



The State of the Namibian Economy

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Agenda

- 1. Eos Capital**
- 2. Current State of the Economy**
- 3. Outlook for the Economy**
- 4. Q&A**

Eos Capital is a private equity fund manager who has successfully raised and substantially deployed its first fund, Allegrow. Eos is in the final stages of raising a new infrastructure fund, IDICON.



Namibian private equity fund manager

“Eos” means a new dawn in Greek mythology and the company aims to bring new life to portfolio investments through capital, operating model, strategy and management support which allows them to grow to their full potential

Fund 1 (existing)



Fund 2 (fundraising)

Infrastructure Development and Investment Company of Namibia (*IDICON*).

Existing private equity fund of N\$461m

Prospective infrastructure fund of between N\$500 million and N\$1 billion

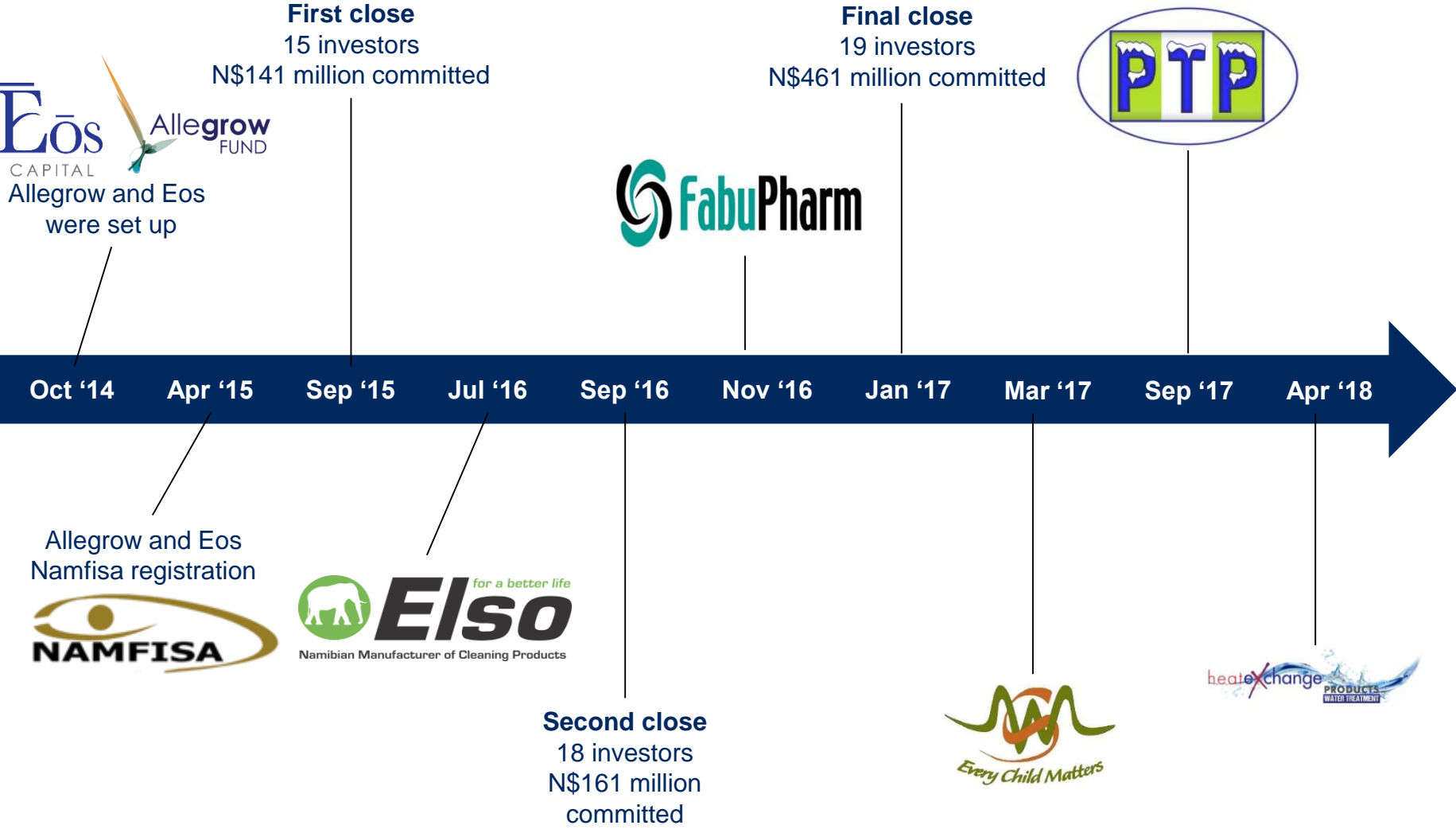
Private Equity: How funds are received and managed



Allegrow: A private equity fund aimed at providing superior returns

Strategy	Mid market growth and operational development private equity
Geography	Namibia
Sectors of investment	<ul style="list-style-type: none">• Consumer• Services• General Industrials• Information and Communications Technology (ICT)
Life stage of investments	Focus is on established businesses with a 3 year track record, with a small allocation for start-ups.
Fund size	N\$461m (ZAR461m)
Investment instruments	Equity and quasi-equity
Investment size	N\$10m - N\$90m
Number of investments	7 to 12 investments
Term	10 years with 2 possible 1 year extensions
Closing	December 2018
Target IRR (net of fees)	20%+ per annum (net of fees)

Allegrow: Solid track record since inception with five investments to date



IDICON: An infrastructure fund providing long term annuity returns

Strategy	Infrastructure investments	
Geography	Namibia	
Sectors of investment	<u>“Hard” infrastructure</u> <ul style="list-style-type: none"> • Transport and Logistics • Water • Energy 	<u>“Soft” infrastructure</u> <ul style="list-style-type: none"> • Municipal Services • Education • Healthcare
Life stage of investments	Projects in bankable feasibility	
Fund size	N\$500 million – N\$1 billion	
Investment instruments	Equity and quasi-equity	
Investment size	ca. N\$100m - N\$500m per investment	
Number of investments	ca. 1-5	
Term	ca. 15 years	
Closing	Expected August 2019	
Target IRR (net of fees)	15% real returns per annum	

