UPGRADE, REFURBISHMENT AND COMMERCIALISATION OF THE KRUGERSDORP GAME RESERVE

PUBLIC PRIVATE PARTNERSHIP

EXECUTIVE SUMMARY

1. INTRODUCTION

The Gauteng Infrastructure Financing Agency (GIFA), in collaboration with the West Rand District Municipality and Mogale City Local Municipality (MCLM) is currently investigating the feasibility of a Public Private Partnership (PPP) opportunity in which it gives a selected private party/parties rights to the commercial use of the Krugersdorp Game Reserve (KGR). (Initially an unsolicited proposal was received, and it was decided to follow processes in accordance with Procurement Regulations)

The GIFA procured the services of an experienced transaction advisor (Technical, Legal and Financial) to assist in developing a feasibility study in accordance with the National Treasury Toolkit: Municipal PPPs for Private Sector Commercial Use of Municipal Property.

2. BACKGROUND

GIFA, in collaboration with the West Rand District Municipality and Mogale City Local Municipality (MCLM) conducted a feasibility study for a Public Private Partnership (PPP) opportunity in which it will give private party/parties rights to the commercial use of the Krugersdorp Game Reserve (KGR). (Initially an unsolicited proposal was received, and it was decided to follow processes in accordance with Procurement Regulations)

The GIFA procured the services of an experienced transaction advisor to assist in developing a feasibility study in accordance with the National Treasury Toolkit: Municipal PPPs for Private Sector Commercial Use of Municipal Property.

3. FEASIBILITY STUDY SCOPE

The feasibility study was undertaken to help the Institution to determine whether the proposed project is financially, legally, and technically feasible for the Institution.

Further, it considered whether conventional public sector or PPP procurement or alternative procurement mechanism is the best choice for the proposed project.

<u>Scope of FS (Based on Municipal PPP Toolkit- Use of Municipal Property for Commercial Purposes) was as follows</u>:

- Market and Needs analysis - A Market and Needs analysis report
- Project due diligence - Investigated the municipality's authority under the MFMA to enter into a PPP and the legal issues around ownership of the property
- Value Assessment -Valuation of entire property; Develop Business model; Value for Money and affordability

3.1 MARKET ASSESSMENT

A detailed Market Assessment and Tourism Business Case was developed focusing on the following:

- International Tourism Market
- Africa Tourism Market
- South Africa Tourism Market
- Gauteng Tourism Market
- West Rand District Tourism Market
- Mogale City Tourism Market

<u>The assessment also focused on the following trends and tourism sectors:</u>

- The Global Adventure Tourism Market
- South Africa – Adventure Tourism
- Evolution / Tourism Changes
- Africa And Its Game Reserve Market
- National And Provincial Key Players
- Municipal Reserves

The impact of COVID 19, and its effects on tourism was also assessed.

The high-level market assessment undertaken for KGR quantitatively concludes the following:

a) That there is a commercial business case for tourism based on the following key factors.

- International travel has seen significant growth (1.25bn more travellers since 1950) in demand resulting from the availability (supply) of increased air connectivity, cheaper long-distance flights and a wealthier number of citizens.
- Africa has a small portion of the international travel market (4.9%) which signifies a high market potential
- South Africa's tourism is well established and is a leader in responsible tourism.
- Gauteng is the country's commercial powerhouse and represents some 40% of international visitors and 18% share of domestic trips.
- The West Rand District Municipality is situated closely to the hub of the economic activity in Gauteng and is transverse by the national roads. The Cradle of Humankind falls under the jurisdiction of Mogale City and Merafong City, and forms part of the World Heritage Site. The West Rand remains the poorest region contributing to Gauteng's GDP, therefore, the province and WRD have prioritized tourism with the KGR being presented the opportunity to grow in stature and operations in the hands of an experienced Operator.

b) Post COVID-19, developments around the Southern African continent (in terms of deployment of COVID-19 vaccines) are likely to boost tourism consumers and business confidence, which in return will result in the sector recovering to earlier trends, given that KGR can be successfully operated at previous levels.

