



RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA

OCTOBER 2011

ECONOMICS

GDP for the second quarter was 1.3% which was lower than expected. The forecast for GDP growth for the year is 3.2% and for next year 3.5%. Inflation is 5.3% and this is expected to rise to 6% or even 7% during the year.

While economic growth is faltering, there is news of 33 new projects worth some R51bn in the pipeline. Most of the projects are in the mining and manufacturing sectors. The South African economy will only grow 3.2% this year according to the Reserve Bank. The Bank decided to keep the repo rate at 5.5% at their meeting in September.

The consumer inflation rate in South Africa in August was 5.3% - unchanged from July. The trade statistics for August showed a R3.7bn deficit, compared to a R3.9bn deficit in July.

Mozambique has issued some 1076 mining licences – there are 71 licences for coal with four coal mining concessions and 28 applications are being processed. The Zambezi basin is believed to have 23bn tons of coal and it is expected that the Maniamba basin in the northern province of Niassa could also contain coal resources on the same scale as Tete. The country also has an interesting phosphate project in Nampula province which will be implemented by Vale.

Zimbabwe will need some \$6bn in mining investment within the next three years to get the mining infrastructure on track. The threat of expropriation and Nationalization is not helping place new investment.

POLITICS

Cosatu, the 2 million strong union movement has warned President Zuma that he should not take its support for granted in next year's election for leader of the ANC. Cosatu was instrumental in Zuma's rise to power in the 2007 ANC power struggle. Cosatu has accused the ANC of lack of basic leadership and graft.

A new commission of inquiry is to be appointed to investigate the allegations of corruption in the arms deal. The commission will be another legal and political attempt to find the truth behind the R70 billion arms contracts.

RAIL

The 673km Sena rail line which connects the Moatize coalfields to Beira is being rehabilitated at a cost of \$285M. The line will carry 6M tons per year with plans to expand this to 12M tons per year. Vale will export 1.5M tons of coal in 2011 and this will rise to 6.3M tons in 2012. Riversdale has plans to produce 2M tons per year from its Benga coal mine.

Transnet is completing a feasibility study into expanding the rail line to the Port at Coega. The study should be complete in February 2012. The current capacity of the line to Port Elizabeth is 7M tons and this will be expanded to 12M tons.

PORTS

Transnet is pursuing a R110bn capital expenditure programme. The company has acknowledged that its Balance Sheet is insufficient to finance a number of other projects required to support growth in South Africa, particularly mining. The company is looking at partnerships to help finance some of the large projects. Options on the coal channel and the iron ore channel are being probed.



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There is an investigation into a possible R12M ton manganese ore facility at Ngqura. Transnet will vacate the existing manganese ore export facility at Port Elizabeth by 2017. The manganese project will involve an investment of between R10bn and R20bn.

Transnet is also investigating the dig-out Port at the old airport site in Durban. The project will cost up to R75bn to develop between 2014 and 2037 with the first phase to come on stream in 2020. It is probable that Transnet will seek harbor partners for this project.

Transnet is also acquiring new rolling stock at a cost of some R23bn.

Maputo accepts that the public / private business plan is working. In 2003 Maputo harbor handled 4M tons of cargo and in 2011 the Port will handle 12M tons. Private industry has invested \$225M in the Port. The Port has plans to increase capacity from 12M tons to 50M tons by 2030. The Port will see a further \$750M investment mainly into quays.

The Automotive Industry Development Centre has found that South African Ports are the most expensive in the world costing between 80% and 170% more than major European ports. This year the NPA has applied for a 18.6% increase in the Port tariffs which exporters have labeled as unrealistic especially as Transnet levies Cargo Dues which is a tax hardly levied anywhere else in the world. The National Ports Authority have commissioned a study to establish whether South African Ports are expensive when compared to world standards.

AUTOMOTIVE

BMW has invested R2.2bn in its Roslyn plant for the new 3-series production which is due for its international launch in the fourth quarter of this year. The plant's capacity will be increased from 50 000 to 87 000 units per year.

