RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA
OCTOBER 2013

ECONOMICS

The South African trade gap rose to R19bn in August. The deficit for the year is R107.31bn compared to R69.91bn for the same period last year. It is expected that the trade balance will remain negative for the rest of the year, .the gap is currently at 6,5% of GDP. WTO predicts a growth of 2.5% this year which is down on the forecast of 3.3% made in April. Inflation in September was at 6%.

South Africa's total logistics costs for 2012 were estimated to have risen 12.8% of GDP, up from 12.6% the previous year. Freight transport on roads grew 1.3% to 1.55bn tons in 2012 while rail transported 203M tons that year.

POLITICS

South Africa has suffered a number of strikes during this year which have damaged the country's investment potential as well as reduced the country's growth prospects. South Africa has one of the lowest growth forecasts in Africa. South Africa is forecast to grow at 2,5% whereas countries such as Nigeria are predicted to grow at 6.8%, Tanzania at 6.9% and Zambia at 5.8%. Investors are reluctant to take chances with the South African economy. BMW SA has lost the chance to bid for the production of a new model for the global market due to strikes. Renault-Nissan is developing an assembly plant in Nigeria, rather than invest in South Africa. The ANC Government faces the difficulty of stimulating the economy while at the same time they have Unions as political partners, who are calling the strikes.

RAIL

Transnet is upgrading the rail network from the Northern Cape to the Port of Ngqura to support axle loads of 26 tons. The first phase will involve doubling certain sectors of the line and creating loops to accommodate 200 wagon trains. The cost will be about R2.3bn and is scheduled for completion in mid-2017.

The construction of the Kachaso-Nkaya railway line, in Mozambique, is on schedule. The line which will transport Vale's Moatize coal to the Port of Nacala is scheduled to be completed in June 2014. The rail line links the Moatize coalfield, through Malawi and on to the Port of Nacala. The line is expected to facilitate other industries in Malawi such as a coal fired power plant at Zalewa in Malawi's Neno district. The rail corridor will be able to carry 30M tons of coal per year.

Transnet is implementing a seven-year R399bn capex programme which will span 2013 to 2019. The bulk of the expenditure – more than R200bn – will be dedicated to rail activities to increase rail volumes to 350M tons per year. This will include R31.6bn being spent on the coal export line to increase capacity to 81M tons per annum by 2014 and 97.5M tons by 2019. Capacity from the Waterberg coal fields is also being expanded and it is expected that 23M tons of coal per annum will be railed from Waterberg by 2020. The Richards Bay coal line will also include a link to Botswana by 2020.

PORTS

Transnet is looking at building a second coal terminal at Richards Bay. The plan is to increase the Port's capacity to 90M tons a year by 2017 / 2018. There are also plans for oil and gas industries at Richards Bay, Ngqura and Saldanha Bay. Iron ore exports from Saldanha Bay are planned to increase from 50M tons to 80M tons in the medium term. The bulk manganese exports are being moved from Port Elizabeth to Ngqura with plans for a 20M ton export capacity.

Transnet National Ports Authority has acknowledged that tariffs in South African Ports were very high in certain categories. Transnet applied for a 14.39% average tariff hike for the 2014 / 2015 financial year. The National Port Regulator has called for public comment on the Transnet tariff proposal.

Transnet recently held a meeting regarding the future operation and maintenance of the Ngqura container terminal. The purpose is to concession out the terminal for a period of 25 years. In effect, this is the first time that outside parties have a chance at operating a terminal that has been under Transnet control and this might pave the way for concessions in other Transnet operations.

Grindrod, in a joint venture with RBT Resources will expand the Navitrade terminal at Richards Bay. The terminal has an annual capacity of 3M tons and this will be upgraded to 20M tons at a cost of R1.9bn. Work is expected to commence in the first quarter of 2014.

The car terminal at Maputo will possibly be increased in capacity. The second phase expansion, which increased capacity from 52 000 units to 121 000 units, was completed in July. The terminal is now running at capacity and is considering a further capacity increase. The National Association of Automobile Manufacturers has projected that exports of locally produced vehicles will increase by 30% to about 361 000 units this year, up from 277 893 units last year.

Portnet has called for Tenders to reconstruct and deepen Maydon Wharf berths 1-4 and berths 13 and 14.

The Tambo Springs Project involves a 1037Ha inland Port on the N3 highway about 21km from Heidelberg near Johannesburg. The Port will house warehouses, distribution, manufacturing and shipping. The facility will have a rail terminal and a rail yard capable of handling block trains. The new inland Port is expected to come on stream in 2017.

ENERGY / POWER STATIONS

ELECTRICITY / POWER

The SA Government has decided to go ahead with a new coal fired power station called Coal 3 at an estimated cost of R200bn.