- This will also ripen the need for local tourism, given some of the other countries barriers to entry given the high number of COVID cases still prevalent thus bolstering the commercial case to have KGR up and running successfully.

c) South Africa has a mature Wildlife tourism sub sector, and like many other countries in Africa, have numerous game reserves at national, provincial, municipal, and private owned levels. Notably, domestic tourists boast a significantly higher ratio compared to international tourists, thus, emphasizing the requirement of KGR being commercially brought back into the market.

- The ever-growing global demand for adventure-based tourism offers product differentiation possibilities for KGR to compete with the broader game reserves segment. Adventure tourism allows for good responsible tourism.

d) In terms of benchmarking, the SA National Parks provides a benchmark for commercialization of tourism product offerings operated by the public sector, thus affirming that a PPP procurement arrangement is generally a successful arrangement.

- SANParks' PPP projects are globally benchmarked as good practice.
- The extent of tourism at SANParks' far outweighs that of all other in South Africa.
-

3.2 NEEDS ANALYSIS

The Needs Analysis focused on the following aspects:

- MCLM Strategic Objectives
- MCLM Background
- Krugersdorp Game Reserve - Introduction
- MCML Strategic Compliances To Project (Not Specifically Mentioned – Council Resolution Could Resolve In Short Term)
    - IDP Compliance
    - SDF Compliance
- Asset Management
    - Inventory of MCLM Assets
    - Asset Management Plan
- Budget
    - Budgeted / Planned Costs
    - Infrastructure Allocations
    - Municipality Affordability
- Other Key Financial Considerations
    - Institutional Environment
    - Staff And Skills Level (Internal)
    - Resources For The PPP Project
- Stakeholder Analysis

3.3 LEGAL DUE DILIGENCE

The Due Diligence report focussed on the following aspects:

Legal Due Diligence:

- Applicable Legal And Regulatory Framework
- What Is A Public Private Partnership?
- Legal Review And Methodology Assumptions
- Appointment of a Project Officer
- Appointment of a Transaction Advisor
- MCML's Legal Obligations In This Project

Technical Due Diligence

- Infrastructure Assessment Review
- KGR Asset Register
    - Revenue Asset Register
    - Non-Revenue Asset Register
    - KGR Assets Values
- Revenue Generating Tourism Infrastructure Assets
- Tourist Accommodation Facilities
    - Accommodation Facilities
    - Conference Venues
    - Lapa Venues
    - Braai And Picnic Facilities
    - Caravan Park
    - 4x4 Lapa
    - Mayoral Lapa
    - Kleinkraal
    - Animal Sanctuaries
    - Main Entrance
    - Main Reception & Pool
    - Pumphouse
    - Day Visitors Area Swimming Pools
    - Play Area
    - Slaughtering Facilities
    - Guard House
- Upgrade Costs To KGR Tourism Related Infrastructure
- Enhanced KGR Asset Value
- Infrastructure Maintenance
    - Importance Of Infrastructure Maintenance
    - Infrastructure Maintenance Assessment
    - Life Cycle Maintenance
    - Life Cycle Maintenance Review
- Operations Assessment
    - Annual Analysis Of The Operations Costs For The KGR
    - Bulk Services Assessment
    - Potable Water
    - Acid Mine Drainage Water
    - Water Reticulation
    - Sewer Reticulation
    - Road Network & Access
    - Stormwater Reticulation
    - Electricity
    - Telecommunications
- HVAC / Air Conditioning
- Safety Analysis And /Or Upgrades
- Overview Of Health And Safety Measures

3.4 VALUE ASSESSMENT – PURPOSE

Provide a deep-dive assessment of the inherent risks associated with the KGR project - a clear delineation of risk categories, the risk-adjusted impacts, apportionment between MCLM and the private sector partner, and risk mitigation approaches.