Ford has revitalized its Silverton plant which now has a production capacity of 110 000 units per year. The Ford Ranger will be exported to 148 different countries including Africa and Europe.

Tata has developed a truck assembly plant at Rosslyn. The old Nissan Diesel plant is being used to assemble 4t to 50t trucks from SKDs. The annual capacity is 3 650 units.

Ford will be discontinuing its Bantam production during this year. The Bantam is a uniquely South African model – apparently the half ton market is peculiar to South America and South Africa and has not been successfully duplicated elsewhere in the world.

Nissan aims to sell 52 000 vehicles in Africa – excluding South Africa – in 2015. Nissan currently sells 31 000 units in Africa. The main growth areas are Nigeria, Ghana, Angola, Kenya and Mauritius.

Toyota Kenya is spending \$35M in a stake in an assembly plant.

The Car Terminal at Port Elizabeth has completed a R4M parking facility expansion. An additional 1 500 parking bays have been built and the terminal can now house up to 5 000 units. The terminal handled 151 218 units last year – a 100% increase on the previous year.

Mercedes Benz South Africa has secured the gold award in the 2011 JD Power Survey. Last year the company received the platinum award, placing it top of all plants supplying new cars to the US. In effect Mercedes Benz South Africa has won gold + platinum awards for the last three years.

ELECTRICITY / POWER

Zambia plans to build two hydroelectric plants adding 247 megawatts to the national grid. The cost of the project is \$650M and the plants will be ready by 2016 and will supply electricity to the copper mines and the planned manganese mines.



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Eskom is confident that it will commission its 100 megawatt concentrating solar power demonstration plant in the Northern Cape in 2016. The design will be completed in 2013. The demonstration plant will use molten salt as a heat transfer liquid.

There is a plan to install 200 wind turbines at Cookhouse in the Eastern Cape. The installation will start in late 2011 or early 2012.

The Energy Minister has approved plans for a new nuclear power plant with a capacity of 9600 megawatts. The proposal goes to Parliament for approval and if accepted, it is expected that the new capacity will start flowing in 2024.

The Department of Energy has plans for new peaking power capacity – two operations are proposed – a 670 megawatt open-cycle gas turbine north of Durban and a 335 megawatt facility at Coega. The facility near Durban will begin operating in November 2013 and the Coega facility will start operations in July 2013.

Zambia will construct a 750 megawatt hydroelectric project on the Kafue River some 65km up-stream from the confluence with the Zambezi.

Kenya is to develop a geothermal power station capable of generating 2000 megawatts. The Bogoria-Silali project will be implemented in four phases with the first phase being the construction of a 800 megawatt plant by 2017. Phase 2 will add 400 megawatt capacity to be completed in 2019.

Anglo American is developing a 450 megawatt discard coal fired power station in Emalaheni. Coal will be recovered from dumps of discarded coal and used in a thermal power station. Anglo will conclude a 25-year takeoff agreement with the developer of the project. It is intended that the power produced will supply Anglo's platinum mines. Anglo believes they have sufficient reserves to supply a power station for 30 years.

The Zimbabwe Electricity Supply Authority plans to refurbish three power plants to raise power output by 400 megawatts at a cost of \$245M. The aging power plants produce 1000 megawatts of electricity against a peak demand of 2200 megawatts.

South Africa and Lesotho have signed an agreement for the second phase of the Lesotho Highlands Water Project which is committed to building a hydropower station of 1000 megawatts to 1200 megawatts which will be operational in 2018. Some 200 megawatts will go to Lesotho's power needs.

COAL

Transnet is focusing on the development of a 70km rail line between Swaziland and the Coal Terminal at Richards Bay over the next 24 to 36 months. The line will assist with relieving congestion on the Ermelo / Richards Bay line as general freight will go through Swaziland and more coal will be transported on the coal line. Currently only 63M tons of coal is delivered to the terminal, which has a capacity of 91M tons.