Eos Capital Team



Managing Partner
Johannes Gawaxab



Partner: Investments
Ekkehard Friedrich



Partner: Value Add
Nicole Maske



Finance, Compliance,
Risk and Reporting
Manager
Sofia Shiimi



Office Manager
Emmarentia Irion



Associate
Shetu Shipena



Senior Associate
Connie-Marlene
Theyse



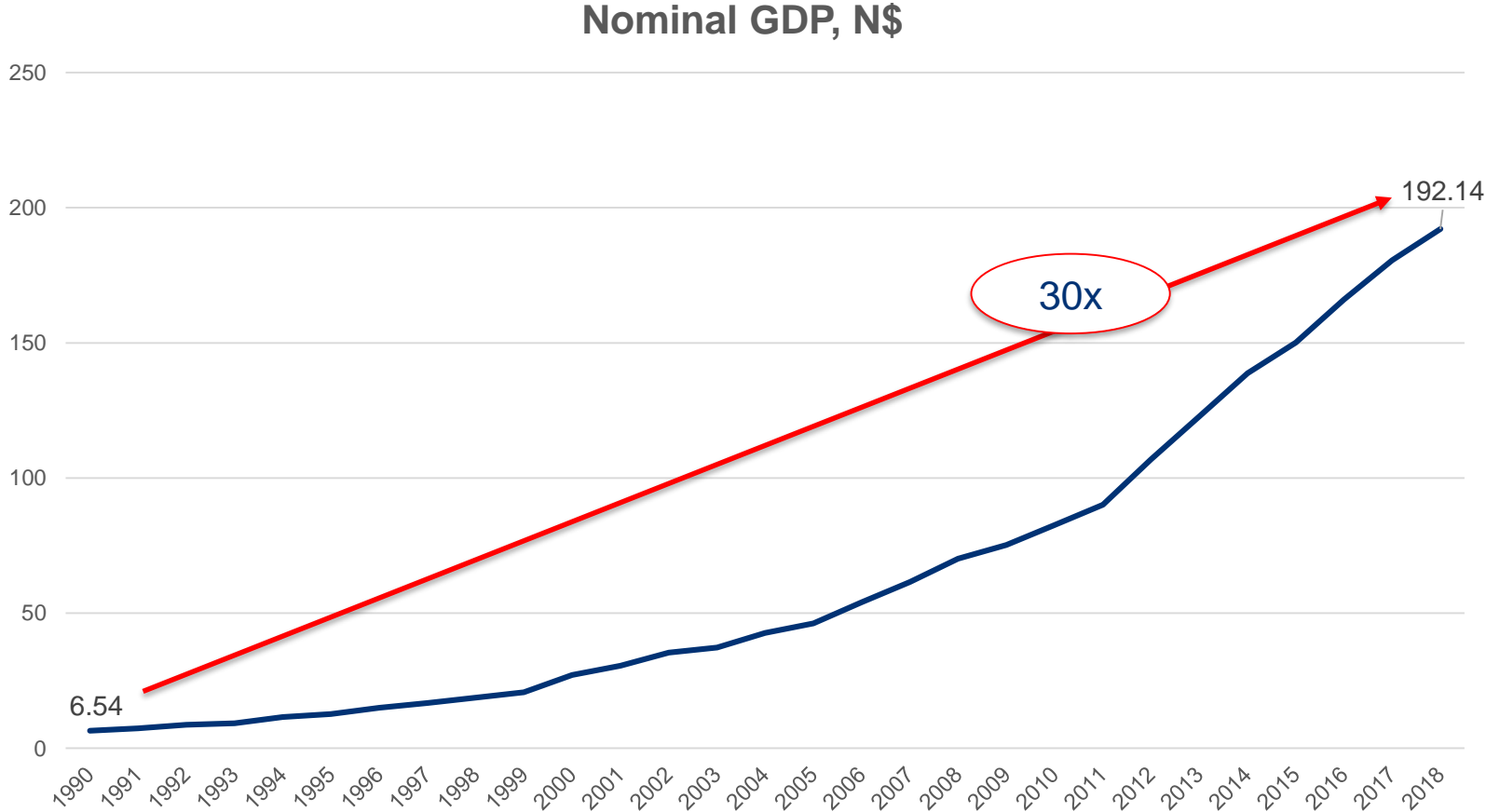
Analyst
Jacinta Hidimbwasa

Senior Associate
(Recruiting)

