past five years, the city still faces significant challenges from its historical infrastructure backlog and rapid population growth over the past two decades.

The rising need for capital spending was reflected in the estimated cash financing requirement of 0.4% of total revenues for fiscal 2021. This was covered through a combination of borrowing and own cash. The cash financing requirement is expected to increase over the medium term, averaging 0.3% of total revenue during fiscal 2022-2024. This shall be financed through increased borrowing, own funds and capital grants.

Rising debt level

As of the second quarter of fiscal 2021, the City of Johannesburg accounted for about 35% of the total municipal debt in South Africa. The city's net direct and indirect debt (NDID)/operating revenue rose to an estimated 39.6% in fiscal 2021, from 34.8% in fiscal 2020. The city's budget projects an average NDID/operating revenue of 33% during fiscal 2022-2024, however Moody's expects greater debt pressure,

with the city having to balance growing capital spending and liquidity pressures. Furthermore, the city has limited capacity to ramp up borrowing as the Debt/Total Revenue for fiscal 2021 is 38%, which is relatively close to the 45% threshold set by the National Treasury.

Johannesburg's debt stock comprises of domestic bonds (22%) and bank loans (78%) - all denominated in the domestic currency and at fixed rates. The bonds are secured via sinking fund investments, estimated at ZAR2.7 billion in fiscal 2021 (this amount is netted off our debt ratios in fiscal 2021). Johannesburg's debt stock is projected to increase over the next three years, in line with the city's borrowing plan of ZAR8.4 billion for the period (2022-24).

Extraordinary support considerations

The City of Johannesburg has a low likelihood of receiving extraordinary support from the national government, reflecting, at the jurisdictional level, the national government's policy stance of promoting greater accountability for South African municipalities. This assessment is in line with the national government's stance to encourage municipalities to be self-sustainable. Although the legal framework regulates the recovery of municipalities experiencing financial difficulties, it does not suggest timely extraordinary bailout actions to avoid defaults on debt obligations.

Output of the baseline credit assessment scorecard

ESG considerations

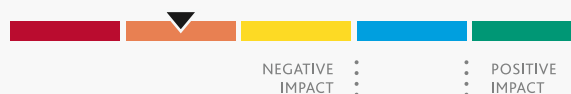
JOHANNESBURG, CITY OF's ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 3

ESG Credit Impact Score

CIS-4

Highly Negative



For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.

Source: Moody's Investors Service

City of Johannesburg's ESG Credit Impact Score is highly negative (**CIS-4**), reflecting a highly negative exposure to environmental and social risks that are largely driven by water stress and weak labor and income, and neutral to low governance risks.

Exhibit 4

ESG Issuer Profile Scores

ENVIRONMENTAL

E-4

Highly Negative



SOCIAL

S-4

Highly Negative



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

We assess the City of Johannesburg's exposure to environmental risks as highly negative (**E-4** issuer profile score), with high exposure to environmental categories, mainly relating to physical climate risk and water management. While this challenge is managed through

partnerships between the central government's department of water and the city, some of the financial burden of implementing and maintaining diverse water sources is borne by the city.

Social

Our overall assessment of social risk exposure is highly negative (**S-4** issuer profile score), reflecting the considerable labor & income risk as well as health and safety risk. The city's exposure to social risk is influenced by elevated levels of poverty and high unemployment exacerbated by the coronavirus impact.

Governance

City of Johannesburg's neutral to low governance IPS (**G-2** issuer profile). The city's strong administration has managed to implement prudent financial practices over the years, which have led to the city attaining an unqualified audit opinion over the past five years. Johannesburg's financial undertakings are guided by the Municipal Finance Management Act and by the national government, through the treasury, which plays an oversight role. Data transparency is very high, with all financial statements, along with medium-term budgets, published publicly on the city's and National Treasury's websites.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The City of Johannesburg's assigned BCA of ba3 is in line with BCA of ba3 generated by the scorecard. The scorecard-indicated BCA of ba3 reflects an Idiosyncratic Risk score of 4 (presented below) on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Ba2, as reflected by the sovereign bond rating for South Africa.

For details on our rating approach, please refer to our [Regional and Local Governments](#) rating methodology, published on 16 January 2018.

Exhibit 5

Johannesburg, City of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				1	20%	0.20
Economic Strength [1]	1	135.58%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				6	20%	1.20
Legislative Background	5		50%			
Financial Flexibility	7		50%			
Factor 3: Financial Position				3.75	30%	1.13
Operating Margin [2]	3	7.95%	12.5%			
Interest Burden [3]	5	4.62%	12.5%			
Liquidity	5		25%			
Debt Burden [4]	3	39.54%	25%			
Debt Structure [5]	3	14.19%	25%			
Factor 4: Governance and Management				5	30%	1.50
Risk Controls and Financial Management	1					
Investment and Debt Management	5					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						4.03 (4)
Systemic Risk Assessment						Ba2
Scorecard-Indicated BCA Outcome						ba3
Assigned BCA						ba3

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

[5] Short-term direct debt/total direct debt

Source: Moody's Investors Service; Fiscal 2021.

Ratings

Exhibit 6

Category	Moody's Rating
JOHANNESBURG, CITY OF	
Outlook	Stable
Baseline Credit Assessment	ba3
Issuer Rating -Dom Curr	Ba3
NSR Issuer Rating	A1.za
Senior Unsecured -Dom Curr	Ba3
NSR Senior Unsecured	A1.za
ST Issuer Rating -Dom Curr	NP
NSR ST Issuer Rating	P-1.za

Source: Moody's Investors Service

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