Intra Energy of Australia is planning to invest USD236M in Tanzania's first privately owned coal mine and coal fired power station. Mining started in August 2011 and the projected output is 500 000 metric tons per year as from 2013. There are plans for a 123 megawatt power plant at the mine. The mine has reserves of 40M tons.

Vale's largest operation in Africa is the \$1,66bn Moatize coal project. Vale moved its first cargo of coal from the Moatize coal mine in August. The mine is expected to produce 1.55M tons this year and will have an annual capacity of 11M tons per year, of which 8.5M tons will be metallurgical coal and 2.5M tons thermal coal. Vale expects to make follow-up investments, expanding the mine, rail line and Port facilities at a cost of \$4bn. Later the production will be stepped up to 22M tons per annum. Vale is also looking at a coal to diesel fuel plant. The feasibility study will be completed in November. It is planned that the plant will produce 300M liters of diesel per annum, half of which will be consumed by Vale and the balance will go to the Mozambique market.



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The Penumbra project at Mpumalanga has resources of 25M tons and a seam with an average height of 1.8m. The mine is planned to produce 500 000 metric tons primary export coal and 120 000 metric tons secondary thermal domestic coal with first production in early 2012. The project is owned by Continental Coal and exports will be via Richards Bay.

Exxaro Resources is part of a consortium bidding to be part of the Trans-Kalahari coal line which will run from Botswana through Namibia to Walvis Bay. For the line to be viable it needs to transport 40M tons per year and Exxaro would be able to supply some 10M to 20M tons per year.

Coal India Africana Limitada (CIAL) will start exploratory work at two coal blocks in Tete. CIAL is a subsidiary of CIL (Coal India Limited). CIL is involved in some 80 projects to increase coal production by 195.78M tons.

The Ncondenzi coal project in Tete has an estimated production resource of 10M tons per year for 37 years. First coal production will be in 2014 or early 2015.

It is estimated that Botswana has 212bn tons of coal. The country has only one colliery. Botswana wishes to export its coal and the proposed Transkalahari railway project to Walvis Bay is seen as critical to the plans. However there is an idea to construct a 1500km rail line to Techobanine, a deep water Port in Mozambique to access India.

The Moiyabana coal project in Botswana has an estimated 1.5bn tons of coal in situ with some 660M tons having the potential for open cast mining.

Universal Coal reports that, following the completion of its first phase drilling programme, the company has upgraded its resource of coking coal to 1.2bn tons. The coal field is north of the Soutpansberg mountain range.

Coal of Africa has resumed its activities at the Vele colliery. There is much concern about environmental damage to the Mapungubwe site which is a World Heritage site. In April Coal of Africa paid a \$1.3M fine to the Department of Environmental Affairs for earlier environmental contraventions.

The Penumbra coal project in Mpumalanga has resources of 25M tons and is located at Ermelo. The plan is to produce 500 000 metric tons of primary export coal and 120 000 metric tons secondary domestic coal. First production is expected early 2012. Continental coal will be exporting via Richards Bay.

Grindrads are planning to expand their coal terminal capacity at Maputo from 6M tons per annum to 20M tons per annum over the next few years. They also plan to increase their Richards Bay coal capacity from 3.2M tons to 10M tons per annum.

Continental Coal have proven reserves of 16.2M tons and possible reserves of 27.6M tons from an opencast mine project at Ermelo. The plan is to produce 3.6M to 4M tons per year.

MANGANESE

UMK has resources of 282M tons of manganese at their opencast mine adjacent to the Mamatwan mine in Hotazel. UMK has adopted a sell-as-you-develop approach and consequently sold 1.5M tons of ore in 2010. Plans to build a 750 000 ton per year sinter plant at the mine are at an advanced stage.

Kalagadi Manganese is developing a Euro 119M sinter plant. The plant is expected to produce 2.4M tons per year and is expected to be commissioned in March 2012.

Tshipi is an open-pit mine expected to start in 2012, designed to produce 2.4M tons per year. The mine has resources of 62M tons of 37.9% manganese.