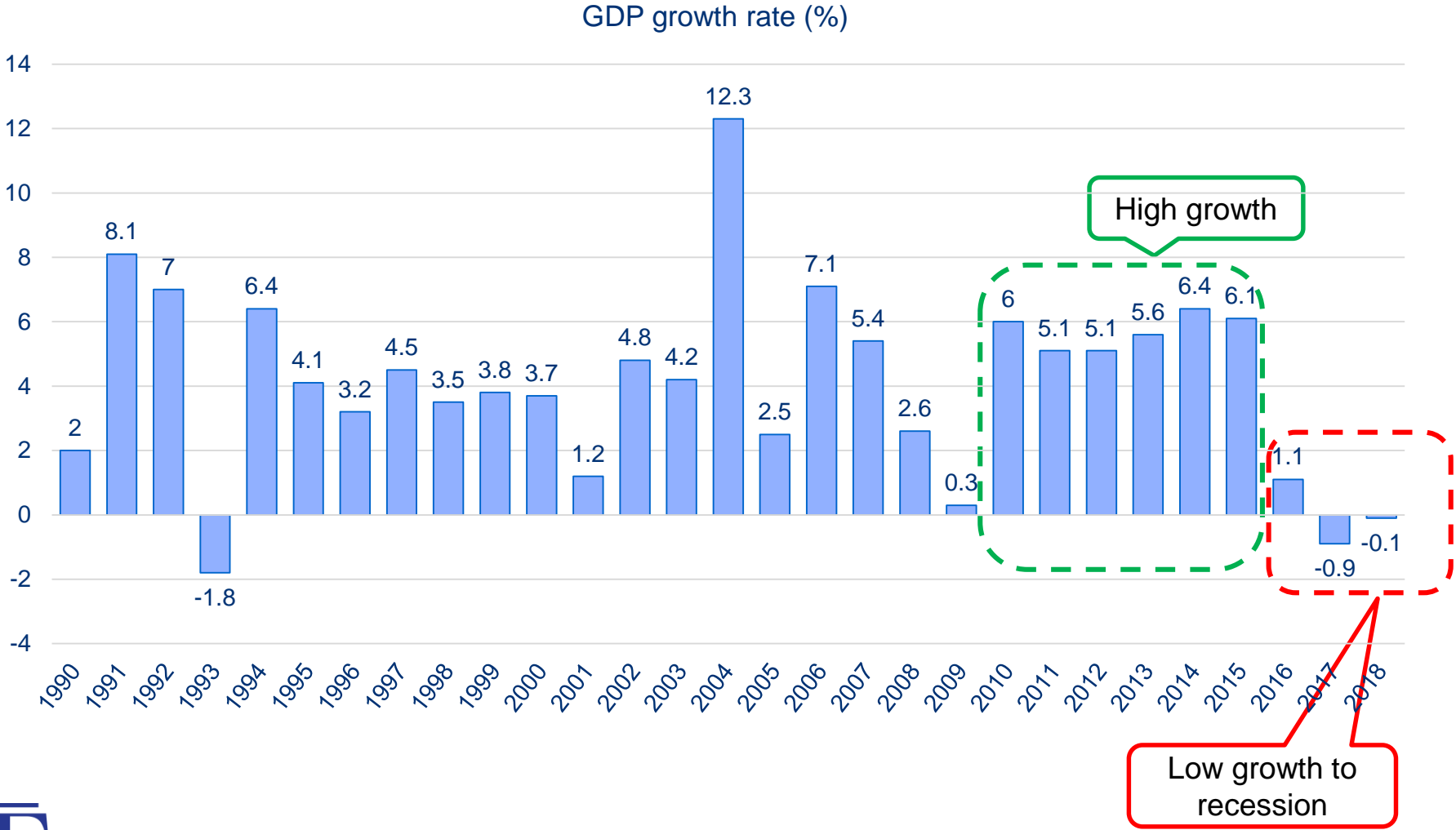
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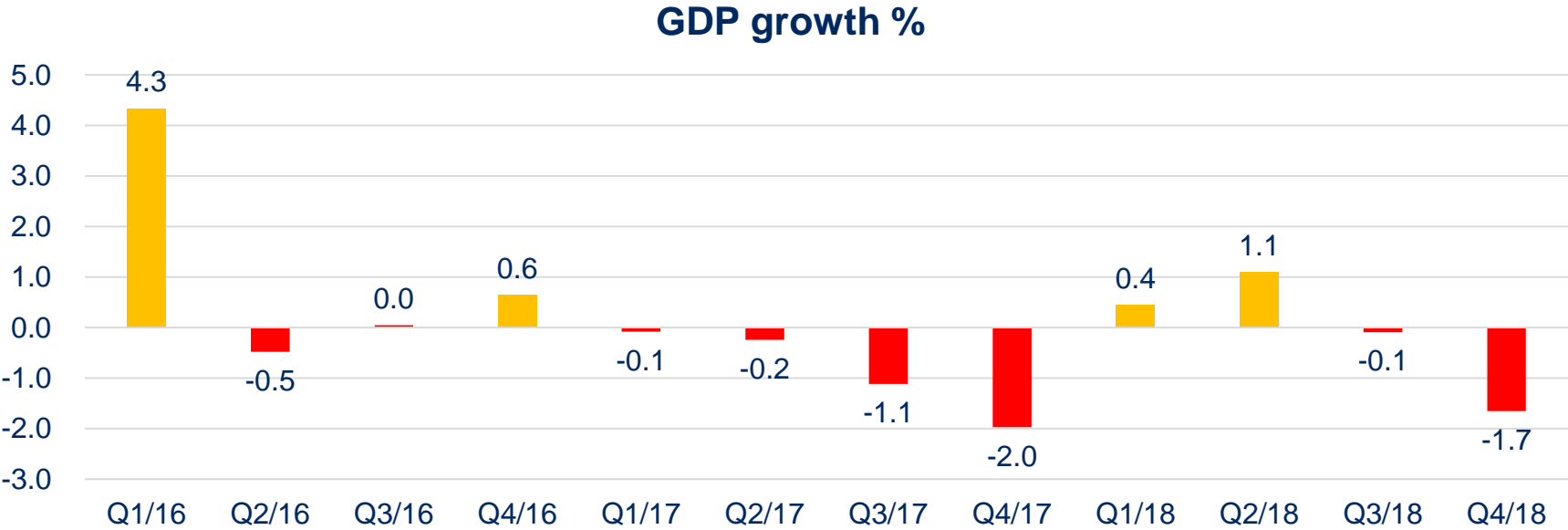
Namibia's GDP has grown 30-fold since Independence, benefiting from the global resources boom



However after a period of high growth, the economy has slipped into a recession...



...with 11 consecutive quarters of low or negative growth driven by internal and external factors



- External factors:**
- Low commodity prices
 - Lower SACU revenues
 - Depressed Angolan economy
 - Drought

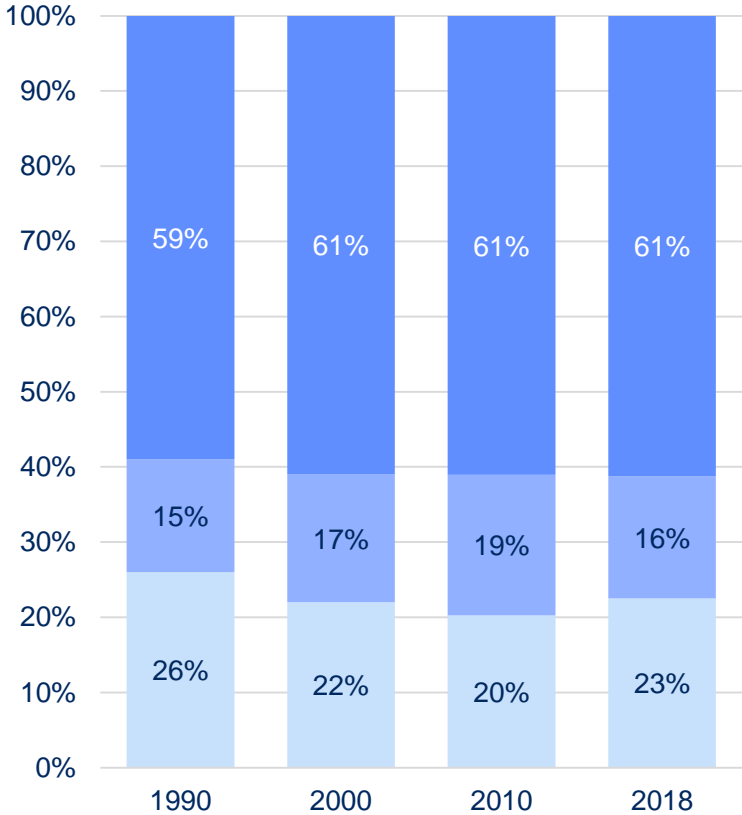


- Internal factors:**
- Inefficient public procurement
 - Corruption
 - Slow pace of public project implementation
 - Poorly prioritised public spend – not in productive capacity

There has been limited diversification of the economy with minimal value added exports

There has been limited diversification of the economy...

