RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA

MARCH 2013

ECONOMICS

The South African economy grew by 2.5% in real terms in 2012, compared to a 3.5% growth in 2011.

A record R21.2bn trade deficit was recorded in October 2012 – this followed on the R13.8bn shortfall in September 2012. Imports have grown twice as fast as exports and January 2013 produced a R24.5bn trade gap. The current account deficit last year was equal to 6.1% of GDP – this is almost double the 3.1% gap in 2011. In view of the growing gap in the current account deficit, S&P have rated the country at BBB with a negative outlook.

The budget presented to the South African parliament at the end of February was unsurprising – however the budget deficit is cause for concern with debt rising to about 40% of GDP from about 20% five years ago. The country is living beyond its means with the projected deficit of some R168bn.

South Africa's total debit has risen to R1 trillion since President Zuma came into power with the majority of the debt on consumption and not on capital projects.

Zambia expects economic growth of 7% by the end of this year.

RAIL

The award of two tenders issued by Transnet to procure 1 064 locomotives to be introduced into the general freight business fleet between 2014 and 2019 has been delayed. The tenders are now only likely to close at the end of the third quarter.

The planned rehabilitation of the Blantyre-Nsanje rail line, to link Blantyre with Beira is advancing. A feasibility study has been completed.

PORTS

Mozambique is going to tender for a new Port and the construction of a 525km rail line from Tete to handle 20M tons of coal exports. It is expected that the project will cost around $2bn. The plan is to upgrade rail lines and Ports so that Moatize could export 120M tons of coal per year.

The Port of Nacala is to have a coal terminal and associated rail infrastructure which will be able to handle 40M tons per year, and be able to upgrade to 60M tons per year. Construction will start in the first quarter of 2014 and trains are expected to start operating towards the end of 2015.

Transnet is to spend R49bn on Port projects. Some seven berths at Maydon Wharf in Durban are being deepened to 13m – berths at Island View have been upgraded to handle larger vessels.

Transnet is planning a new coal terminal at Richards Bay, subject to approval by the Transnet Board. The proposed new terminal will have an initial capacity of 14M tons and this could be expanded to 32M tons. The terminal will provide access to the export market for emerging mining companies. If given the go ahead, the terminal will only become available in 2020. Transnet is also looking at upgrading the general freight section of Richards Bay and this could include a container handling section which could deal with about 100 000 TEU's per year.

The handover of the former Durban Airport site to Transnet took place in December 2012. This can be seen as the first stage in building a Port which specialises in containers, automotive products and petroleum products. The first phase of the proposed new Port is expected to open in about 2017.

Durban Port has received seven ship-to-shore container cranes. The cranes will be capable of loading and discharging the largest container ships expected to call at Durban once the north quay of the container terminal has been deepened to 16.5m. The cranes can lift two 12m containers simultaneously and they have a safe working load of 80 tons.

The Richards Bay Port took delivery of a new general bulk ship-loader and a pneumatic ship un-loader.

East London harbour received a mobile crane and Port Elizabeth received two container cranes ex Durban.

Southern African Shipyards has been given the order to build nine new harbour tugs for South African harbours. Eight of the tugs will be 70 ton bollard pull and one tug will have a 100 ton bollard pull.

Mombassa is constructing a second container terminal. The terminal will have a capacity of 1.2M TEU's and will have three berths. The project will cost some $327M. Kenya is spending $2bn over the next ten years improving efficiency of the Port.

AUTOMOTIVE

Beijing Automotive Works (BAW) has invested in a new assembly plant in Springs to produce the taxi vehicle for South Africa and the sub-Saharan market. The capacity of the plant is 40 000 vehicles and operations will commence at the beginning of 2013. Initially some 9 600 minibus taxis will be produced per year.

First Automobile Works (FAW) is investing in a truck and vehicle assembly plant in Coega.

BMW SA is operating 24hrs per day. The production capacity has been increased to more than 80 000 units per year which will almost double the exports. BMW SA is responsible for meeting 25% of the global demand for the BMW 3 series.

New vehicle sales fell sharply in February. January sales showed a growth of 14% in the same period last year – however February sales showed a drop in the rate of growth. Total new sales last year were 623 914 units.

