



RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA

APRIL 2011

ECONOMICS

South Africa's budget deficit narrowed in the first nine months of the 2010/2011 financial year thanks to higher tax collection. The deficit narrowed to R129bn from April to December compared with R145.86bn in the same period the previous year. The country posted a trade surplus of R10.3bn in December last year. The rising commodity prices have helped South Africa post a surplus which has helped underpin the strength of the Rand.

The Minister of Mineral Resources has announced that the South African Government will focus on a strategy of beneficiation of 10 mineral commodities – these are Gold, Platinum, Diamonds, Iron Ore, Chromium, Manganese, Vanadium, Nickel, Coal and Uranium.

The South African GDP in 2010 was 2.8% which was up from the 1.7% in 2009 and the forecast is 3% for 2011. The South African Rand has performed very strongly in 2011 and this has had an effect on exports. The South African Government has given the Reserve Bank a mandate to accumulate reserves in a bid to weaken the Rand – so far, to no effect. South Africa has a problem of having lots of resources but a high exchange rate which leads to a rich country with poor people. The interest rates in South Africa have declined 6.5% since December 2008.

POLITICS

Municipal elections are to be held in May this year. There is much criticism of the Government with regard to the lack of service delivery and it will be interesting to note if there is a swing away from the ANC. The ANC is the Party which led South Africa out of the apartheid era and as such, has the majority of loyal voters. However poor service delivery and the taint of corruption might well sway a number of voters away from the ANC.

RAIL

Transnet has received a number of new locomotives as part of its upgrade plans. One hundred locomotives were ordered as part of a R110 billion capital investment programme. All locos will be delivered by the end of 2013.

PORTS

Maputo Port is dredging and deepening the access channels, basins and berths. This should increase the Port's capacity from 10 million tons per annum to 48 million tons by the year 2032. The operation will deepen the Port from 9.4m to 11m to allow for large ships.

The Port of Richards Bay is spending approximately R800M on refurbishment programmes which include replacing conveyor belting, stabilizing electricity supply and other problems. Volumes at the Port's Multi Purpose Terminal have fallen 25% to 30%.

The new Transnet CEO Brian Molefe recently advised that Transnet is looking at a major capital investment in Pier 2 at the Durban Container Terminal. The under-performance of Pier 2 has been identified as a main constraint to the Durban Port. Pier 1 manages 30 container moves per hour – however at Pier 2 the average is 22 container moves per hour. The investment in new equipment for Pier 2 will give enough capacity to the Port until plans for the dig-out of the old airport come on line in 2019.

Transnet has planned capital investment in Ports, rail and pipelines of R110.6bn over the next five years.

Maputo is increasing the handling capacity of the Port to 12 million tons this year from 8.7 million tons in 2010 to take more coal from South Africa.



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AUTOMOTIVE

New vehicle sales in South Africa improved by 23% in March 2011 compared to the previous year. 53 478 vehicles were sold, compared to 43 541 units a year ago. Total export sales in March were 29 254 units – this is 37% higher than the previous March. Export sales are expected to reach 300 000 units in 2011.

Investments by the motor manufacturing industry are projected to rise by 11.5% this year from R3.99bn to R4.45bn.

Nissan aims to more than double production at its assembly plant at Rosslyn to 100 000 units per year by year 2015. The plant will concentrate on the one ton pickup, the half ton pickup and the Renault Sandero. Nissan produced some 48 000 units last year. The company will be exporting to Russia and Turkey from June 2011.

Mercedes Benz SA will be producing the new C Class at East London. The plant's capacity will be increased to 65 000 units per year. Mercedes Benz SA will be exporting left and right hand units to Africa and the Asia Pacific region.

VW SA has started construction on its new press shop which will cost R500M. VW SA produces the new Polo and the Polo Vivo range.

General Motors of SA is increasing its production of the next generation Chev Utility and Chev Spark. The plan is to produce 50 000 units per annum.

Toyota is considering resuming production of the minibus taxis. The company is in discussion with the Government and the taxi industry on this issue.

Toyota plans to invest R363M in a new parts distribution warehouse. This follows an R8bn investment over the past five years. Toyota has started exporting Hilux vehicles to Russia.

ELECTRICITY / POWER

Anglo American is calling for proposals from independent power producers for a coal fired power plant. It is envisaged that a 450 mega watt plant will be established using Anglo's discarded coal and Anglo will be using the power themselves. Anglo has enough discard coal for a long-life power station of 40 to 50 years.

