



# RENNIES REPORT

## Rennies Ships Agency (Pty) Ltd

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### DEVELOPMENTS IN SOUTH AFRICA

JULY 2011

#### ECONOMICS

Manufacturing growth slowed to 4.6% as a strong Rand and weak credit expansion curbed demand. The Rand has surged against the Dollar some 39% since the start of 2009 and inflation accelerated to 4.1% in the first quarter of this year. Unemployment climbed to 25% in the first quarter. Interest rates were cut to 5.5% to help support the economy and it is expected that interest rates will start to increase next January.

The South Africa economy grew at 4.8% in the first quarter of the year. The main impetus came from manufacturing. The country posted a trade deficit of R2.4bn in April as oil imports surged and exports of precious metals and vehicles slumped.

South African reserves grew 2.7% at the beginning of the second quarter of the year. Gold and foreign currency increased by \$50.6bn.

Zimbabwe passed laws which require all foreign owned mining companies to sell 51% of their shareholding to locals. The consensus of opinion is that no money will be put into mining in Zimbabwe.

The ratio of debt to GDP is rising in South Africa. The Finance Minister announced that the ratio would increase from 34.3% this year to 39.3% by 2013 / 2014. The estimated budget deficit for next year is 5.3%.

The economic confidence index in urban South Africa has dropped to its lowest point in two years. Economic confidence is as low as February 2009.

South Africa's trade deficit shrank to R1bn in May due to an increase in exports. The deficit contracted from R2.4bn in April. The overall shortfall for the year is R8.5bn which is down from R13.5bn a year ago.

Producer inflation increased to 6.9% in May.

#### POLITICS

The Municipal elections passed without incident. While the ANC, as expected, won the majority of the Municipalities, the election highlighted a swing to voters showing their anger at poor service delivery. The major opposition party, the DA, received significantly more votes than in previous elections.

There are concerns about the radical policies of the ANC Youth League. The ANC Youth League has played a significant part in determining the President of the ANC in the past. The ousting of past President Mbeki and replacing him with President Zuma was orchestrated largely by the ANC Youth League. The Youth League cannot be underestimated in the upcoming succession battle which will take place in 2012.

#### RAIL

Tanzania, Rwanda and Burundi have plans to build a \$5bn standard gauge railway between Dar-Es-Salaam to Kigali with a branch line to Burundi. The project will be a public / private partnership and is expected to be completed in 2016. The DRC has expressed interest in the line which could be extended to the DRC city of Kisangani. The line will be capable of carrying 35M tons of freight.



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Brian Molefe, the CEO of Transnet is planning partnerships with the private sector to boost capacity on the commodity lines and in the general freight business. Underperformance in rail has undermined economic performance and job creation.

The Governments of Malawi and Mozambique have signed a MOU with Vale Emirates to build a rail line from Moatize through eastern Malawi to Nacala. The project involves the rehabilitation of a 137.4km stretch of rail line.

Transnet is reverting to a scheduled rail system for its freight business. Some three years ago Transnet abandoned scheduled services in favour of commodity management resulting in coal, manganese and iron ore teams. Productivity in rail has worsened. Scheduled services will also include scheduled maintenance as many of the current delays are maintenance related.

### **PORTS**

Transnet is conducting feasibility studies to assess the viability of a dedicated Cruise vessel terminal at Durban. It is expected that the study would be completed in May 2013 and if feasible, the new terminal would be completed in June 2015.

The MPDC announced that it would increase Maputo's Port handling capacity. The Matola coal terminal will be expanded to reach 25M tons by 2014. The Port has been dredged from 9.4m to 11m.

Transnet will spend R5.4bn in the next five years to expand the Cape Town container terminal. Some R2.5bn has already been spent on the project which will increase capacity from 700 000 containers to 1.4M containers per year by 2012. The plan is to move 32 containers per crane per hour.

Transnet has put forward a budget of R1.5bn to buy the old Durban airport site which will be transformed into a container Port. The initial phase of the project is expected to cost R50bn, the Port will be dug out and 16 container berths, five automotive berths and four bulk liquid berths will be constructed. The first phase of development would need to start in 2015 for completion in 2019.

Transnet has advised that negotiations are under way between Transnet and Acsa on the value of the property of the old Durban airport. The project of building a new port out of the old airport could cost R100 billion and would require private sector capital.

### **AUTOMOTIVE**

New vehicle sales jumped 25.2% in February compared to the corresponding period last year and it is predicted that some 575 000 new vehicles will be sold in 2011 up from the 492 956 new vehicles sold last year.

Volkswagen SA is constructing a new press shop which will facilitate the production of the Polo and Vivo models. Production is expected to double to 120 000 units.

GM South Africa will launch a new utility vehicle later this year which it hopes will boost production to 50 000 units per annum. The Automotive Production Development Programme is to be implemented in 2013 and the output level in terms of the programme is 50 000 units per year.

