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Transnet's recovery: Why institutional investors should be watching closely



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Transnet is one of the most consequential entities for South Africa's relevance in the global economy. It is more than just another state-owned enterprise (SOE); it is the backbone of South Africa's logistics ecosystem, affecting the country's ability to trade competitively.

For institutional lenders such as Ninety One, it's been encouraging to see the recent developments at the Department of Transport and across the wider sector. After years of operational decline, Transnet is starting to show credible signs of a turnaround. That makes this a critical moment to reassess both risk and opportunity in relation to Transnet's debt and the broader logistics investment landscape.

The crisis before the recovery: Why reform was inevitable

Before the recent wave of reforms, Transnet was entrenched in a multi-dimensional crisis. Years of 'state capture' had hollowed out governance and procurement integrity, eroded institutional capacity, and left critical operational divisions vulnerable to mismanagement and corruption. This legacy severely undermined Transnet's ability to maintain and expand infrastructure or deliver reliable service to its customers. Its freight rail volumes were in freefall, driven by a sharp decline in operational locomotives, many idled due to a lack of critical spares and disputes with suppliers. Cable theft surged, with over 1,000 km stolen in FY23 alone, inflicting nearly R4 billion in losses. These operational failures compounded chronic underinvestment in infrastructure, leading to mounting maintenance backlogs and a spike in derailments.

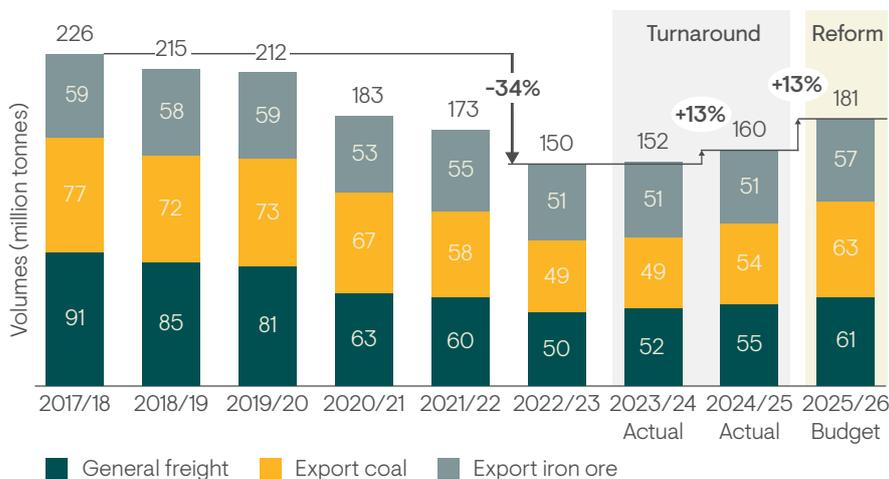
At the ports, inefficiencies and equipment shortages turned Durban and Cape Town into export chokepoints. Financially, Transnet was equally distressed, with poor free cash flow, high gearing, and multiple breaches of bank covenants shaking investor confidence. Executive turnover and governance lapses deepened market uncertainty. Without decisive action, Transnet's collapse was beginning to look inevitable.

The turning point came in 2023. With logistics failures slowing economic growth, pressure intensified from business leaders, trade unions, and the government. In response, President Cyril Ramaphosa launched the National Logistics Crisis Committee (NLCC), bringing together public and private sector leaders. In parallel, Transnet unveiled a formal Recovery Plan in September 2023, backed by new executive leadership and a R51 billion government guarantee facility. This marked a clear pivot from crisis management to structural reform.

Operational momentum: Real improvements in rail and ports

Since then, the results have begun to show. After Transnet's rail volumes dramatically fell by 34%, from 226 million tonnes in FY18 to 150 million tonnes in FY23, we've started seeing signs of improvement. Rail volumes have increased to 160 million tonnes for FY25, a 13% increase from the 152 million tonnes in FY24. The trajectory is clearly moving in the right direction, with Transnet targeting 181 million tonnes for FY26.

Rail volume turnaround



Source: Transnet, May 2025.

On the ports side, Durban Pier 2, which handles nearly half of South Africa's container traffic, was equipped with 20 new straddle carriers, reducing backlogs by 45%. In the coal corridor, where sabotage and theft had long disrupted flows, Transnet reported a 65% reduction in security incidents between September 2023 and March 2024, following joint efforts with customers and law enforcement. While this is a positive internal operational metric, it reflects progress specific to the coal line and not the broader network.

Structural and strategic overhaul: The long game is taking shape

Operational gains are being reinforced by deeper structural reform. The R51 billion in government guarantees has stabilised liquidity and funded critical capital expenditure. In addition, the government has recently approved a top-up of R94.8 billion to further aid with infrastructure maintenance. Transnet has also received support through the National Treasury's Budget Facility for Infrastructure to fund key projects associated with improving the broader logistics sector.

Meanwhile, leadership renewal has sent positive signals to markets. CEO Michelle Phillips, COO Solly Letsoalo, and CFO Nosipho Maphumulo bring a blend of institutional memory and operational credibility. They have accelerated procurement, improved coordination with customers, and fostered investor confidence.

Critically, Transnet is opening its networks to private participation. The sale of rail slots to third-party operators, the establishing of a Private Sector Participation (PSP) office to engage with the private sector, and the appointment of an independent Infrastructure Manager are early steps towards a hybrid model that retains public oversight while inviting private capital and operational capacity.

Investment case: Stability, yield, and optionality

For bondholders and infrastructure investors, the implications are significant. Government backing has underwritten Transnet's recent issuances and mitigated refinancing risk. Free cash flow remains constrained, but improved volumes and capital discipline point to a medium-term deleveraging path.

Beyond credit, Transnet is fast emerging as a platform for co-investment. From rolling stock and corridor upgrades to terminal concessions, the post-crisis environment is creating new bankable infrastructure opportunities.

From a Ninety One perspective, our contribution to these developments is reflected through initiatives such as our SA Infrastructure Credit Strategy, which helps mobilise institutional capital into critical infrastructure, including transport and logistics. With a focus on senior debt, the Strategy supports well-governed, economically strategic projects, reinforcing the growing role of private capital to support the government in addressing South Africa's infrastructure backlog.

Conclusion: Transnet as a renewed strategic asset

While challenges remain, Transnet's recovery is gaining credibility. For institutional investors, this is no longer just a troubled SOE; it is a strategic national asset at the centre of an unfolding economic and policy realignment.

Backed by reform, capital, and political resolve, Transnet's transformation signals a turning point for South Africa's logistics, and for those with the capital and conviction to stay the course.

Ninety One's SA Infrastructure Credit Strategy is helping to channel institutional capital into South Africa's critical infrastructure.

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