Xstrata are also planning a 600 mega watt power plant to underpin the Lion Two ferrochrome project in Mpumalanga.

India's JSW Energy has bought CIC energy. CIC Energy owns the Mmamabula Coal and Power project in Botswana. CIC has been waiting for an agreement to supply 75% of the electricity produced from Mmamabula to Eskom in South Africa.

Sasol plans to construct a gas fired power station with a capacity of 140 mega watts. The feasibility study was completed in 2010 and the plant will raise Sasol's self-sufficiency to 840 mega watts.

Zimbabwe has approved two energy projects which will cost \$6.6bn. One project is the building of a 2 400 mega watt Sengwa thermal power station. The other project is a 2 000 mega watt Lusulu thermal power plant.

Aeolus Associated plans to have the first phase of a R15bn electricity generation project for the Saldanha industrial development zone, up and running by 2013. The project will produce up to 1 060 mega watts of electricity for the IDZ through a combined cycle gas turbine plant and renewable energy sources such as wind turbines, solar and biomass. The first CGT plant will be running by 2013, producing 360 mega watts using compressed coal gas delivered by rail. In time the company will import liquid natural gas from South Africa's offshore gas fields. The proposed integrated metals plant producing Titanium, Zirconium, Magnesium and Silicon will consume a fair amount of electricity. Some 50 000 tons of Magnesium, 15 000 tons of Titanium, 8 000 tons of Silicon and 2 000 tons of Zirconium will be produced per annum.



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The Morupule project in Botswana will produce 600 mega watts of electricity. The project is some 8% complete and will be finished in 2012. Some 2.4 million tons of coal from the nearby mine will feed the power plant.

Assmang plans to construct a 20 mega watt co-generation power plant at its smelter in Machadadorp. Capital expenditure will be about R480M.

Aviva Corporation has identified a coal resource of 1.3 billion tons at its Mmamantswe license area some 70km north of Gaborone. The company is considering 1 000 mega watt power station with the potential to export power.

The Kusile power plant is a 4 800 mega watt plant built adjacent to the Kendal power station. The cost estimate is R142bn. The first unit is scheduled to enter operation in mid 2014 and the other five units starting up at eight month intervals thereafter.

COAL

The Exxaro Grootegeluk Medupi project will provide 14.6 million tons of coal for the Medupi power station. Delivery will start in May 2012 with full commissioning in 2014.

Coal of Africa is planning the development of the Chapudi coal project. The company agreed to buy Rio Tinto's coal assets for \$75M. It is estimated that Chapudi contains 1.04 billion tons of coal. Coal of Africa is lodging a mining application and hopes to start mining in 2013.

POSCO of Korea and Vale will jointly develop a coal mine in Mozambique. POSCO is raising its self sufficiency and the coal mine located in Tete will be able to produce 11 million tons of coal per year. POSCO has earmarked some R4.4bn for investing in raw materials this year.

Riversdale Mining will invest \$46M in trains to carry coal from its Benga mine to Beira. The mine will buy 11 locomotives and 200 wagons.

The State owned African Exploration Mining and Finance Corporation (AEMFC) is developing a coal mine at Vlakfontein to supply coal to Eskom. AEMFC has reached a bankable feasibility on a coal to synthetic oil project near Bethal. The project which may start in 2013 will produce between 10 000 and 15 000 barrels per day.

Sable Mining Africa has announced results from its Lubu concession in Hwange. The results show seams of 20.4m to 15.14m and an inferred resource of 360 million tons.

Keaton Energy is spending some R158M on the development of the Vanggatfontein coal mine project which has reserves of 26 million tons as part of a total of a 163 million ton coal resource. The No. 5 seam will be developed which will produce 30 000 tons per month.

MANGANESE

Kalagadi Mining has announced some R6.5bn worth of debt arrangements for the development of the mine and smelter. The mine is expected to start production in July 2012 with initial production of 3 million tons which should produce 2.4 million tons of sinter per year. A Ferro Manganese smelter will be developed to produce 320 000 metric tons of Ferro Manganese per year. This smelter which is to be sited at Coega could be expanded to produce 640 000 metric tons per year. A railway line connecting the mine with Coega will be constructed.

Tshipi é Ntle will spend R1.45bn on starting up a new Manganese mine near Hotazel. The Borwa mine will be developed over this year to begin exports early 2012. The company is in partnership with Australian and Singaporean partners. The mine will produce 2.4 million tons of high grade Manganese Ore per year and this could be increased to 5 million tons per year. The project is 20km south west of Hotazel and has a defined resource of 163 million tons of 37.9% Manganese Ore.