A feasibility study into the construction of a multimodel plant at East London has been completed. The plan is for a plant that can cater for the assembly of cars, bakkies and minibuses. Six brands can be accommodated and production of over 50 000 units per year are planned. The plant would give newcomer brands and low selling brands an entrée into the South African market.

The Automotive Production and Development Programme (APDP) has been implemented. The new programme is to stimulate vehicle production from roughly 600 000 units to 1.2 million units by 2020.

Toyota currently assembles Hilux, Fortuner and Corolla models at the Prospecton site which has the capacity to produce 220 000 units per year. The Quantum minibus is also assembled at Prospecton.

Mercedes SA has increased its capital expenditure at the East London plant to over R3bn to cater for the successor of the C Class. The capacity of the plant would be increased to over 100 000 units. The contract on the new C Class will run from 2014 until 2021.

ENERGY / POWER STATIONS

ELECTRICITY / POWER

Zambia's state owned power company Zesco is planning to borrow some $2bn from investors to build new electricity projects. Zambia is planning the construction of their first coal fired thermal power station. The plant will produce 300 megawatts from two 150 megawatt units and will be built near Zambia's largest coal mine. The first unit will be operational in the last quarter of 2014 and the second unit will be operational in the first quarter of 2015.

A solar power plant is to be built at Kalbult in the Northern Cape. The 75 megawatt project will cover some 105Ha and should cater for 35 000 households. A 60 megawatt solar project is being built at Boshoff in the Free State.

Eskom is planning to invest some R149M over the next ten years on transmission projects. Some 12 700km of new transmission lines will be added to the grid.

A 50 megawatt solar power project is being developed at Uppington and a 100 megawatt solar plant is being erected at Pofadder.

A feasibility study has confirmed the viability of a 1 800 megawatt thermal coal fired power station in Tete province in Mozambique. The Ncondezi power project will be built in phases of 300 megawatt units using coal from the Ncondezi mine. The first unit is planned for production in 2017.

South Africa plans to procure an additional 3 200 megawatts of renewable energy capacity by 2020. The country's resource plan proposes the development of 9 600 megawatts of new nucular capacity to be introduced into the grid by 2030.

Kenya plans to develop up to 560 megawatts from Geothermal power plants at the Olkaria field. The development will be in 140 megawatt phases funded by private public partnerships.

Tanzania has plans to construct a large hydroelectric plant expected to cost some $1bn. The Mnyera will be constructed on the Rufiji river cascade and will have a capacity of 700 megawatts.

The 4 788 megawatt Medupi power station will deliver electricity in 2014 with full production in 2015. The 4800 megawatt Kusile coal fired power plant will deliver electricity in 2015 with full production in 2018. The 1 332 megawatt Ingula hydroelectric power station will be completed in 2014.

The Zimbabwe Electricity Supply Authority has started paying a $70M debt to Zambia. This paves the way for Zambia and Zimbabwe to embark on a joint 1 600 megawatt hydroelectric plant which could help relieve the power shortage in the two countries. Preliminary work has started on the Batoka power project which is expected to be built and operated by a private company for a number of years before reverting to the two states. The project will have a capacity of 1 600 megawatts.

Eskom proposed a 16% tariff increase and this was rejected by the National Energy Regulator, who advised that Eskom would only be allowed an 8% tariff increase. Eskom has been allowed an average 25% rise in tariffs for the past five years.

South Africa has struck a deal with the DRC to take 25 000 megawatts from the first phase of the Inga Power station being set up on the Congo River. The remaining 2 300 megawatts from the first phase would go to mining companies in the DRC.

A Gas fuelled power plant is planned for Mozambique. The plant will have 18 engines running off natural gas from the Pande and Temane gas fields and is scheduled for completion in May 2014.

KiPower proposes to establish a 600 megawatt coal fired power plant at Delmas Coal. The Department of Environmental Affairs has approved the initial scoping report.

COAL

The Matola terminal in Mozambique will expand output capacity to 7.3M tons per year by March 2013. This will be followed by another upgrade to 20M tons capacity. Mozambique coal exports are the second largest earner for the country after aluminium.