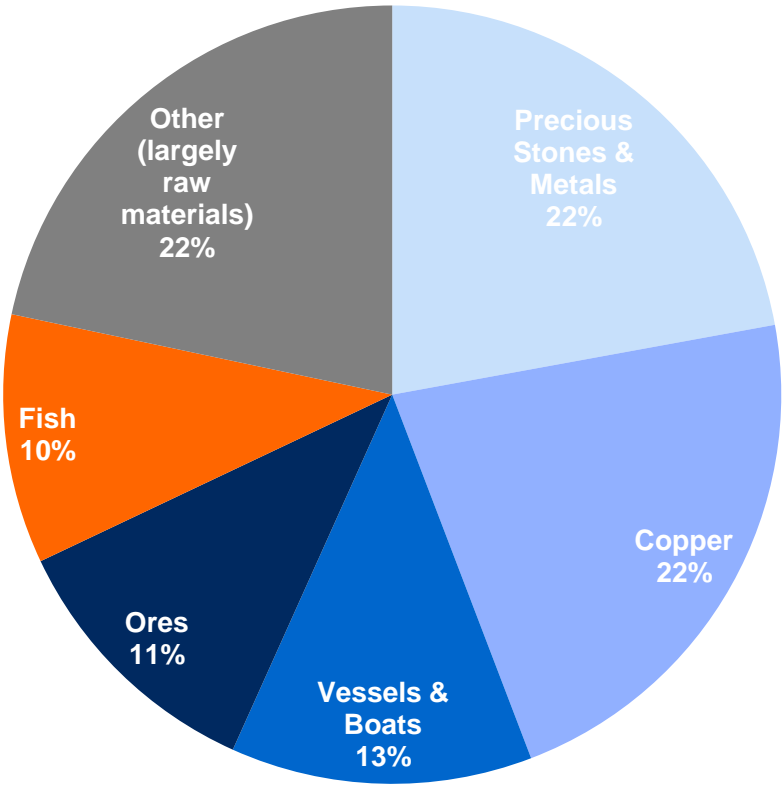
Contribution to GDP, current prices %



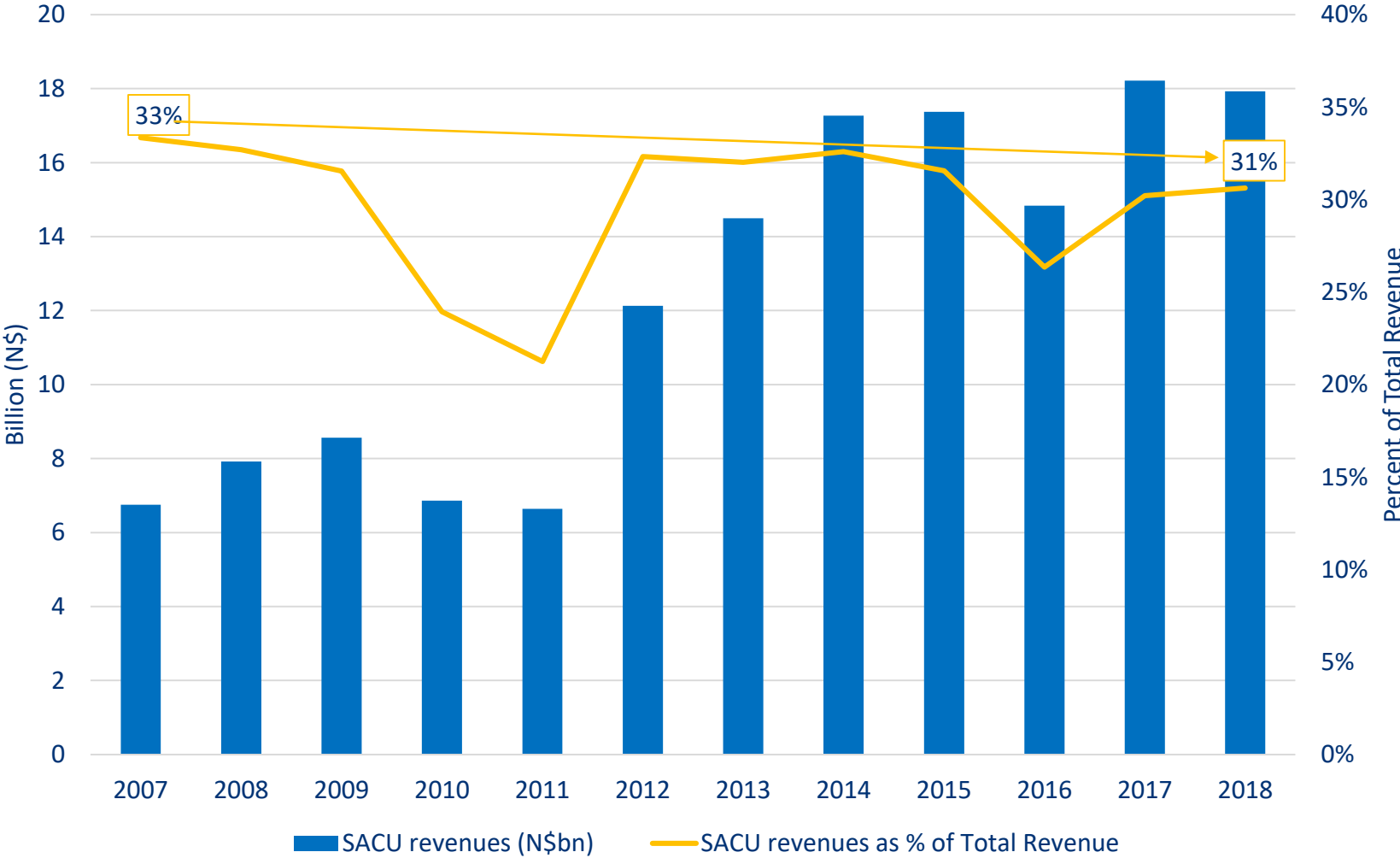
■ Primary Industries
■ Secondary Industries
■ Tertiary Industries