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Aquila Resources expects to complete a feasibility study on a Manganese open pit mining operation located some 75km north west of Kuruman. The mined Ore will be hauled by road to a new siding to be developed in the Hotazel area. The deposits at the mine consist of 108 million tons of 38.6% Manganese.

HEAVY MINERALS

South Africa is planning to establish a R15bn rare metals industry complex in the Western Cape. The plan is to beneficiate metals to extract the maximum value. It is probable that the complex will be sited in Saldanha.

A second task team has been established to hear representations about the proposed heavy minerals mine at Xolobeni on the Wild Coast.

Kenmare raised some £180M to expand production at the Moma mine to 1.2 million tons of Ilmenite per year. The expansion is scheduled for completion at the end of 2011.

Base Resources have advised that they will start production at the Kwale project in Kenya by 2013. The cost of the project is \$255M and it is expected to produce 330 000 tons Ilmenite per year, 80 000 tons Rutile per year and 40 000 tons of Zircon per year.

CHROME

Xstrata opened its Marareng chrome mine near Steelpoort. The mine, costing some R700M, forms part of the Lion Ferrochrome smelter complex. Construction of the smelter should be complete in 2013.

IRON ORE

Exxaro has moved its new iron ore project into pre-feasibility stage. However Exxaro will not divulge the extent of the project or the location.

Assmang's Khumani expansion project involves expanding the mine from 10 million tons to 16 million tons per annum. Full production will start in 2013

The Kolomela project is Kumba's development of a mine near Postmasberg. The mine will produce 9 million tons per annum and is expected to be in operation in 2012 with full capacity in 2013.

COPPER

The Boseto copper project in the Kalahari belt in Botswana is planned to produce 35 000 tons of copper per year and one million ounces of silver per year. Mining will start this year with full production in 2012. The project is owned by Discovery Metals of Botswana.

Vale has offered about R7.5bn to buy Metorex. Metorex owns the Ruashi copper and cobalt mine in the DRC as well as the Chibuluma copper mine in Zambia. Vale is targeting 1 million tons of copper output within 4 years compared to 207 000 metric tons produced last year.

NICKEL

The Ambatovy Nickel project in Madagascar should produce its first metal later this year. The cost of the project has risen to \$4,76bn and should produce 60 000 tons of nickel, 5 600 tons of cobalt and 190 000 tons of ammonium sulphate per year.

FLUORSPAR

Witkop Fluorspar mine has reopened. Some \$8M in funding has been obtained.

OIL / GAS

The Pazflor field some 150km off the coast of Angola is being developed. There will be 49 subsea wells and the floating unit will have an oil producing capacity of 200 000 barrels oil per day, with storage of 1.9 million barrels of oil. Total is the major shareholder in the project.



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Shell has plans to search for gas and oil in the Karoo in South Africa. The process, known as “fracking”, involves the high pressure injection of chemicals, sand and water to force the free flow gas from shale. There is much opposition to this process.

Shell and BP have urged the Government to buy into Sapref rather than create a new oil refinery at Coega. PetroSA has proposed a \$15bn refinery at Coega – this will be a 400 000 barrel per day refinery. The Sapref proposal is an upgrade costing \$250M which could climb to \$5bn if increased capacity was added.

Mauritius is developing an oil refinery to process crude oil from Africa mainly for export to India. The cost of the refinery, which is \$2bn will be funded by the Government of Mauritius and Mangalore Refinery and Petrochemicals. It is planned to have the refinery operational in 2014.

Zimbabwe is developing the Chisumbanje ethanol project which will see 50 000 hectares of sugarcane being planted. The ethanol plant will produce 350 000 litres of ethanol and 18 mega watts of electricity daily. This is part of an overall scheme to produce 3 million litres of ethanol and 120 mega watts daily. So far, \$270M has been spent on the project.

Project Mthombo is a 360 000 barrel per day refinery based at Coega. An electricity plant is also planned as part of the project. The electricity plant will generate 800 mega watts of which 200 mega watts will be used by the refinery. The cost of the project is estimated at \$11bn. Feasibility studies have been completed and if the project goes ahead it should be completed in 2016. If the Mthombo Coega project goes ahead, it will take five years to build. South Africa needs increased refining capacity – if no additional investment is made in the country’s refining capacity the country will be forced to import 8.5 billion litres per year, or some 150 000 barrels per day of fuel.

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