The Avon gas plant in KwaZulu-Natal will start generating 670 megawatts in 2016 and the 315 megawatts Dedisa plant in the Eastern Cape will start generating in 2015.

The South African sugar industry has proposed a $2.1bn investment in 15-cane fuelled power projects to create 712 megawatts. The country has 14 mills that produce sufficient power to meet their own needs. The plants could invest in larger and more energy efficient boilers and sell off the excess electricity to the grid.

Exxaro Resources is developing a 600 megawatt coal fired power station in the Waterberg region of Limpopo on a site adjacent to the Grootegeluk coal mine. Some 3.8M tons of coal will be used per year and the capacity of the plant can be increased to 1200 megawatts depending on availability of water and grid integration constraints.

A small hydropower plant is being constructed on the Orange River with a capacity of 10 megawatts. The plant should be complete in 2015. Another hydropower plant of 4.1 megawatts is being constructed on the Botterkloof dam.

France will lend Euro 100M to Eskom to help finance solar power projects.

Eskom has indicated that it will make a decision shortly as to whether to call in Alstom's performance bond at Medupi Power station for deficiencies in the boiler protection systems, or appoint an alternate supplier.

AUTOMOTIVE

The production of some 45 000 vehicles has been lost due to strikes in South Africa.

The FAW truck plant is currently being constructed at Coega in the Eastern Cape. The plant will produce some 5 000 vehicles per year and plans are to supply the local market and to export to countries in Africa. It is expected that the first trucks will be assembled in April 2014 and there are plans to start passenger car construction in 2015.

BMW is increasing production from 50 00 units per year to 80 00 units per year and is also using Maputo as an export Port. Some 20% of exports will go through Maputo. BMW SA has been working on producing a new model along with the production of the 3-series models – however the recent strikes in the motor industry have caused BMW SA to be removed from the list of bidders.

South Africa's automotive industry recorded a trade deficit of more than R49bn in 2012 – this is up from the R35bn deficit in 2011. Total automotive exports for 2012 were R87bn and imports were valued at R136bn. The deficit of R49bn represents more than 40% of the national trade deficit. Naamsa's forecast for new vehicle sales in South Africa for 2013 was 652 000 units – however the recent strikes in the automotive sector have dealt a crippling blow to production volumes.

Iveco SA, in a joint venture with the Larimar Group will commence an SKD assembly of trucks and buses at a R600M facility near Pretoria in the middle of next year. The plant will produce left and right hand drive vehicles and for export to sub-Saharan Africa.

Mercedes Benz SA is to push forward with a R3bn investment plan in South Africa which will see an increase in production to 100 000 units per year. Currently the East London plant is producing 60 000 units per year.

MANGANESE

Assmang has completed a feasibility study to establish the viability of a manganese smelter in Malaysia. Assmang, in collaboration with China Steel and Sumitomo, are looking at the project to maintain Asian customers and by using reasonably priced hydropower, they are planning on low escalation in rates in the region. If the project goes ahead the commissioning of the furnaces will take place in 2016 and the capacity is 169 000 metric tons per year.

IRON ORE

Sedibeng is planning a beneficiation plant which will be constructed in 2015. The mine currently produces about 750 000 metric tons per year and production will ramp up to 2M tons per year by 2015 / 2016.

The future of the Thabazimbi iron ore mine is being negotiated between Arcelor Mittal and Kumba. It is probable that the life of the mine will be extended and production costs reduced. The costs at Thabazimbi have increased by 54% which is way above the norm.

Kumba plans to produce some 70M tons of iron ore per annum by the year 2019. The company currently has a production base of 41M tons from the Sishen mine and 9M tons from the Kolomela mine. The Kolomela expansion is expected to add another 6M tons and low grade materials will add a further 14M tons per year.

Assmang should be producing some 30M tons per annum by about 2018.

COPPER

Rio Tinto and Anglo American finalized the sale of their 74.6% shareholding in Palabora Mining in July. The shareholding was sold to a consortium comprising the South African and Chinese Governments. The Consortium was led by the IDC of South Africa and Hebei Iron and Steel Group. In October Palabora announced that Rio Tinto South Africa had acquired 90.02% of the issued ordinary share capital of the company.

PIG IRON

Baobab Resources could upgrade its pig iron and ferrovanadium production in the Tete province of Mozambique. Planners are looking at a 2M ton per year operation. The project has a proposed mine life of 22 years using 20% of the resources.

COAL

Minas Moatize in Mozambique has commissioned a wash plant and production will be ramped up in the latter half of 2013. The plan is produce 2.8M tons of run-of-mine per year.

Transnet has pledged to help junior miners increase their exports and has accused the larger coal mining firms of developing monopolies and not giving up spare capacity at the Richards Bay Coal terminal, which necessitated Transnet`s consideration to build a second terminal next to the existing terminal. The larger coal mines, however, have advised that Transnet does not provide sufficient railage to match the current capacity of the coal terminal which is 91 million tons. Some 70 million tons per annum is exported through the terminal.