...with the majority of exports still raw materials

Value, % share

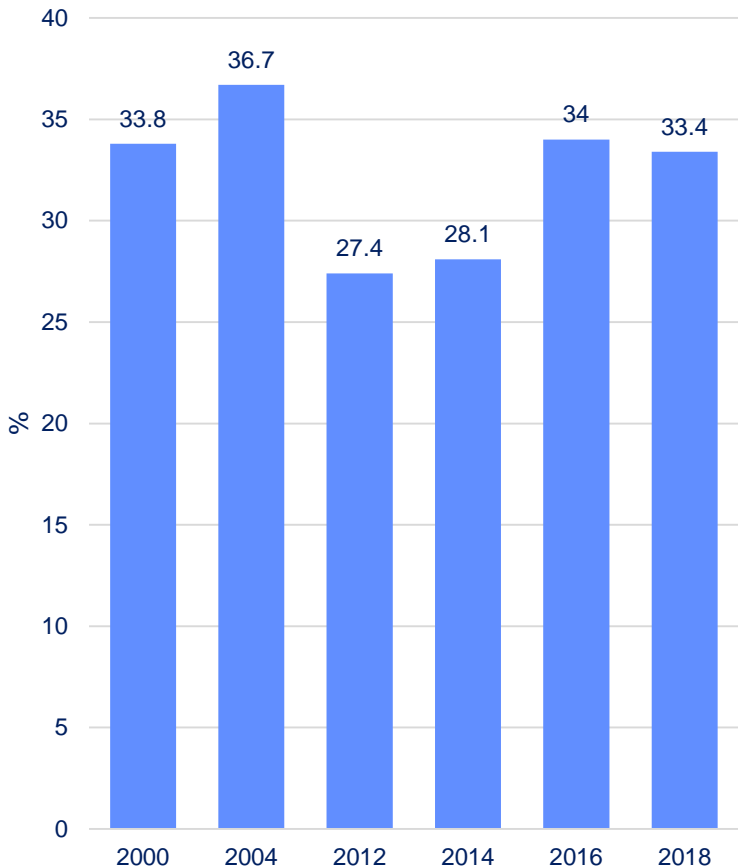


Reliance on SACU revenues is still high, accounting for ~30% of total revenue

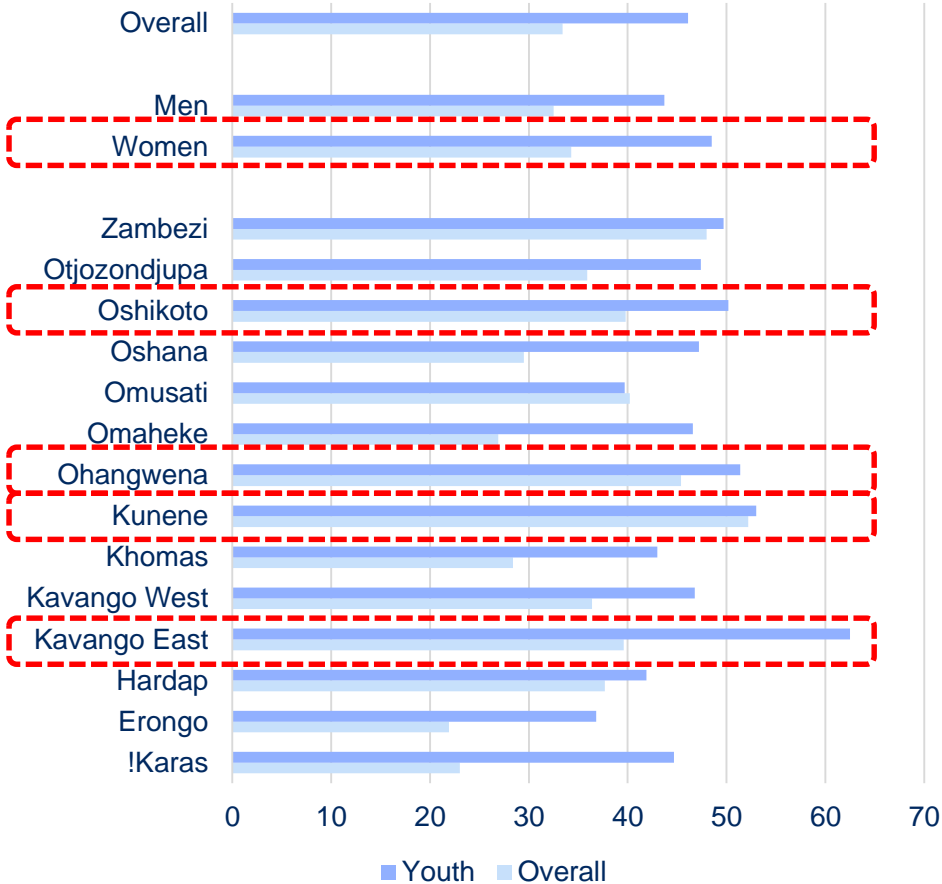


Unemployment is high, especially among the young, women and in some regions, putting social stability under threat

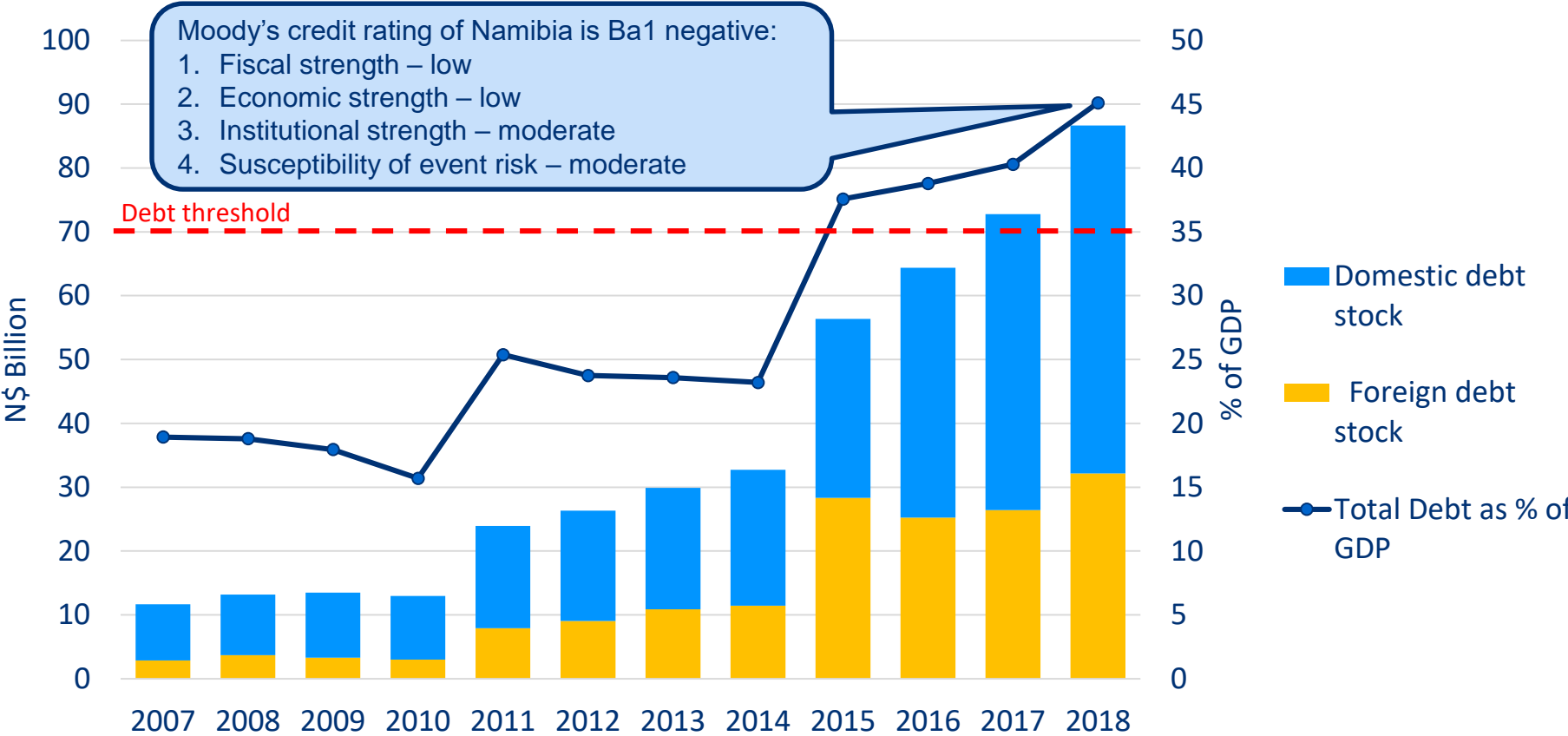
Unemployment remains high...