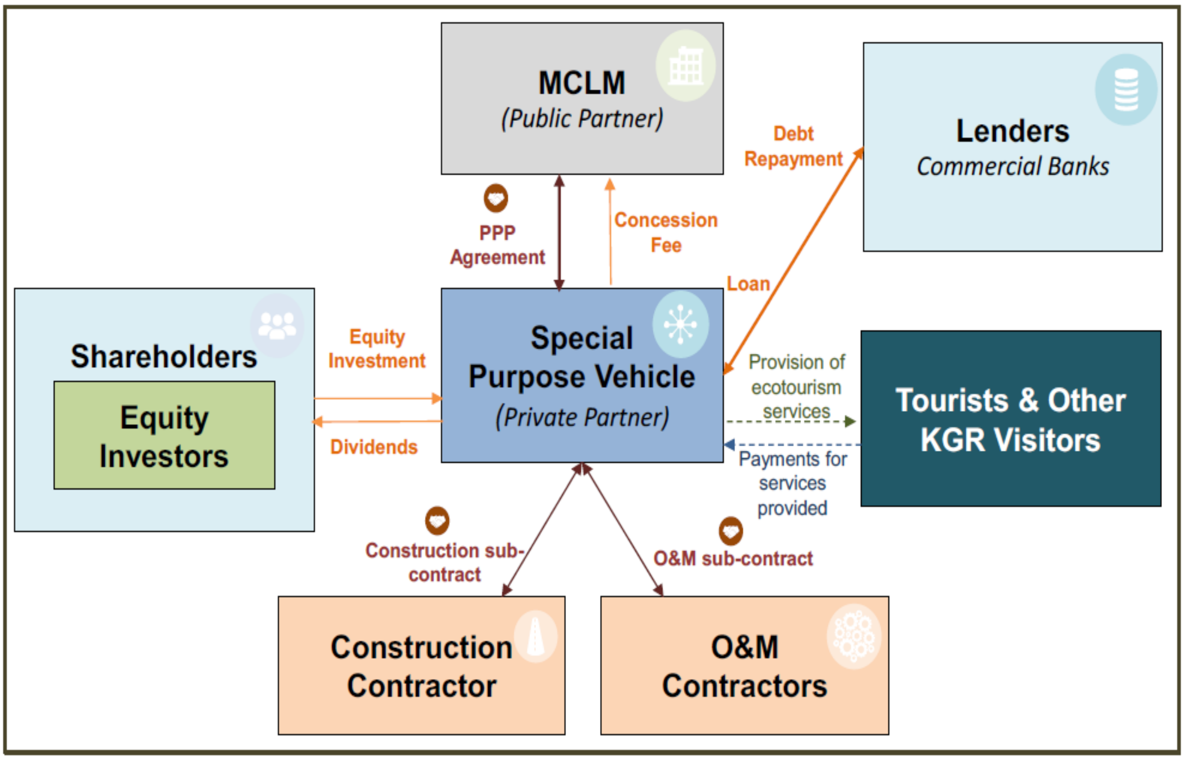
Based on the valuation of the KGR site and the expected rehabilitation CAPEX, the nominal cash flow outlays, which includes CAPEX, OPEX, and Lifecycle Maintenance, are computed.

Base Case, Worst Case, Best Case, and private sector partner scenarios are presented to ascertain the extent to which the KGR PPP is bankable and commercially viable to the sector partner. The corresponding key financial ratios are presented and unpacked.

Based on the predicted underlying cash flows, this report demonstrates the extent to which a concession-fee model is viable for the private sector partner. Moreover, a minimum payable concession fee is proposed in conjunction with possible concession fee payment modalities.

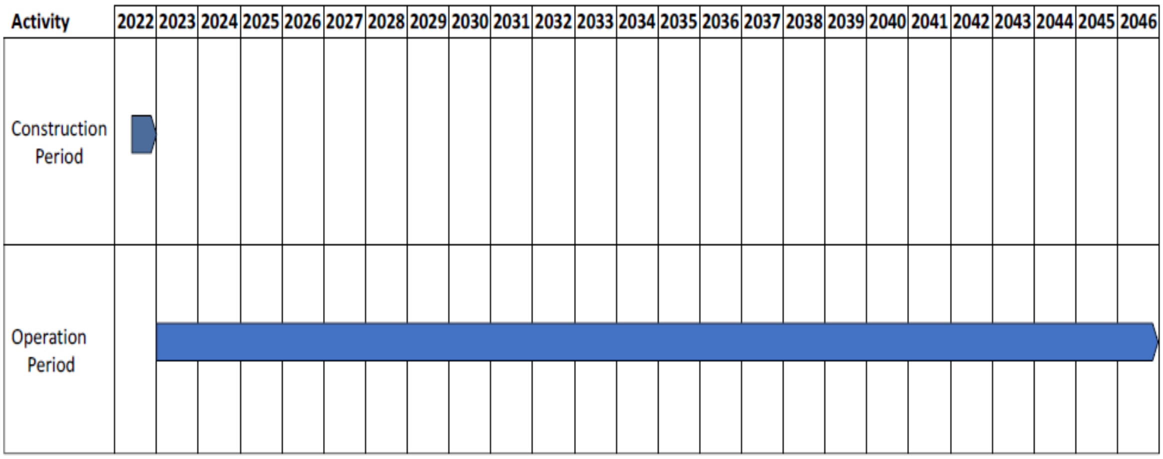
Lastly, Value for Money and Affordability are determined by unpicking the financial ramifications or benefits of the current use of the KGR site and contrasting this against the strategic and financial benefits anticipated from the proposed PPP procured project.