Nissan South Africa is to double capacity at its Rosslyn plant to 100 000 vehicles per year from 2015. They will produce a 1 ton pick-up on two production platforms, the Nissan NP200 half ton pick-up from another platform and the Renault Sandero from a further platform. The company will export into Africa and Western Europe, Russia and Turkey.

BMW South Africa is investing R2.2bn in a plant to produce the new three series model for the local and export markets from 2012 onwards. The capacity of the plant will be increased to 87 000 units per year.



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Ford has begun production of a new engine at its Struandale plant in Port Elizabeth. The new engine, Duratorq TDCI, is part of a R3.4bn export investment programme. The Ford plant in Silverton Pretoria has increased production capacity to 110 000 vehicles. The new Ford Ranger will be exported to 148 markets around the world. It is predicted that the new vehicle sales in 2011 will reach 567 850 units which is 15.2% up on last year's sales.

## ELECTRICITY / POWER

The Tanzanian Government is seeking partners in a wind farm venture which will generate 600 megawatts of electricity. Tanzania has a grid system with an installed capacity of 773 megawatts of which 71% is hydropower.

The Kouga wind farm project in the Eastern Cape is expected to generate 300 megawatts. The first phase of the project will be 100 megawatts using 100 to 121 wind turbines near St Francis Bay and Paradise Beach. The cost is expected to be R2bn and construction is expected to start in October 2011.

There is a project to install a 100 megawatt gas-fired power plant at Ressano Garcia near the Mozambique / South African border. The project has completed the environmental impact assessment and feasibility study and could be completed in 2012.

A Russian company, Zarubezhstroy Corporation has secured a deal to build a mega hydropower plant in Tanzania. The project will cost \$700M and will generate 222 megawatts which will cater for about 20% of the country's power demand. The plant will be developed over 5 years and come on stream in 2018.

Benga Energy & Mining has started a feasibility study into a \$400M coal fired power plant in Northern Malawi. Malawi has a current demand of 400 megawatts and a generation capacity of 285 megawatts.

Malawi is looking to carry out a feasibility study into three sites that have the potential for hydropower generation. The sites are the Lower Fufu falls, the Mpatamanga Gorge and Chamugonda Falls.

The Kalahari Solar Power project proposes to construct a 450 megawatt solar power plant on a 1922 ha farm some 10km north of Kathu in the Northern Cape Province. The plant will be constructed in three phases – each phase will produce 150 megawatts – however the project will only go-ahead if it is selected as part of South Africa's renewable energy feed-in scheme.

Mozambique is planning to construct a cogeneration plant in Manica to produce 150M litres of ethanol for export and domestic consumption. The plant will use sugar cane as a primary feedstock and use sweet sorghum as a secondary feedstock. The facility will also produce 10 000 tons per year of dry soya beans. Some 25 000 ha will be used to grow the feedstock. There is also the possibility of a 32 megawatt electricity facility to be fueled by bagasse. Commissioning could be in two years' time.

The Ingula pumped storage scheme is 25% complete and is expected to be commissioned in 2014. The scheme pumps water to an upper dam during low times of electricity usage and the water is released via turbines to a lower dam during times of high energy demand.

Medupi power station, with a projected capacity of 4800 megawatts will start to come on stream in September 2012. The Kusile power station, with a capacity of 4 800 megawatts will start to come into operation in 2015. The return to service of the Camden, Grootvlei and Komati power stations will be completed in 2012, adding 3 800 megawatts capacity. The Ingula scheme will add 1 332 megawatts capacity and the Sere Wind Farm which should come on stream in 2015 should add 100 megawatts.



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### COAL

Vale has opened its coal mine in Tete and Riversdale will open its mine shortly. Vale and Riversdale together with Jindal Steel and Power plan to export 30M tons of coal per year. The Sena rail line to Beira had to be reconstructed and facilities at the Port have yet to be completed.

Grindrod plans to expand its terminals in Maputo and Richards Bay. The expansion will be in line with the rail capacity linking the mines with the Ports. The Matola capacity had been expanded to nearly 7M tons of which 5M tons would be for coal and 2M tons for magnetite. The plan is to expand capacity to 20M tons. The Richards Bay facility is to be expanded to 3.2M tons of coal.

Sable Mining has a project at Rietkruil which envisages the production of 3M tons of metallurgical coal and thermal coal per year.

Coal of Africa has been given the go ahead for the Vele coal project. The Makhado coking coal asset will require \$500M to develop and the plans are to export via Maputo. Coal of Africa plans to export 1M tons per year.

Exxaro is conducting a feasibility study on the development of a combined open pit and underground mine to produce 2M tons of A grade thermal coal at Belfast.