...with certain regions, the youth and woman the worst affected (2018)

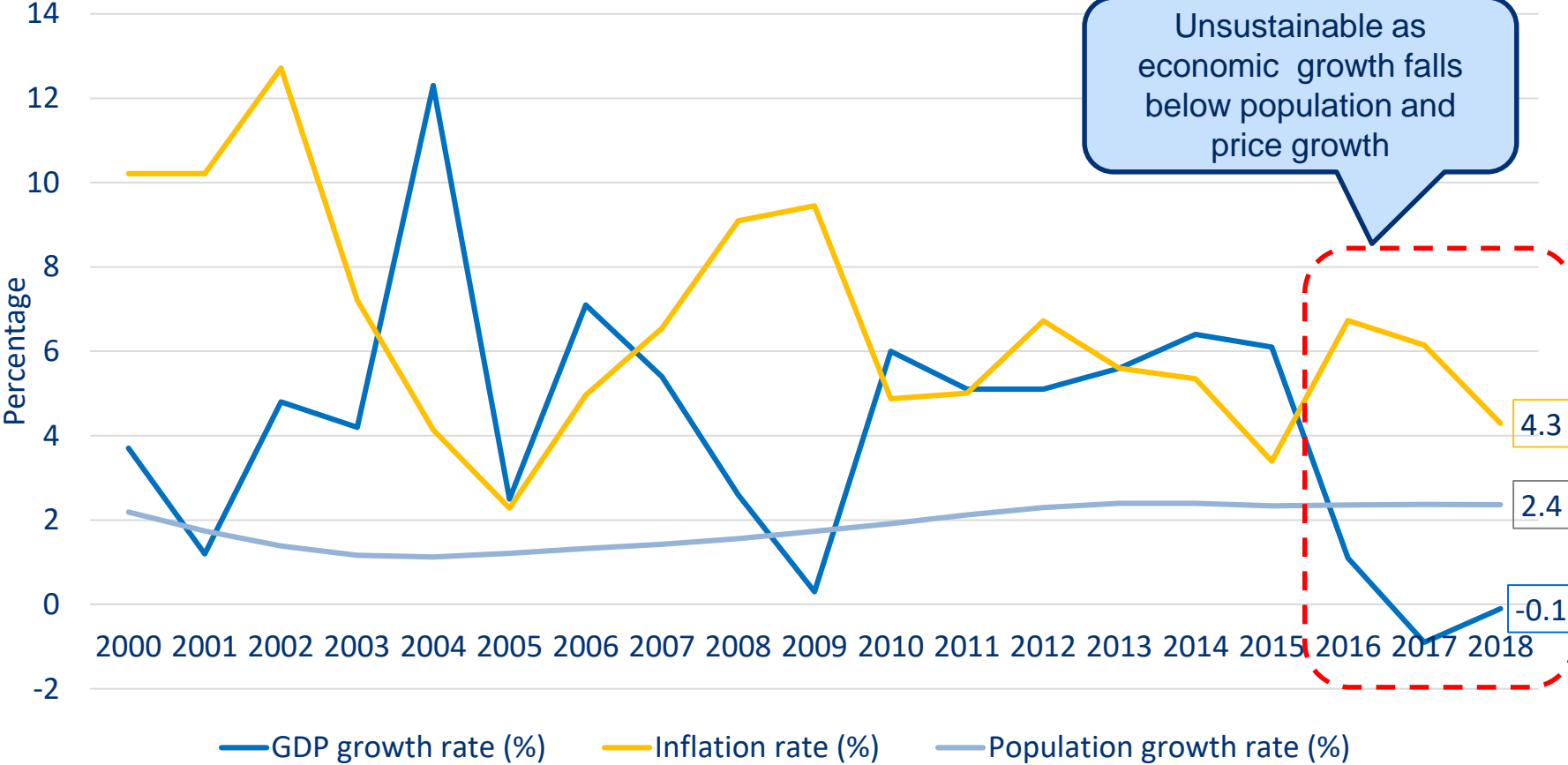


Government debt has reached record high level, well above the debt threshold



- Outlook remains negative so a ratings upgrade is highly unlikely soon
- A ratings downgrade is possible if:
 - Weaker revenue turnout
 - Liquidity of fiscal situation worsens
 - Evidence that fiscal consolidation is insufficient to prevent debt from continuing to rise
 - Decline in our foreign reserves

The economy is growing too slowly to create employment and wage growth that keeps up with population growth and inflation



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Namibia is faced with a number of unsustainable factors and an inability to use the usual measures to stimulate growth

UNSUSTAINABLES:

- Public wage bill
- Public debt
- Transfers to SOEs
- Youth unemployment



DROUGHT



Inability to use usual growth levers:

- Expansionary fiscal spending >> Government doesn't have fiscal space
- Lower interest rates >> Peg to South African Rand leaves BON little room to deviate
- Cutting taxes >> Government doesn't have fiscal space

Short term outlook is negative with the medium term outlook dependent on the swiftness and impact of actions taken

Short-term outlook:

- Don't expect recovery in next 12-18 months
- Bank of Namibia expects growth of 0.3% in 2019, however this was prior to the extent of the drought being realised

Medium-term scenarios:

A. HARD LANDING – 20%

- Worst case
- No/incorrect actions taken
- Recession; downgrading; instability

B. SLOW RECOVERY – 65%

- Base case
- Some correct actions taken
- No growth; unemployment, poverty, inequality remains

C. REBOUND – 15%

- Best case
- Swift positive actions taken
- Slow growth, improved investor confidence

Telkom SA was a failing SOE...