4. KGR Business Model



5. KGR Timetable

Costing Base Date	Concession Period	Construction Start Date	Operation Start Date
January 2022	25 Years	July 2022	January 2023



6. *COSTS*

6.1 CAPEX

Capital Expenditure (Nominal)	Saturday, 30 July 2022	
	1	
Core Infrastructure	**R**	**10 657 533**
Accommodation: 2-Bedroom Rondavels (1.1)		
Accommodation: 2-Bedroom Chalets (1.2)		
Accommodation: 2-Bedroom Family Self-Catering Units (1.3)	R	1 870 825
Conference Facilities: Spurwing (Ref: 2.1)		
Conference Facilities: Yellow Bill (Ref: 2.2)		
Conference Facilities: Moorhen (Ref: 2.3)		
Conference Facilities: Kingfisher (Ref: 2.4)	R	287 819
Lapa Venue 1 (Ref: 3.1)	R	359 774
Outside Facilities: Braai and Picnic Facilities Ref: (4.1)	R	102 793
Caravan Park: Camping Site (Ref: 5.1)	R	102 793
Caravan Park: Laundry Facilities (Ref: 5.2)	R	143 910
Caravan Park: Tuck Shop (Ref: 5.3)	R	154 189
4x4 Lapa - Ablution Facility (Ref: 6.1)	R	154 189
Mayoral Lapa (Ref: 7.1)	R	154 189
Main Kleinkraal Facility (Ref: 8.1)	R	82 234
Lion Sanctuary Facility (Ref: 9.1)	R	-
Bird Sanctuary Facility (Ref: 9.2)	R	92 513
Main Entrance (Ref: 10.1)	R	20 559
Main Reception (Ref: 11.1)	R	20 559
Pool 1 (Ref: 11.2)		
Pool 2 (Ref: 11.3)	R	82 234
Bar & Restaurant (Ref: 11.4)	R	123 351
Pumphouse (Ref: 12.1)	R	25 698
Day Visitors Area		
Pool 1 (Ref: 13.1)	R	256 981
Kids Play Area (Ref: 14.1)	R	51 396
Slaughtering House (Ref: 15.1)	R	51 396
Guards House (Ref: 16.1)	R	256 981
Generator Room	R	46 257
Perimeter Fence	R	5 550 798
CONTINGENCY - 0,15 of Total Refurbishment Costs	R	666 096
TOTAL REFURBISHMENT COSTS	R	10 657 533
Central Airconditioning	**R**	**1 839 165**
Total Airconditioning for Indoor Facility	R	1 839 165
TOTAL REFURBISHMENT COSTS (Including Airconditioning)	**R**	**12 496 698**

6.2 Other Costs

Annual Operating and maintenance Costs - annual utility costs, employee salaries, and other operational costs linked to the KGR's commercial activities

Lifecycle Costs - The financial model includes periodic lifecycle costing to ensure that the KGR assets are structurally sound, technically apt, and in line with the highest safety standards

7. Financing Structure

	Senior Debt Facility	Equity Investment
Loan Tenor	6 Years	N/A
Grace Period	1 Years	N/A
Repayment Period	5 Years	N/A
Base Lending Rate / Required Rate of Return	7.5%	15%
Margin (Including Swap, risk premium and arrangement fees)	8%	N/A
Annual Percentage Rate	15.5%	N/A
Debt/Equity Ratio (Base Case)	50%	50%
Weighted-average Cost of Capital (Post Tax)[3]	13.1%	

