MOODY'S
INVESTORS SERVICE

CREDIT OPINION
15 December 2023

Update

Send Your Feedback

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.

Contacts

Kgothatso Moerane 27647579313
Associate Lead Analyst
kgothatso.moerane@moodys.com

Makasi Makasi +27.82.823.2668
Ratings Associate
makasi.makasi@moodys.com

Massimo Visconti, MBA +39.02.9148.1124
VP-Sr Credit Officer/Manager
massimo.visconti@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

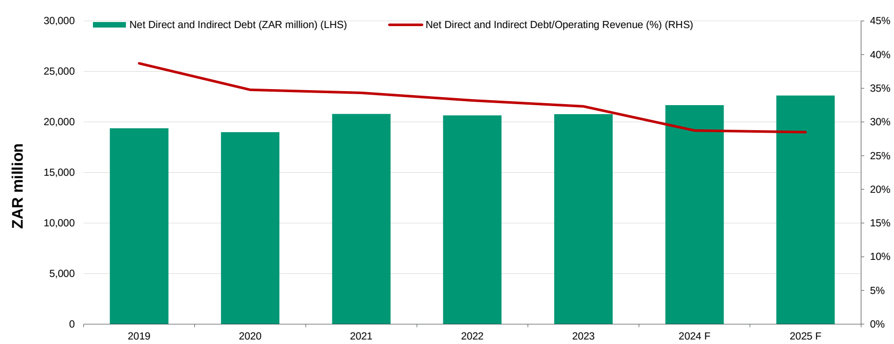
City of Johannesburg (South Africa)

Update to credit analysis

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 city is South Africa's (Ba2 stable) business capital and main financial and economic center, which allows it to access a broad tax base. The city's credit profile is constrained by capital spending pressures, related to infrastructure backlogs. The city also faces physical climate and water management risks, as well as social risks such as access to adequate housing and labor market challenges.

Exhibit 1
Johannesburg's debt stock to increase but debt ratio is expected to remain stable



F=Forecast; Fiscal year ending 30 June

Source: City of Johannesburg and Moody's Investors Service

Credit strengths

» Robust financial performance, albeit challenged by the rising inflation

» Large and diversified economic base

» Strong debt management practices and moderate liquidity

Credit challenges

» Growing pressure to increase capital spending to address social and environmental risks

» Moderately high debt levels, albeit relatively stable

Rating outlook

The outlook is stable, mirroring the drivers of the stable outlook for South Africa. We expect the city's prudent financial management, in the context of recent shocks, such as load shedding and water shortages, to lead to continued resilience in financial performance, during the medium term.

Factors that could lead to an upgrade

A rating upgrade is unlikely, considering the stable outlook assigned to the City of Johannesburg. Moody's will consider changing the ratings should the city display consistently improving operating performance and liquidity, in the context of the operating environment structural challenges. A sovereign upgrade would exert positive pressure on the rating.

Factors that could lead to a downgrade

Moody's will consider a 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

	2019	2020	2021	2022	2023	2024 F	2025 F
City of Johannesburg							
Net direct and indirect debt/Operating revenue (%)	38.1	34.8	34.3	33.2	32.3	28.5	27.9
Interest Payments/Operating Revenue (%)	4.9	4.6	4.3	4.2	4.2	3.7	3.5
Gross Operating Balance/Operating Revenue (%)	10.3	5.7	11.0	7.7	3.3	8.0	9.2
Cash Financing Surplus (Requirement)/Total Revenue (%)	2.0	0.8	-0.3	-4.5	-1.9	-2.9	-2.2
Intergovernmental Transfer/Operating Revenue (%)	15.6	15.7	20.8	13.2	14.6	11.0	11.2
Capital expenses/total expenses (%) - IS	13.0	8.8	10.5	10.7	8.5	8.9	9.1
Cash and Cash Equivalents/ Current Liabilities and Short Term Debt	0.5	0.4	0.5	0.4	0.2	0.3	0.3

Fiscal year ending 30 June.
Source: City of Johannesburg and Moody's Investors Service

Detailed credit considerations

Baseline credit assessment

The City of Johannesburg's Ba3 rating and stable outlook reflects its resilient operating performance and liquidity. The moderate debt level combined with the city's liquidity reserves place the city in a favourable position to raise funding. Although Moody's forecasts the operating surplus to moderate, due to inflationary pressure, the city's cash position will remain resilient over 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.