Rio Tinto is reviewing its Mozambican coal mining operations. Rio Tinto spent $3bn on write-downs on the coal operations in Mozambique. The lack of rail and Port capacity is hampering the coal boom. The Sena rail line has a capacity of 2M tons per year and the upgrade should increase capacity to 6M tons per year. The upgrade of the line has been delayed.

Beacon Hill Resources will be phasing in the production of their Minas Moatize mine to match the rail capacity on the Sena line. The initial capacity would start at 500 000 metric tons per year.

Continental Coal has advised that their De Wittekrans project has the potential to be considerably better than the initial feasibility study suggested. The initial study looked at a conventional open cast mine targeting production of 3.6M tons over a 30-year cycle with production mainly being sold to Eskom. The coal is suited for the Asian markets and the plan now is to export the tonnage produced.

Sentula Mining has started the process to bring the Nkomati anthracite mine back into production after receiving a water use license.

Forbes Coal has pulled out of the purchase of Zululand Anthracite Colliery because the performance of the colliery had deteriorated materially.

Firestone Energy planned to develop a joint venture open cast thermal and coking coal mining project in the Waterberg area in Limpopo. The joint venture was with Ariona, an Australian company. However, Ariona failed to provide second stage financing for the project. Ariona was to acquire 25.7% of Firestone. The failure to finance has not been explained by Ariona.

Vale is slowing down the development of phase 2 of the coal mining project in Tete to ensure that production is in line with the development of the Nacala Corridor rail route. Phase 1 has the capacity of 11M tons per year and phase 2 will double these figures.

The Moruple South Coal project has estimated resources of 2.45bn tons of which 110M tons are measured and 173M tons are indicated. A study has been undertaken on the economic viability of the project as well as a feasibility study on the operational costs.

A feasibility study has been undertaken on the Kangawane Central project – a long-life anthracite project in Mpumalanga. The study shows resources of 200M tons and envisages a 1.2M ton run of mine production over 11 years. It is expected that the project will start in 2014.

The development of the sixth phase of the Richards Bay Coal Terminal is under discussion. The current capacity of the terminal is 91M tons and phase 6 would raise the capacity to 110M tons per year.

MANGANESE ORE

Arcelor Mittal is selling its 50% stake in Kalagadi Manganese to the founder and chairperson of Kalagadi. The project envisages the production of 3M tons of manganese ore per year which would act as feedstock for 2.4M tons of sinter production. Some 1.7M tons of sinter would act as feedstock for a 320 000 metric ton high carbon ferromanganese production.

HEAVY MINERALS

The Tormin Heavy Mineral project at Strandfontein is expected to start early in 2014. The mine will be located on the beach about 150km north of Vredendal. Work will begin shortly to build a heavy metals separator and mining will be carried out with a pump mounted on an excavator on the beach. Wet magnetic separators will remove illmenite and garnet and zircon-rutile concentrate will be washed, filtered and bagged on site.

IRON ORE

The Bushveld iron ore project in Limpopo has a resource of 633M tons. They are targeting a resource of 1bn tons and are working towards a low cost mining operation producing 10M tons per year. The scoping study is expected to be completed in April 2013.

Ferrex, an iron ore and manganese company is fast tracking its Malelane iron ore project to start production in 2015. The company is involved in a pre-feasibility study and will submit a mining permit application once the environmental issues have been identified.

Britannia Mining is undertaking exploration work at its Nthale iron ore project in Southern Malawi. The project has located a number of ore bodies that are encouraging as potential targets for drilling.

Iron Mineral Beneficiation Services has a project which involves the construction of a 50 000 metric tons per year demonstration facility in Palaborwa to convert iron ore fines into metallic briquettes for use as a scrap supplement in steel making. The plant is expected to be operational in the first half of 2013.

CHROME

Merafe Resources and Xstrata resources in a joint venture have developed a 600 000 tons per year pelletising and sintering plant. The plant will reduce operating costs and improve resource efficiency.

COPPER

First Quantum is planning a 300 000 ton copper smelter in Solwezi, some 600km north west of Lusaka. The smelter will produce blister copper.