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FERROCHROME

Merafe / Xstrata are constructing a 600 000 metric ton per year pelletising and sintering plant at the Rustenberg smelter. The plant will cost R1bn and is planned to be fully operational in the second quarter of 2013. The JV aims to increase the output at the Boshhoek smelter complex. The plant currently produces 240 000 tons per year and this would be increased to 260 000 tons per year.

Tharisa has entered into a strategic partnership with Fujian Wuhang Stainless Steel to build a ferrochrome smelter in China. Tharisa had conducted a full feasibility study on developing a smelter at Rustenberg and approached Eskom with regard to the electricity supply. Eskom advised that the earliest it could possibly help was 2018.

PHOSPHATE

The Sandpiper phosphate project in Namibia has been granted a 20-year mining licence. The operation will cost \$144M.

IRON ORE

Ferrex reports that it has positive results from the drilling programme at the Malelane iron ore project in Mpumalanga. Indications are that 775M to 935M tons of ore graded 34%-36% are in situ. A larger drilling programme is taking place. The site is 350km east of Johannesburg and is 6km from a direct rail link with the Port of Maputo.

Kumba estimates that it will be required to spend R20bn to R30bn in capital expenditure in order to achieve its production target of 70M tons per year from 2019. Kumba projects include the 9M tons per year Kolomela project now coming into production. There is an opportunity to expand the South African operations by 20M tons per year and to develop in West Africa, producing another 10M tons.

The Kolomela mine is scheduled to come into production in the first half of 2012 with about 4M to 5M tons and this will increase to full production of 9M tons in 2013.

Work is expected to commence in September on converting magnetite at Palabora into metallic iron. There are plans to grow the initial pilot plant of 50 000 metric tons per year to 500 000 metric tons per year.

CEMENT

The Tanga cement project involves the construction of a clinker and cement grinding plant to produce 1.5M tons per year. The cost of expansion is \$120M.

COPPER

Blackthorn Resources is developing its Mumba copper exploration project in Zambia. The project has a resource of 87M tons of 0.94% copper ore.

The Boseto Copper project in Botswana has resources of 102M tons of 1.45 copper. A bankable feasibility study has been concluded and the resources can support a three million ton per year copper / silver operation. Copper production of 35 000 metric tons per year is expected. Mining begins in 2011 with full production in 2012.

Vale is to invest \$1bn in the Konkola North Copper Project which it shares with African Rainbow Minerals in a 50/50 joint venture. Standard Bank has provided a R4bn loan to Konkola Copper Mines which will be used to re-finance shareholders loans from Vendanta. Vendanta announced a \$674M expansion to increase output from 2M tons to 7.5M tons a year.



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FLUORSPAR

Sephaku Fluoride plans to produce 180 000 tons of acid grade fluoride per year by the end of 2013 from its Nokeng fluorspar mine. The mine is located 70km North of Pretoria, The deposits at the mine are estimated at 8.2M tons of calcium fluoride grade 24.6% and 2.9M tons at 42.6% .

OIL / GAS

The fracking saga in the Karoo continues. There is varying opinion as to how much gas is available and exploration is the only way to establish the size of the resource. Residents are deeply concerned about the effect of fracking on aquifers. The International Energy Agency estimates there is as much as 485 trillion cubic feet of gas – the fifth largest shale resource in the world.

The Department of Energy is eagerly awaiting an outcome of the Karoo`s shale gas potential.

PetroSA is to explore a 80 000 square kilometre area from Cape Agulhas to Saldanha Bay. They believe the area has the potential of several million barrels of oil. An environmental management plan is due to be submitted next month and, if approved, exploration could begin in February 2012.

The Oilmoz refinery project in the Matutine district of Mozambique will see the construction of a 350 000 barrels per day refinery plus a 500 megawatt gas powered power plant. The refinery will cost \$8bn – construction was meant to start in 2009, however it is now expected to start in the latter half of 2011 for completion in 2016 .

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