Robust financial performance, albeit challenged by the rising inflation

The City's service charges remained constant year-on-year with no increase from FY2022 to FY2023, this was attributable to a decrease in water and electricity consumption. This resulted in a moderate operating performance with a gross operating balance (GOB) of 3.3% of operating revenue below the GOB of 7.7% posted in FY2022, this was further impacted by the increase in impairments from bad debts. The city has high revenue-generating capacity, with its own source revenue (primarily consisting of service charges and property taxes) contributing to 81% of its operating revenue, whilst government grants accounted for 13%, in fiscal 2023. Fixed cost items such as bulk purchases and employee related costs accounted for 60% of total expenditure in FY2023, which limits the city's expenditure flexibility. Though we expect inflation to increase operating expenditures, we do not anticipate changes in the city's rigid operating expenditure structure. Despite these factors, we predict the city will maintain moderate gross operating surpluses in the medium term. This is expected to result from the city's renewed revenue collection strategies, which have continued to show high collection rates. These strategies include increasing efficiency and accuracy in account billing, implementing disconnections and penalties for nonpaying customers, and rolling out smart meters to convert prepaid customers. We forecast GOB-to-operating revenue ratio to average 8.6% during the period 2024-2025.

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 the remaining 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 upward pressure on spending and social risks.

Strong debt management practices and moderate liquidity

The city's administration regularly monitors its budget execution and cash flow, and is committed to reinforcing internal controls. The city achieved an unqualified audit opinion in fiscal 2022 for the tenth year in a row, indicating 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.

The city has continued to demonstrate 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) at 0.2x in FY2023. Though resilience in its liquidity position is expected in the medium term, growing capital spending needs will keep it at a moderate level, resulting in a forecasted average cash ratio of around 0.5x between fiscal 2024-2025. Measured as a percentage of operating revenue, the city's liquidity should represent 9% over the same period.

Growing capital spending pressure to address social and environmental risks

The infrastructure backlog and rapid population growth continue to exert pressure on the city to increase capital investments. Water infrastructure backlog inclusive of required water, sewer and wastewater treatment infrastructure replacement, amounts to ZAR24.2 billion, approximately 37% of total revenue in FY2023. Electricity infrastructure backlog inclusive of ageing networks and new network requirements, amounts to ZAR40 billion or approximately 61% of total revenue.

The rising need for capital spending was further reflected in the cash financing requirement of 1.9% of total revenues for fiscal 2023. This was covered through a combination of borrowing and own cash. The cash financing requirement is expected to remain over the medium term, averaging a manageable 2.6% of total revenue during fiscal 2024-2025. This shall be financed through increased borrowing, own funds and capital grants. This infrastructure backlog will continue to challenge the city to cope with environmental risks such as droughts as well as the rising social risks driven by limited access to basic services for some residents.

In the medium term, the city will fund up to 33% of its total infrastructure investment from borrowing, while its own funds and government grants will contribute 26% and 41%, 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.

Moderately high debt levels, albeit relatively stable

City of Johannesburg's debt accounted for 31% of the total municipal debt in South Africa while the city's net direct and indirect debt (NDID)-to-operating revenue ratio declined to estimated 32.3 % in fiscal 2023 compared with 33.2% in fiscal 2022. Johannesburg's debt stock comprises of domestic bonds (13%) and bank loans (87%) - all denominated in the domestic currency and at fixed rates. The bonds are secured via sinking fund investments, estimated at ZAR1.4 billion in fiscal 2023 (this amount is netted off our debt ratios). With the forthcoming debt redemptions, we expect the city's debt to decrease by an average 28.2% of projected operating revenue in the medium term.