Cuperex is building a plant which will produce some 200 tons per month. The low power technology is able to process copper ore concentrates into 98% pure copper crystals without the need for smelting and the plants can be scaled to match the deposits.

Konkola mines is planning to invest $200M in an abandoned open pit mine which last produced copper in the 1970's. Pre-feasibility studies have been completed and environmental approvals are awaited.

ARM's new copper project in Zambia, Lubambe reflects a 105M ton resource at 3.66% copper. The project is scheduled to produce 45 000 metric tons of copper per year as from 2015.

A feasibility study on the Kipoi project in the DRC has been completed. The study envisages a production of 445 000 metric tons of copper over a nine-year period.

A prefeasibility study on the Kitumba copper project in Zambia has been completed. Blackthorn Resources commissioned the study and indications are that there is economic potential for the project.

STEEL

Arcelor Mittal experienced a fire at their Vanderbijlpark resulting in the plant being shut down for four months. The plant produces 3.7M tons of steel per annum.

CEMENT

Sephaku Holdings is building a 1.2M tons per year cement factory near Lichtenburg.
Portland Holdings, a subsidiary of Pretoria Portland Cement, is planning to build a 1M ton per year cement plant in Mashonaland Zimbabwe.

OIL

Uganda developed a strategy to develop an oil refinery to refine the oil discovered in Lake Albert and supply the oil to the East African community. This strategy had a setback following the discovery of Kenya's first oil field by Tullow Oil. Early signs are that the Kenyan oil is of better quality than the Lake Albert oil. However, Uganda has stunned the industry by announcing that they are opting to build a 180 000 barrels per day refinery which is larger than the initially planned refinery. It appears that Uganda's oil reserves are some 1.5bn barrels more than the initial estimate. They plan to initially develop a 20 000 barrels per day refinery – this will later be expanded to a 120 000 barrels per day and then a 180 000 barrels per day refinery.

Kenya plans to construct a new $300M fuel pipeline from Mombassa to Nairobi and possibly extend the pipeline into Uganda.

Angolian oil exports will rise slightly in March to 1.75M barrels per day. The Mafumeira Sul project is an offshore central processing facility and will build up to 110 000 barrels per day of crude and 10 000 barrels per day of LPG. It is expected that the project will produce its first oil in 2015.

The Kenyan and Ugandan governments have revived plans for a 352km petroleum products pipeline from Eldoret in Kenya to Kampala in Uganda.

GAS

PetroSA proposes to build an LNG off loading station at Mossel Bay. The facility comprising a floating storage and re-gasification unit will feed gas to the gas-to-liquids refinery. The CSIR is conducting an EIA.

The US Energy Information Administration (EIA) estimates 485 trillion cubic feet of technically recoverable gas located in the Karoo basin. The EIA estimates the value of the gas at R67 trillion and in theory the country has 767 years of shale gas reserves. Theoretically the country will be able to stop oil imports and use gas-to-liquids technology to convert gas to fuel for the next 767 years. It is probable that the first exploitation of the shale gas would only take place in ten years or so. Shell has applied for exploration rights in three major areas in the Karoo and only after these licences have been granted will an environmental impact assessment be undertaken followed by exploration wells.

Eni, the Italian oil and gas major, has agreed to sell 20% of its stake in its giant Mozambique gas field to CNPC of China for $4,21bn. Eni holds a prospecting area in the Rovuma reservoir along with Anadarko Petroleum. Eni and Anadarko plan to unite their neighbouring fields off Mozambique's coast. The Rovuma field holds about 150 trillion cubic feet of gas. Eni has stated that it intends to build LNG terminals in Mozambique to ship the gas to Asia.

Statoil has made another gas find offshore Tanzania. This is Statoil's third major find in the region within a year and it adds 4 to 6 trillion cubic feet to recoverable gas volumes. The latest find could be the catalyst to an LNG project.

The first LNG facility in Mozambique will be located some 2 000km north east of Maputo and will include four trains – each producing 5M tons of LNG per year. The feedstock for the facility will be from offshore area 1 operated by Anadarko and offshore area 4 operated by Eni.

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