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Page: 1

ECONOMY

Downgrade to junk status a kick in the teeth

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A DARK economic cloud looms over the country after an investment downgrade while on the Covid-19 virus lockdown, with economists predicting the slump will endure.

Corporate bosses have slashed salaries, a prominent CEO has wept for the uncertain future of his company, and it is only day three of the national shutdown.

Ratings agency Moody's struck a major blow on Friday night when it downgraded the country's investment rating to junk status.

Junk status means South Africa will pay higher interest rates, unemployment is likely to increase due to retrenchments, and factories will shut down.

Food, electricity and petrol prices are likely to increase while the rand will be worth much less, raising the price of imported goods. With preventive isolation under way and damaging business, economists said the downgrade would put a final nail in the coffin of companies already struggling.

Moody's said its downgrade was based on continued fiscal strength deterioration, weak structural growth and a debt burden that was set to rise faster and to higher levels than expected. Economists have warned South Africans to "fasten their belts".

Some companies have already felt the impact of the country's antivirus measures, and are uncertain about their existence post lockdown.

Grant Pattison, Edcon Group CEO, broke into tears on a conference call this week when he emotionally announced that the company may not reopen after the 21 days. The bulk of Edcon's 1 100 clothing stores, such as Edgars and Jet, closed, costing about R800 million in sales. The company has been struggling and has shut some of its stores nationwide – even before the lockdown was announced.

"We find ourselves in uncharted waters. Turnover has declined by 45% compared to this time last year. When the shutdown began, we were R400 million below forecast cash and sales for the month. ... What we are experiencing at Edcon is an early indicator of the challenge that both the government and other businesses will face after the lockdown."

Pattison said they would be heavily dependent on business support packages offered by the government and other agencies and funders.

Hospitality giant Sun International sent out a notice to its employees that they would receive only 40% of their salaries due to lockdown. The group's chief executive, Anthony Leeming, said the business would be shut and generate no revenue during the lockdown.

"We must rely on the support of funders to cover costs which, after cuts, still cost R200 million per month. This will leave us with additional debt, a higher interest bill and limited resources to invest back in the company post lockdown," he said.

Continued on Page 2