8. Revenue -Methodology

8.1 Assumptions:

•Visitor estimates – benchmarked

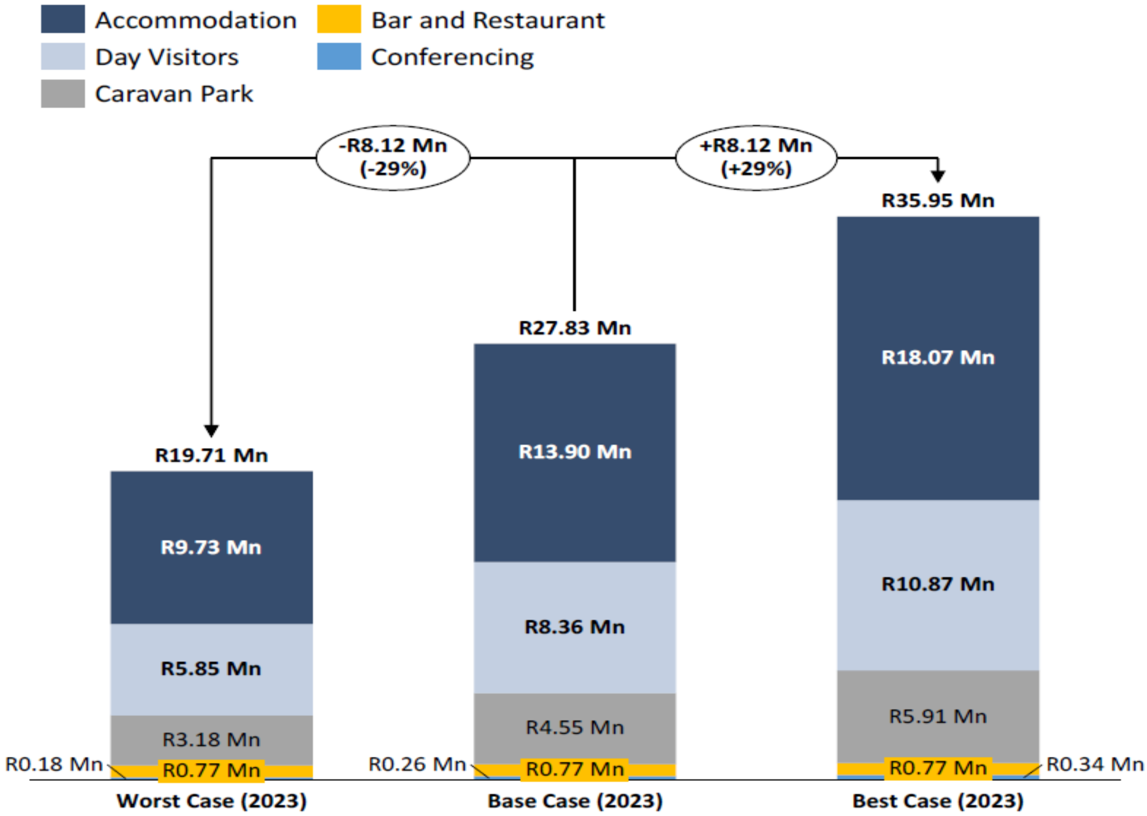
•Occupancy rates are a key variable that impacts the cumulative annual revenues for accommodation facilities and conferencing facilities. (yearly weighted-average occupancy rate was derived based on predicted monthly demand-driven gyrations)