Rio Tinto has acquired just over 40% of Riversdale. Riversdale owns the Benga and Zambeze coal projects in Mozambique.

The Moruple Colliery near Palapye in Botswana is the country's only operating colliery with a revised capacity of 3.2M tons per annum. The first part of the expansion programme is to ensure supply of 2.4M tons per annum to a 600 megawatt power station which is currently under construction and scheduled to begin operation in 2012. The colliery is owned by Debswana which is a joint venture between the Government of Botswana and De Beers.

Riversdale has taken delivery of six diesel locomotives to transport coal from Bena along the Sena railroad to Beira. The first coal is expected in Beira before the end of 2011.

The Moatize project has proven reserves of 838M tons and the first phase is to produce 11M tons per year for the next 35 years. 8.5M tons will be metallurgical coal and 2.5M tons will be thermal coal. The first phase also envisages an 1800 megawatt coal fired power station with export coal being transported along the Sena rail line to Beira. A coal handling facility is being constructed in Beira. The first electricity is planned to be produced in December 2012.

The Springbok flats coal deposit is 80km outside Pretoria and has 290 historical boreholes with 2bn tons of metallurgical and thermal coal. Sable and Delta mining plan to exploit the deposit.

Vale started production at its Moatize mine in Mozambique in early May 2011 with the first coal export scheduled for July 2011. Vale will be investing a further \$4bn in expanding Moatize, upgrading rail and in port facilities. The company is developing a 300 megawatt thermal power station and is involved in a viability study on a coal to diesel project which will produce 300M litres per year. The Vele colliery has the potential to produce 5M tons per year of coking coal. Phase I will be the establishment of a coal treatment plant which will produce 1M tons per year and phase 2 will ramp up to 5M tons per year. Construction activities were halted in August 2010 due to environmental concerns. The Department of Water Affairs has approved an integrated water use licence and Coal of Africa is hopeful to receive the go-ahead to continue the construction of the mine.

The resources at the Moiyabana coal project in Botswana have been increased to 1.4bn tons. Hodges Resources of Australia have an option on 90% of the project and they are now ready to undertake the required exploration and definition of the field.



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Riversdale's Zambezi mine at Moatize in Mozambique is expected to produce 45M tons of coal per year by 2014 with the potential to ramp up production to 90M tons per year. Vale expects its Moatize mine to produce 12.7M tons this year with an increase to 20M tons per year by 2014.

There are other developing coal projects in Mozambique – these include Minas Moatize with resources of 80M tons of coal and Ncondezi Coal which is undertaking a feasibility study currently and expects coal production by the end of 2014.

### **MANGANESE**

The Otjozundu manganese project is located 150km north-east of Windhoek in Namibia in an historic manganese field which has produced 550 000 metric tons of high grade manganese since the 1950's. The initial study indicates that it is possible to produce 250 000 metric tons per annum starting in 2012 and growing to a production of 500 000 metric tons per year by 2016. The feasibility study should be completed by the end of 2011.

Kalagadi Manganese will start producing in 2012. The plans are to produce 3M tons of manganese ore per year and feed a 2.4M ton sinter plant as well as a 320 000 metric ton per annum high-carbon ferromanganese plant. The ferro smelter has been given the site previously earmarked for Alcan Aluminium at Coega. Kalagadi has to obtain a new environmental approval which will delay the smelter by about a year. It is expected that production will start in June 2012.

Production at Tshipi Borwa mine is expected to start in 2012 and will, at full capacity of phase one, yield 2.4M tons of manganese ore. The mine has a resource of 163M tons at a grade of 37%.

### **FERRO ALLOYS**

Merafe and Xstrata have agreed to increase the production of their joint project by 360 000 metric tons per annum. The total production of the joint venture will be 2.3M tons. Merafe owns 20.5% of the project.

The Zimbabwe Mining and Smelting Company, ZIMASCO has an expansion program costing \$300M. The first phase will involve the reconstruction of No. 2 furnace and a second furnace will be built with a further construction of a smelter and pelletizing and sintering plant. Once the furnace reconstruction has taken place, production will increase to 230 000 tons per year from the current 175 000 tons per year.

### **HEAVY MINERALS**

Exxaro currently extracts illmenite from its Hillendale site south of Richards Bay. This mining resource will be depleted in a year's time and the company awaits a decision for the go-ahead to mine south of Mtunzini. Exxaro has approved R2.4bn for the proposed mining operation which will have a lifespan of 13 to 15 years.

Exxaro expects its proposed Fairbreeze mineral sands mine, located 45km South West of Richards Bay to begin construction in the second half of 2011 and be commissioned in 2013. The Fairbreeze mine has the potential to produce 500 000 tons per year of illmenite and 60 000 tons per year of Zircon.

