



**PARLIAMENT**  
OF THE REPUBLIC OF SOUTH AFRICA

The PBO's written answer to the question raised by the Standing Committee on Appropriations on whether the government should support Tongaat-Hulett, which has been placed under business rescue

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Parliamentary

Budget  
Office

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## 1. Background

Tongaat-Hulett is a major regional sugar producer with operations in Zimbabwe, Botswana, Mozambique and South Africa. It has more than 25 000 employees and purchases the outputs of more than 10 000 cane growers. About 43 per cent of sugar cane is sourced from black farmers and black-owned land. It is among South Africa's largest sugar producers supplying roughly one-third of the sugar in the country. It is an important player in the Province, particularly, northern KwaZulu-Natal and in the sugar production and distribution value chains.

Tongaat-Hulett's current financial problems seem to be a culmination of several events over the past few years. An investigation by audit firm PWC found that the company under a previous leadership team inflated its profits as well as misstated certain assets in its financial statements between March 2015 and September 2018. The company was forced to restate previous financial results, including for the six months to the end of September 2018. That restatement resulted in reported total assets decreasing by about R12 billion. As a result, the company was shown to be highly overleveraged with a debt stockpile to the value of R6.6 billion.

## 2. Impact of financial misstatements (fraud), Covid-19, floods and July 2021 unrest

The company's revenue and cash flow situation was further negatively affected by the negative economic impact of Covid-19, the floods in KwaZulu-Natal and the fallout of the July 2021 protests. The challenge for Tongaat-Hulett is that it requires approximately R1.7 billion to ensure that it has adequate working capital to continue operations during the current sugar milling season and maintain equipment to undertake the next season. Upon realisation that its debt levels were well in excess of what could be serviced, the company's board approved a restructuring plan, which includes disposing of its non-SA operations, securing investment for its SA business, introducing a five-year debt instrument that would be repaid through land disposals, as well as continuing to recoup money related to its accounting scandal. Tongaat-Hulett's lenders rejected the proposed restructuring plan.

The company managed to secure a short-term R600 million borrowing base facility from its existing South African lenders. However, without alternative funding solutions to support its restructuring plans, the company's board resolved that it should move into a legal business rescue process. The board appointed Metis Strategic Advisors as the business rescue practitioners who are tasked with the responsibility of facilitating the rehabilitation of the financially distressed company to proactively protect suppliers, jobs, creditors and other stakeholders. Its non-South African operations are still operating and are not included in the business rescue.

Since the appointment of the business rescue practitioners, Tongaat has managed to secure an additional R300 million in debt and has paid most growers for cane delivered in September 2022. Furthermore, the representative body SA Canegrowers and the business rescue practitioners have managed to agree on payment terms for sugar that was delivered in October 2022. As part of the agreement, larger growers will receive staggered payments while smaller ones will be paid in full. SA Canegrowers has also agreed to waive claims for interest due on delayed funds owed to the cane growers. Growers have resumed deliveries to the mills in Felixton, Maidstone, and Amatikulu, enabling Tongaat to resume operations at its mills and refinery and to once again generate cash flow.

### **3. Pressure to secure funding to finance working capital**

Despite this positive development, the company remains under pressure to secure the funding needed for operational purposes as well as to complete the off-crop maintenance that is required to operate its mills in the next milling season. Failure to secure these funds poses a risk that Tongaat would not emerge from business rescue, which would again plunge the industry into crisis. The Durban Chamber of Commerce and Industry has cautioned that "if Tongaat's business rescue failed

- The Government Sugar Master Plan could be derailed,
- South Africa could experience an influx of imports leading to an estimated 700 000 jobs being lost,
- All these challenges will make the local market less competitive".

The impact of this failure and the associated job losses would ripple through the sugar value chain and the KZN economy, particularly northern KZN.

### **4. Request to extend business rescue process (publishing business plan in January 2023)**

On 8 November 2022, the business rescue practitioners indicated that they requested the lenders to allow about a two-month extension for publishing their business plan, seeking to deliver it by the end of January 2023, while also indicating that talks on further post-commencement financing continued. A response from lenders, which includes most of SA's major banks, was expected by Friday (11 November 2022).

### **5. IDC and other dev finance supporting the business rescue process**

In a separate process, the Industrial Development Corporation (IDC) together with its development finance partners are currently engaging the business rescue practitioners on the possibility of injecting working capital to ensure that the business can complete the current sugar milling season. The IDC also seeks to engage Tongaat on its current business restructuring to contribute towards the sustainability of the business. The outcomes of these engagements will only be known once the business rescue process has been finalised.

Tongaathulett has an existing asset base and is part of an existing value chain that seems worth saving, particularly to protect thousands of livelihoods in KZN. The Parliamentary Budget Office (PBO) is of the view that the government through the IDC and its DFI partners are making an effort to ensure the survival of the company. The IDC and its partners are in discussion with Tongaat-Hulett and the business rescue practitioners to explore opportunities out of the immediate difficulties and to identify options for the longer-term survival of the company. We are of the opinion that the IDC and DFIs should be supported to play a larger role in driving the recovery of Tongaat-Hulett because the state is more likely to have a longer-term perspective with regard to livelihoods in KZN and the future of the sugar industry (as proposed in the Sugar Masterplan). Against this backdrop, we would recommend that the Committee allow the business rescue process to be finalised to assess whether or not any further government intervention will be required in this regard. The PBO will continue to monitor developments and update the Committee as the need arises.