•Benchmarked Tourism charges

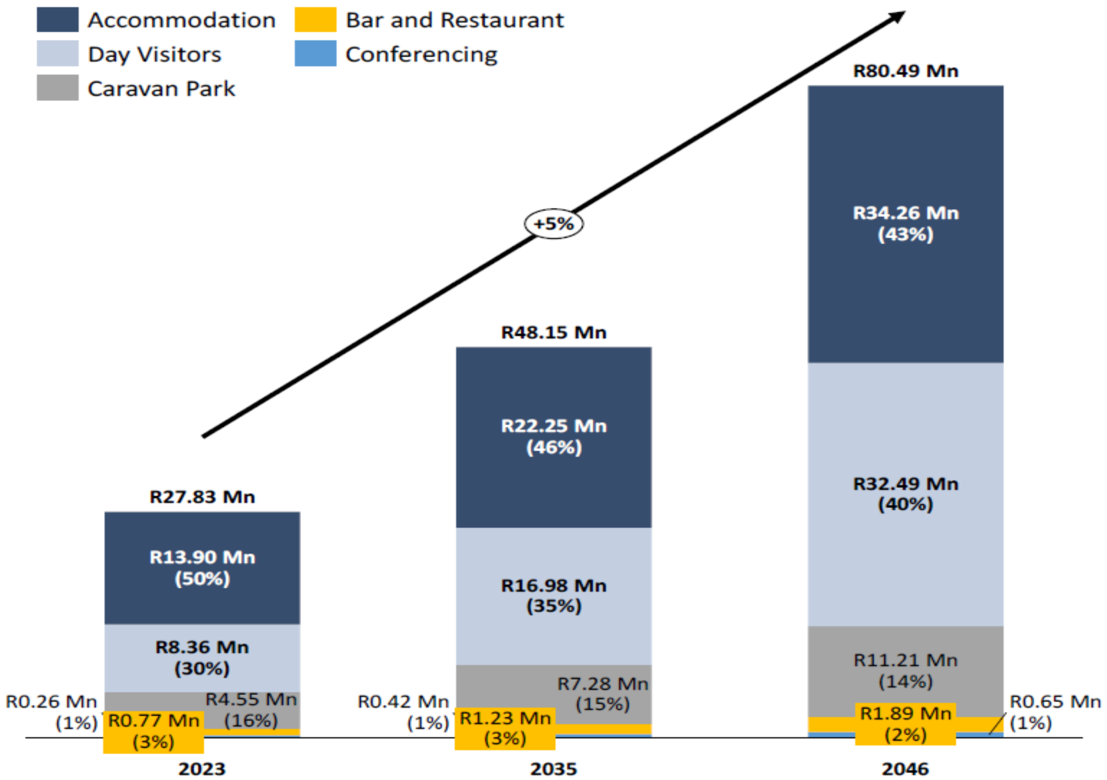
8.2 Revenue forecasts – and sensitivity

•**Worst Case:** Assumes a 30% reduction in daily visitors and a 30% reduction in accommodation and conferencing facility occupancy rates relative to the base case

•**Best Case:** Assumes a 30% increase in daily visitors and a 30% increase in accommodation and conferencing facility occupancy rates relative to the base case.