- Biggest fixed line operator in SA
- 17,472 employees in 2010
- Was losing money and relying on cash bail outs by government

...that government took decisive action to fix

- In 2011 government decided to:
 - Sell down to 39.8%
 - Appointed Siphos Maseko as CEO and Jabu Mabuza as Chairman
- Politicians provided a clear mandate, supported and stayed away
- Operational efficiencies, overtime reduction
- Balance sheet restructuring
- VSP's and VERP's – revenue to staff ratio down to 30%
- Reduced headcount by 12.5% and took labour unions along
- Focused strategy (broadband and mobile operations)

Telkom: The results of a successful Turnaround: Key Income and Profit Numbers

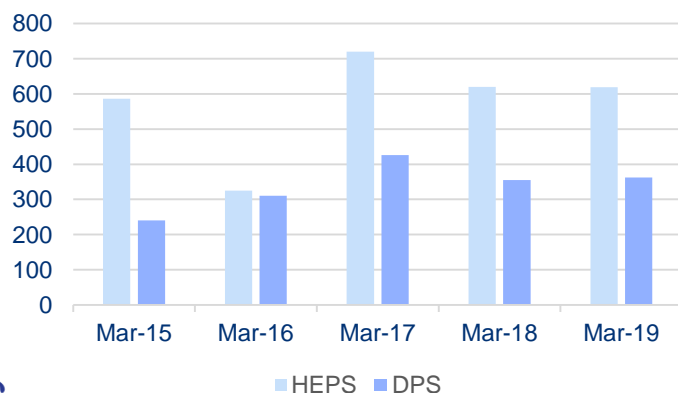
Income Statement (Rm)	Growth	Mar 2019 Final (12m)	Mar 2018 Final (12m)
Revenue	5.33%	41,774	39,661
EBITDA	1.53%	10,581	10,422
Operating Income	-1.45%	4,767	4,837
Attributable Income	-4.18%	2,795	2,917

Telkom: The results of a successful Turnaround: HEPS/NAV, Key ratios and stats

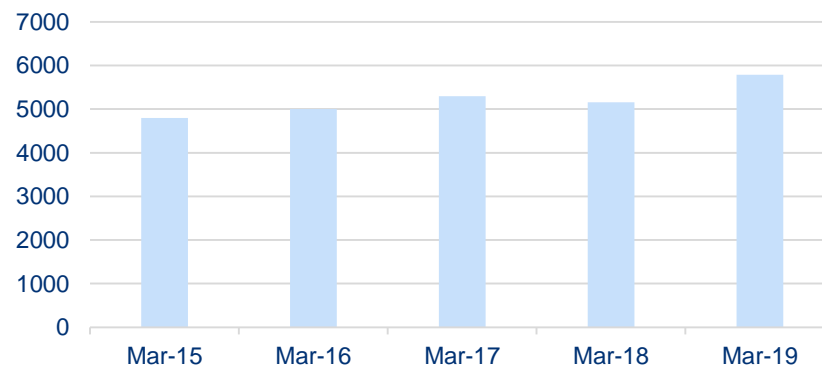
Case study

Income Statement (Rm)	Growth	Mar 2019 Final (12m)	Mar 2018 Final (12m)
EPS (ZARc)	-2.43%	582	576
HEPS (cont Ops) (ZARc)	5.09%	619	589
Dividends (ZARc)	1.97%	362	355
NAV per Share (ZARc)	12.21%	5786	5156
3 Year Beta	-68.85%	0.19	0.61
Return on Equity	-18.10%	9.5	11.6
Operating Profit Margin	-5.00%	11.5	12

Statistics (ZARc)



NAV



Annualised Returns with dividends reinvested to 30 April 2019

Period	p.a Return	R1000 Growth	Inflation p.a	Volatility
1 year	59.66%	R 1 596.60	4.39%	6.28%
3 years	22.24%	R 1 826.50	4.75%	7.17%
5 years	22.58%	R 2 767.80	4.99%	8.25%
10 years	12.82%	R3 340.80	5.21%	9.04%

Tough decisions are needed for Namibia to resume a strong growth trajectory

- Growth and revival of the economy are dependent on how fast economic reforms are implemented
- If not, investments would fail to pick up and growth would remain weak over the short and medium term
- In this case fiscal deficit will worsen as weak growth constrains revenue
- We expect the economy to have contracted in the first quarter of this year, aggravated by the worse drought in years

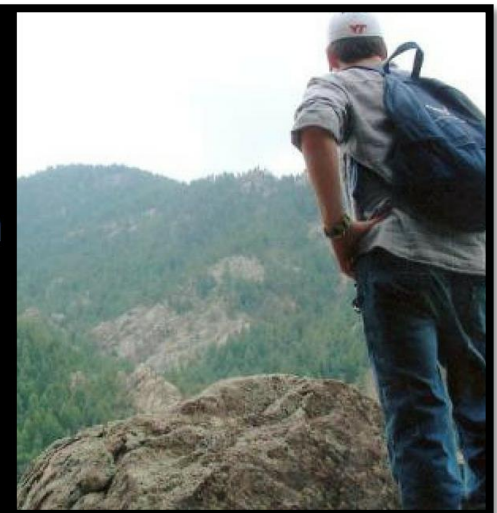
**IF WE ARE FOREVER TAKING
BABY STEPS—LIVING LIFE
WITHOUT BOLD STEPS AND
THOSE CHANCY BETS OF
COURAGE THAT ARE THE
MARK OF GREATNESS—
THEN OUR CHARACTER AND
DREAMS WILL FOREVER
LANGUISH IN THEIR
INFANCY.**

—Brendon Burchard, author of *THE CHARGE*

Don't be afraid to take a
big step when one is
indicated.
You can't cross a chasm
in two small jumps.

