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Development Bank of Southern Africa Ltd.

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Development Bank of Southern Africa Ltd.

Major Rating Factors

Issuer Credit Rating
Foreign Currency
BB-/Stable/B
Local Currency
BB/Stable/B

Strengths:	Weaknesses
• Almost certain likelihood of support from the South African government. • Critical role in developing the South African government's infrastructure development plans. • Capital and earnings that support the bank's stand-alone credit profile.	• High single-obligor concentrations. • Volatile earnings, partly due to the bank's countercyclical nature and developmental mandate. • Some exposure to high-risk projects in sub-Saharan Africa.

Outlook

S&P Global Ratings' stable outlook on Development Bank of Southern Africa Ltd. (DBSA) mirrors that on South Africa. Our ratings on DBSA will move in conjunction with those on the sovereign as long as we assess the likelihood of extraordinary support for DBSA as almost certain.

Downside scenario

We could lower the ratings on DBSA if we downgraded South Africa. Pressure on the rating could also build if the bank's public policy role or link with the government were to weaken, in combination with a deterioration of its stand-alone credit metrics.

Upside scenario

We could raise the ratings on DBSA if we were to upgrade South Africa. We do not expect to rate DBSA higher than the sovereign.

Rationale

We equalize our ratings on DBSA with those on South Africa (foreign currency BB-/Stable/B, local currency BB/Stable/B). This reflects our opinion that there is an almost certain likelihood that the South African government would provide timely and sufficient extraordinary support to DBSA in the event of financial distress. Consistent with our criteria for government-related entities (GREs), our view of the likelihood of extraordinary government support stems from DBSA's:

- Critical role as one of the South African government's primary vehicles for promoting infrastructure development in the country's public and private sectors; and
- Integral link with the South African government, through its 100% ownership of the bank, ongoing government supervision, and capital injections when required.

Our assessment of the strength and durability of the link between DBSA and the government remains integral to our ratings on DBSA. Between 2012 and 2015, the government injected South African rand (ZAR) 7.9 billion (about $0.5 billion) into DBSA, reinforcing the government's support for DBSA as the bank's full owner. DBSA also has callable capital of ZAR20 billion that can boost its capital base. Moreover, we recognize DBSA's role as one of the government's key vehicles for delivering infrastructure development and meeting strategic policy goals, specifically for key infrastructure projects that are intended to support an economic recovery.

DBSA's mandate is to largely focus on infrastructure financing and development in municipalities, public institutions, and other projects in South Africa and the rest of Africa. Within South Africa, DBSA predominantly supports public-sector projects in energy, transport, and in metropolitan municipalities, where infrastructure projects aim to catalyze economic growth. In 2019, the government set up an infrastructure fund to fast track infrastructure and development projects and its implementation unit sits within DBSA. In 2020, the government announced an economic reconstruction plan to assist recovery from the COVID-19 pandemic and reiterated that infrastructure projects tied to the plan would be led by DBSA.

The bank also plans to increase lending to poorer under-resourced municipalities and the water sector to help close infrastructure gaps. It is, however, limited by the availability and readiness of those entities to create viable, financeable projects. Consequently, DBSA's support to such municipalities often takes the form of technical-assistance grants, capacity-building initiatives, and overall project support. DBSA's ongoing commitment in this respect aims to enhance its developmental role and help spur GDP growth in South Africa.

DBSA also has a mandate to develop the Southern African Development Community (SADC), primarily infrastructure finance projects that aim to link the region economically. In 2015, DBSA received an even wider mandate to provide lending and support across the rest of Africa. Despite this wider mandate, DBSA will remain mainly concentrated in South Africa, which will make up about 70% of the loan book, with projects abroad at about 30%.

Although trying to fulfil government policy initiatives, DBSA is also guided by commercial considerations, as required by its structure and its sole shareholder, the South African government. It tries to blend commercial viability with the wider goals of enhancing economic growth and regional integration. In 2019, at the request of the ministry of finance, the DBSA agreed to provide short-term financing to South African Airways to bridge an expected parliamentary appropriation of funds to the airline. The loan was provided on the back of a government guarantee and was fully repaid on the due date in 2020.

We view DBSA's capital and earnings as the main factor supporting its 'bb-' stand-alone credit profile (SACP; which does not include government support). We note the concentration within the loan portfolio and believe pressure could emerge on the SACP should the portfolio deteriorate. We assess DBSA's capital and earnings as very strong. As of March 31, 2020, the risk-adjusted capital (RAC) ratio before adjustments was higher than 17%. We expect the RAC ratio to remain at 15%-16% in 2020-2021, balancing DBSA's counter-cyclical nature and developmental mandate. We consider the bank's earnings to be volatile.

We believe that DBSA's risk position remains under pressure, in line with challenges facing the broader South African economy. Nonperforming loans (NPLs) rose to 7.23% as of March 31, 2020, from 4.89% on March 31, 2019, breaching DBSA's 6% internal limit. We expect NPLs to rise further to about 9% in 2020-2021. We consider single-obligor concentrations to be high. The 20 largest loans accounted for nearly 75% of total loans and more than 150% of total adjusted capital (TAC) on March 31, 2020. Moreover, the largest exposure--to South African utility Eskom--accounted for 21% of total loans (or about ZAR17.3 billion) and 46% of TAC on the same date.

We recognize DBSA's role as a development bank is to act countercyclically, and note its improved risk management in recent periods, in terms of loan underwriting, surveillance, and recovery. Nevertheless, given the challenging macroeconomic environment in South Africa and the surrounding SADC, we expect asset-quality metrics will weaken. We forecast credit losses will rise to almost 3% by year-end 2020.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- South Africa, May 22, 2020
- Development Bank of Southern Africa Ltd. Rating Lowered Following Action On South Africa; Outlook Stable, May

11, 2020

- Various Rating Actions Taken On South African Banks Following Sovereign Downgrade, May 7, 2020
- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020

Ratings Detail (As Of October 30, 2020)*		
Development Bank of Southern Africa Ltd.		
Issuer Credit Rating		
Foreign Currency		BB-/Stable/B
Local Currency		BB/Stable/B
Senior Unsecured		BB
Issuer Credit Ratings History		
11-May-2020	*Foreign Currency*	BB-/Stable/B
26-Nov-2019		BB/Negative/B
29-Nov-2017		BB/Stable/B
06-Apr-2017		BB+/Negative/B
09-Dec-2015		BBB-/Negative/A-3
11-May-2020	*Local Currency*	BB/Stable/B
26-Nov-2019		BB+/Negative/B
29-Nov-2017		BB+/Stable/B
06-Apr-2017		BBB-/Negative/A-3
05-Dec-2016		BBB/Negative/A-2
09-Dec-2015		BBB+/Negative/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.