Minergy is involved with a large coal project in the Mmamabula coalfield in Botswana. The inferred coal resource is 2.8bn tons which is shallow and flat-lying and is said to contain export quality coal estimated at 1.2bn tons.

Coal projects under development include Anglo American which has two large coal projects, the New Largo mine and Zibulo mine. The New Largo mine will supply 14M tons of coal per year to the Kusile power station and the Zibulo mine will supply 3.3M tons to Eskom and export a further 3.3M tons. Exxaro Resources are expanding the Grootegeluk mine at a cost of R10.2bn to supply the Medupi power station with 15M tons per year. The Thabametsi project, in its first phase will deliver 4M tons per year to an onsite independent power producer and the mine also plans to deliver between 20M and 30M tons per year from the second phase of development to Eskom. Sasol Mining is replacing three mines which are near the end of their operating life. The Thubelisha mine has been opened and Impumeledo and Shondoni mines are still under development. Xstrata Coal is undertaking an optimization project at Tweefontein with the start-up of the project in 2014. The Zonnebloem mine is being developed.

Other emerging coal producers are developing projects – Coal of Africa is involved with the Vele colliery and the Makhado coking coal project. The Vele project has the potential to produce 5M tons of coking coal per annum. The Vele mine will be producing 2M tons per year by 2016. Resource Generation is developing the Boikarabelo project. The first phase will produce 12M tons of run-of-mine per annum which equates to 6M tons of product coal – 3M tons of which will be for export. Phase two, in 2018 will see production at 20M tons of product coal.

South Africa still has 60bn tons of recoverable coal.

Coal of Africa injected R220M into expansion at the Vele colliery in Limpopo, despite the SA Governments negative policy and strong regulatory climate which could threaten the availability of coal for the local market and exports. The larger coal mines are running out of high quality resources and smaller mines can replace this production, but the mines need sufficient capital for development. A new Bill is being presented before Parliament which will give the Minister the power to control the price of coal and export volumes of coal.

CEMENT

PPC plans to build a $230M cement factory in the DRC. The plant will take 24 months to complete and will be located in Western DRC. PPC is also planning to build a 1M ton per year cement factory in Zambia.

SUGAR

About 400 000 metric tons of sugar is imported into South Africa per year. There are no import duties on sugar and the local sugar industry is concerned that imports will collapse local sugar production.

OIL

Tullow Oil found oil in Kenya in 2012 and there are plans to start exporting in 2016. The deposit might be as large as 10bn barrels. Tullow Oil will start drilling in the south of Madagascar next year and they are confident of finding oil after discoveries in Kenya and Mozambique.

A crude oil storage and blending terminal is to be built at Saldanha Bay at a cost of R2bn. The storage capacity will be 13.2M barrels, comprising of 12 concrete tanks. OTGC and MOGS will hold 50% stakes in the terminal.

The Kenya Petroleum refinery is poised for closure as the refinery is no longer viable. It is cheaper to import fuel than use the refinery. Kenya is building a modern refinery at the new $25bn Lamu Port.

There is speculation that Lake Albert could hold as much as 2bn barrels of oil. Oil has been found on the Ugandan side of the lake and there is a strong possibility of oil being found on the DRC side of the Lake.

Sasol is planning to build a 96 000 barrel per day gas to liquids plant in Louisiana.

GAS

ONGC Videsh of India is buying a 10% stake in a Mozambican gas field for $2,64bn.

Tanzania expects its gas resources to increase five-fold in the next two years as new finds are confirmed. The country expects the gas resource to rise to 200 trillion cubic feet.

Avedia Energy will be installing four LPG storage tanks at Saldanha Bay. The company is building a R300M LPG import terminal which will provide storage for 8 000t. The terminal should be commissioned at the end of the year.

New finds of gas in Mozambique, Botswana, Namibia and South Africa are expected to change industry especially with regard to heating, cooling and electricity generation. Mozambique is expected to yield more than 120 trillion cubic feet of gas and there is a potential of some 400 trillion cubic feet of shale gas in South Africa. Botswana is developing coal bed methane gas. South Africa is planning to issue licences , permitting exploration of shale gas in the first quarter of next year. Proposed regulations for hydraulic fracturing were issued in October

The South African Government has advised it intends to have a 20% stake in all new oil and gas ventures, with an option to buy – at market prices – up to 50% of all such ventures. South Africa has proven oil reserves of 15M barrels located to the south and off the west coast near the border with Namibia. Gas reserves still have to be determined. Royal Dutch Shell has asked for regulatory clarity and stability before it invests R5bn in wells in South Africa. It is expected that the technical regulations will be released in October. Shell is likely to spend about R2bn on its shale gas project and the remainder of the R5bn on oil and gas exploration off the west coast.

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