The Minister of Minerals and Energy has withdrawn the right to mine at the Kwanyana block at Xolobeni on the Wild Coast. Mining rights had been granted for one block which is about 30% of the mining area. The block contains about 4.3M tons of illmenite, 255 000 tons of Zircon, 240 000 tons leucosene and 286 000 tons of rutile. Further hearings on the proposed mining are expected to take place.

The Kwale project about 50km south of Mombasa is going ahead with production starting in July 2013 and a Port facility is being built 50km north of the project site on the southern side of the existing shipping channel that services Mombasa. Production is expected to be 330 000 tons of illmenite, 79 000 tons rutile and 30 000 tons of zircon per year over the first seven years of operations.



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## RARE-EARTH MINERALS

An initial study has been undertaken to construct a rare-earth beneficiation complex near Saldanha. The plant will produce 50 000 metric tons magnesium, 1 500 metric tons titanium, 8 000 metric tons silicon and 2 000 metric tons zirconium per year. The cost of the project is expected to be R15.3bn. The investors will decide shortly on whether the project will go ahead or not.

## IRON ORE

Arcelor Mittal is acquiring its own iron ore property in the Northern Cape. The new mine will supply the company with 8M tons per annum.

Cascades Iron Ore is looking for funding of R11bn to pursue mining opportunities. They plan to produce 20M tons of iron ore per year. The Cascades Iron Ore project near Piet Retief has a defined 1bn tons of iron ore resource base.

North River Resources are exploring the Tete area for iron ore, phosphate and gold. Apparently there is significant potential in the Monte Muande project and a drilling campaign starts later this year. Initial studies show that 67% iron could be generated from a magnetite concentration and the regrinding of phosphate rock could yield 36% phosphorus oxide.

Saldanha and the iron ore rail corridor can handle the movement of 60M tons per annum, and the mining industry and Transnet are working on increasing this capacity to 90M tons per year. It is expected that 50M tons will be exported this year, up from the 47.3M tons exported last year.

Aquilla Resources are involved with the Meletse iron ore project at Thabazimbi, which is estimated to have 48M tons of iron ore at 63% grade. The plan is to develop a 2M ton per year open pit mine with a view to selling domestically or to the export market.

## CEMENT

The Sephaku clinker and cement project involves the construction of a 300 ton per day cement production facility near Dwaalboom some 300km north west of Johannesburg. Construction is planned to start in 2013 and it is expected to come into production in 2015.

## COPPER

Equinox Minerals is undertaking a feasibility study to expand the Lumwana mine in Zambia from 20M tons to 35M tons of ore per year. The first stage of the feasibility study should be complete by mid-year.

## STEEL

The South African Government is keen to promote value added services to the country's exports. One of the targeted industries is the steel industry – to upgrade from the export of iron ore to the export of readymade steel. There are currently a number of players in the steel industry and these include Arcelor Mittal the dominant producer, Scaw Metals, DAV Steel owned Cape Gate Holdings, Cisco, and Evraz Highveld Steel & Vanadium. There are plans for further steel manufacturers. Afripalm Resources have signed a R21bn deal with the Steel Authority of India to build a steel mill in South Africa. Cascades Iron Ore is sourcing finance to produce 20M tons of ore per year. The consensus of opinion is that there is very little place for more steel production in South Africa.

## PULP

Sappi is proceeding with the expansion of the Ngodwana Mill in Mpumalanga. The mill will produce kraft liner board, newsprint and 210 000 tons of chemical cellulose. The market for cellulose is growing at about 6% per year, mainly in the Asian market.



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## OIL / GAS

Shell proposes to explore for gas in the Karoo which may involve nine years of prospecting and cost some \$200M. An EMP is being developed over the site which spans 90 000 square kilometers. No hydraulic fracking will be undertaken before 2013. Exploration could involve the drilling of 24 wells and the process involves pumping water and sand into the wells to fracture the shale and release gas. Estimates are that many millions of litres of water will be required. There is considerable opposition to the proposed exploration.

Total, along with other shareholders, E&P Angola, Statoilhydro, Esso Angola and BP Exploration, will be developing the Pazflor oil field some 150km off Angola. The \$9bn project envisages a floating production platform which will process oil from 49 subsea wells. The platform will have a capacity of 200 000 barrels per day and 150M cubic feet of natural gas per day.

Kenya is upgrading its refinery to 80 000 barrels per day. The upgrade should be completed by 2016 and will double the existing capacity. The refinery is 50% owned by Essar Oil and Gas.

Kenya is looking at developing a LNG regasification terminal at Mombasa to supply fuel to thermal power stations and industries in Mombasa.

The Kudu gas project in Namibia involves the development of a gas field off Namibia and the delivery of this gas to a 800 megawatt power station near Oranjemund via a 170km pipeline. The Kudu field is supposed to contain 1.3 trillion cubic feet of gas. The project should be given the go-ahead this year.

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