<u>Revenue forecast 2023-2046</u>

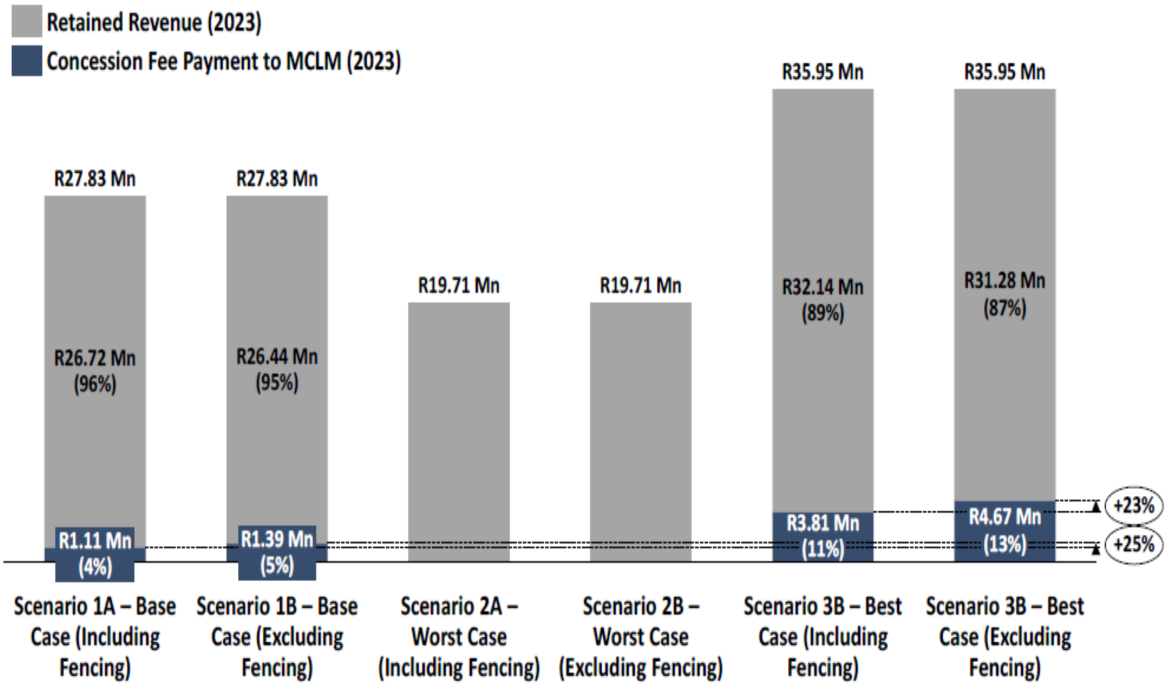


•

9. Bankability and Commerciality

Scenario	Project IRR (Target: Greater than or equal to 15%)	Equity IRR (Target: Greater than or equal to 15%)	Project NPV (Target: Greater than R0)	Equity NPV (Target: Greater than R0)	Minimum DSCR (Target: Greater than or equal to 120%)
Scenario 1A – Base Case (Including Fencing)	44% (Breakeven period = year 4)	41%	R20.5 million	R14.3 million	127%
Scenario 1B – Base Case (Excluding Fencing)	85% (Breakeven period = year 3)	96%	R21.1 million	R16.8 million	212%
Scenario 2A – Worst Case (Including Fencing)	0% (Breakeven period not applicable)	0%	-R19.8 million	-R22.0 million	0%
Scenario 2B – Worst Case (Excluding Fencing)	0% (Breakeven period not applicable)	0%	-R14.6 million	-R16.7 million	0%

10. Concession fee to MCLM



11. Conclusion – Summary of Value Assessment

The inflation-adjusted capital to rehabilitate the KGR, including fencing costs, is estimated to be R10.6 million. A notable decrease in capital costs to R5.1 million is spurred by removing fencing from the CAPEX estimation.

The total CAPEX requirement will be bifurcated into 2 (two) main funding tranches comprising senior debt sourced from commercial banks and direct, unencumbered equity provided by shareholders into the SPV. The model does not consider the requirement for a unitary payment from MCLM to the Private Party.

The model assumes a leverage ratio of 50|50 – equal portions of debt and equity will be required. For example, if the BEE scorecard requires a minimum 50% black ownership of the SPV, the total nominal BEE equity (including the perimeter fencing requirement) equates to R2.6 million.

The main contributors to total revenue are accommodation facilities, and day visitor charges, which, in 2023, are predicted to contribute 50% and 30%, respectively.

The financial model Base Case is calibrated in line with the current macroeconomic and demand driven realities and represents the most plausible revenue-generating scenario. Including perimeter fencing in the KGR rehabilitation, the private party can achieve satisfactory financial returns and maintain adequate cash reserves to repay its debt – the breakeven period is forecast to be in year 4. As a result, the BEE equity NPV is estimated to be R7.1 million over the 25-year PPP concession period.

Adequate cash reserves will be generated to pay an annual concession fee to MCLM. The Base Case (including the perimeter fencing) predicts a R1.11 million concession fee in the first operational year (2023). The additional free cash flows spurred by removing the perimeter fencing from the Private Party's obligations to enable a 25% increase in concession fees to R1.39 million.

<u>Two possible concession-fee modalities can be included in the PPP contract.</u>

- First, MCLM can prescribe an initial annual concession fee of R1.0 million (circa R80,000 per month) at operations commencement, with an annual escalation ranging between 3% - 5%.
- Alternatively, a concession fee of 5% of the total tourism revenues per annum can be prescribed. Concession fees may be paid monthly, based on total monthly receipts. Alternatively, the concession fee can be extracted directly from day visitors' entry fees.

According to financial model simulations, 25% of full-day visitors entry fees can be mandated as the concession fee without compromising the KGR's bankability and commerciality.