—David Lloyd George

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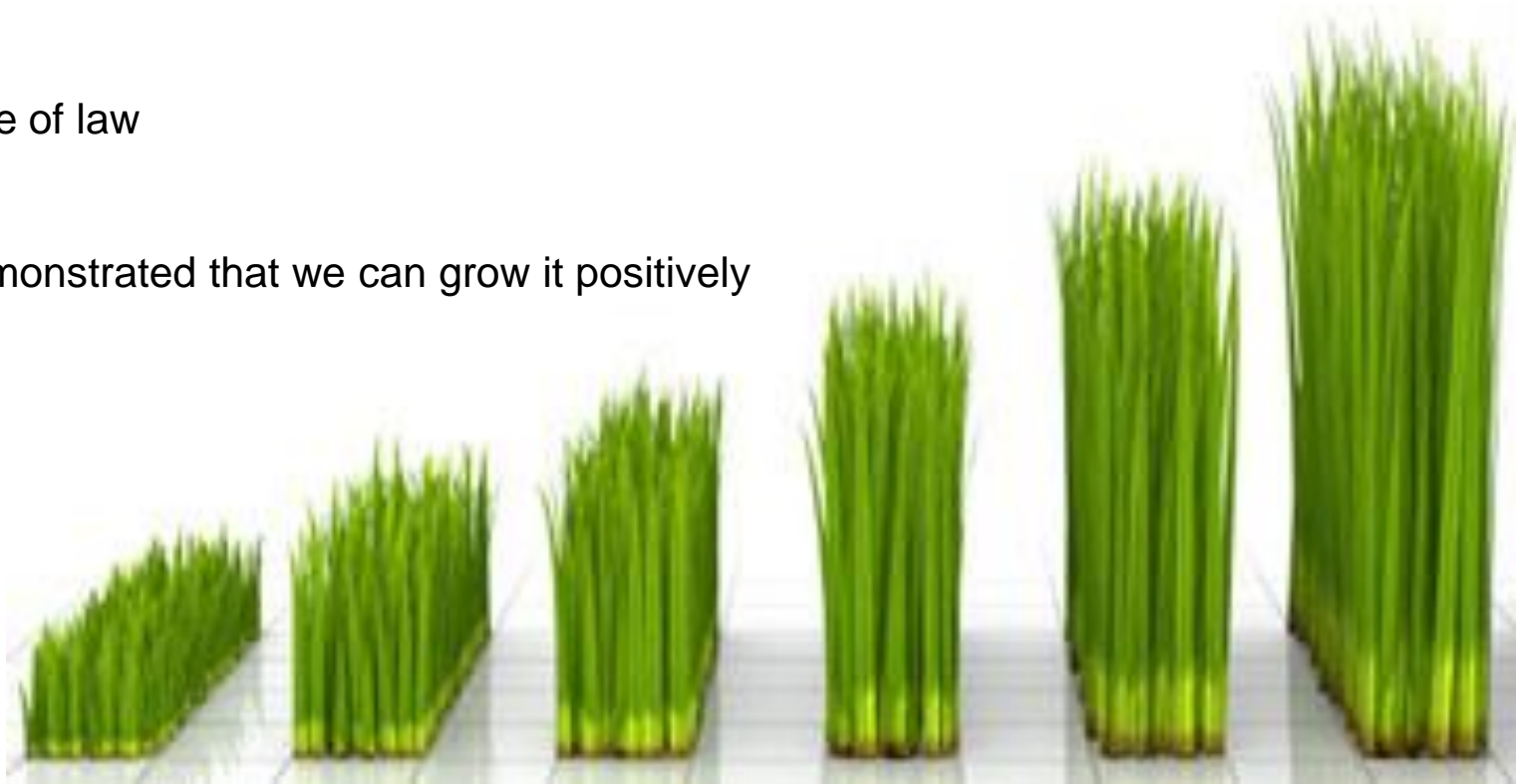
The short term priorities need to focus on 4 things

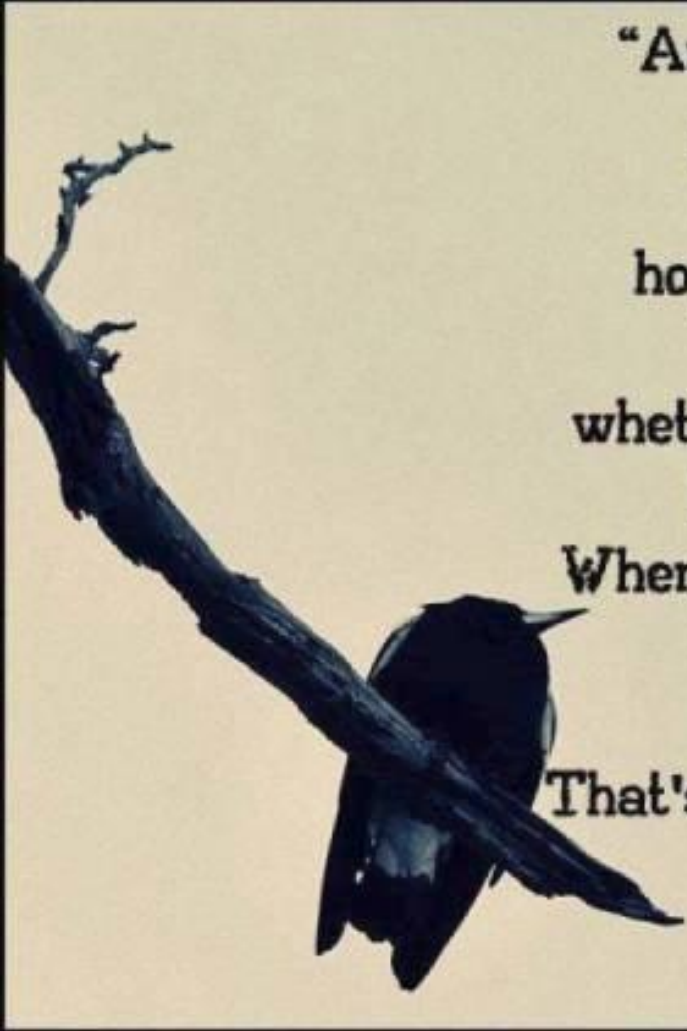
Short-term priorities

1. Creating business, consumer and investor confidence – an environment in which the economy can grow and create jobs
2. A comprehensive employment plan
3. A robust and practical plan to support small and medium size business including business rescue provision
4. A coherent infrastructure development plan

Namibia's long term potential is unquestionable

- ✓ Stable political environment
- ✓ Demonstrable smooth leadership transitions
- ✓ Rule of law
- ✓ Demonstrated that we can grow it positively





“And once the storm is over,
you won't remember how
you made it through,
how you managed to survive.
You won't even be sure,
whether the storm is really over.
But one thing is certain.
When you come out of the storm,
you won't be the same
person who walked in.
That's what this storm's all about.”

~ Haruki Murakami ~

(This TOO Shall Pass)



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Thank you for the opportunity to present