Extraordinary support considerations

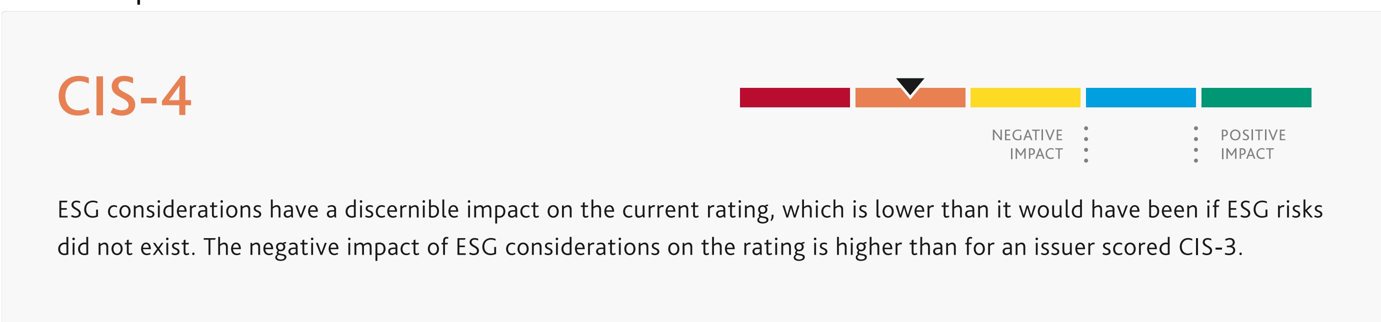
The City of Johannesburg has a low likelihood of receiving extraordinary support from the national government, reflecting, at the jurisdictional level, the national government's policy stance of promoting greater accountability for South African municipalities. This assessment is in line with the national government's stance to encourage municipalities to be self-sustaining. 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.

ESG considerations

Johannesburg, City of's ESG credit impact score is CIS-4

Exhibit 3

ESG credit impact score



Source: Moody's Investors Service

City of Johannesburg's **CIS-4** reflects its exposure to environmental and social risks that are largely driven by water stress and weak labor and income, as well as governance risks.

Exhibit 4

ESG issuer profile scores

Source: Moody's Investors Service

Environmental

The **E-4** score assigned to City of Johannesburg reflects its exposure to environmental risks mainly related to physical climate risk and water management. Drought is the most pertinent and frequent physical climate exposure resulting in shortages and water restrictions in certain areas.

The **E-4** score assigned to City of Johannesburg reflects its exposure to environmental risks mainly related to physical climate risk and water management. Drought is the most pertinent and frequent physical climate exposure resulting in shortages and water restrictions in certain areas.The city is currently reviewing its disaster management plans and is planning to mitigate potential risk disaster occurrences that could cause structural damage. The city measures itself according to the adherence to various acts, legislation and by-laws that are enforced (i.e. the monitoring of biohazards in landfill spaces, flood management etc.). With their Environmental Sustainability Action Plan, the city is able to work in parallel to various acts and legislation concerned with environment and social sustainability in the City.

Social

The **S-4** score assigned to City of Johannesburg reflects its exposure to social risk mirroring high labor & income risks as well as limited access to basic services, housing and health and safety. Labor and income risks are reflected in the city's high unemployment rate- which directly affects the ability of the city's residents to pay for services and increases the number of households that are entirely dependent on the city for basic services. Years of underinvestment have left South African municipalities with ageing and inadequate infrastructure for key services like water and electricity - limiting access to basic services. In addition, access to adequate housing and health and safety, for some of the city's population, are limited by the lack of infrastructure and adequately skilled labor to address these issues.

Governance

The **G-2** score assigned to City of Johannesburg reflects its limited exposure to governance risk as the administration regularly monitors its budget execution and cash flow, and is committed to reinforcing internal controls. As in previous fiscal years, the city received an unqualified audit report for fiscal 2021. Data transparency is 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 suggested 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				**3.25**	**30%**	**0.98**
Operating Margin [2]	3	8.07%	12.5%			
Interest Burden [3]	5	4.30%	12.5%			
Liquidity	5		25%			
Debt Burden [4]	1	32.32%	25%			
Debt Structure [5]	3	14.99%	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						**3.88 (4)**
Systemic Risk Assessment						**Ba2**
Suggested BCA						**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 2023.

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

REPORT NUMBER 1391904

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454