

Rating Action: Moody's assigns A3.za rating to Swartland Municipality (South Africa)

Global Credit Research - 11 May 2011

Johannesburg, May 11, 2011 -- Moody's Investors Service has today assigned a long-term national scale issuer rating of A3.za to Swartland Municipality. The rating outlook is stable.

RATINGS RATIONALE

Notwithstanding Swartland's small budget volumes, with total revenue of ZAR325 million (US\$46 million), the municipality has consistently displayed a favourable financial performance. Gross operating margins averaged 12% in the past five years and are projected to stabilise at around 5%-6% going forward. Moody's observes that the small budget volumes combined with the high proportion of own-source revenue (94%) has produced some volatility in financial results that were, however, well contained within the municipality's budget. Indeed, its conservative financial management combined with effective revenue collections aided the consolidation of a robust liquidity position and control of debt levels. Swartland's liquidity levels -- at 3.9 times -- compare well with larger municipalities and the debt-to-revenue ratio stood at a moderate 25% in FY2010.

Going forward, capital expenditure pressure will lead to use of accumulated cash and an increase in debt levels, albeit manageable. Moody's notes that Swartland's debt levels are projected to increase moderately to 30% of operating revenue by 2013, which is in line with the similar-sized rated municipalities in South Africa. The municipality's strategy of investing in revenue-generating assets should, however, help revenue growth to keep pace with higher debt service charges.

The rating also considers Swartland's narrow -- albeit relatively affluent -- economic base. Swartland is located in the Western Cape Province and has a population of about 84,000 people spread across 11 towns. After steady growth in the past 10 years, Swartland's local economy was severely affected by the global economic crisis and declined by 7% in 2009. Notwithstanding the small size and marked volatility in output, Moody's notes that Swartland displays above-average wealth levels.

The principal methodologies used in this rating were Regional and Local Governments Outside the US published in May 2008, and The Application of Joint-Default Analysis to Regional and Local Governments published in December 2008.

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