



RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA

JUNE 2014

ECONOMICS

The South African economy had the worst quarter since 2009. GDP has contracted in the three months to March 2014, with rising inflation. The trade deficit for April was R13.03bn up from the deficit in March of R11.9bn. The economy contracted 0.6% in the first quarter of the year.

The South African purchasing managers' index has dropped to its lowest level since August 2009. Total new car sales have declined for the second consecutive month providing another signal that the South African economy is sliding into recession.

The World Bank has forecast a 2% growth for the South African economy this year and a 3% growth in 2015 growing to 3.5% in 2016. Other economic strategists are less optimistic about South Africa's growth over the next few years. The GDP is expected to decline further in the second quarter.

RAIL

Tanzania, Rwanda and Burundi are looking for an adviser to help them secure financing for a \$4.13bn railway project. The line will link Dar-es-Salaam with Burundi and Rwanda. The countries hope to have the bids for the project by the 21 August 2014.

A rail route between Johannesburg and Maputo will be completed in 2017. A feasibility study has been undertaken. This should shorten time and distance to expedite coal shipments and general freight including fuel.

A feasibility study on the Ponto Techobanine Port and the 1 100km rail line is being undertaken. The rail line will start at a new dry Port at Selebi Philwe in Botswana and pass through Zimbabwe. The prefeasibility study has indicated that a full feasibility study should be undertaken. The plan is to export Botswana coal at a rate of about 90M tons per year.

Transnet and Swaziland rail will deliver a feasibility study to assess the best way forward for joining rail links. The 146km line from Lothair to Sidvokodvo in Swaziland could cost R16bn to R17bn and have a capacity of 31M tons. The line will involve the construction of some 47 bridges.

PORTS

Transnet are looking at private sector participation models – particularly for the Durban dig out Port. Work on this Port could start in 2020 at an estimated cost of R100bn. Transnet have a number of ambitious plans which are being considered at their Ports. They plan to free up terminal capacity at Richards Bay and Ngqura for junior miners and also plan to build an additional berth at Richards Bay to accommodate junior coal miners. Transnet is considering LNG terminals at Ngqura and Saldanha Bay.

Transnet is delaying the move of the manganese ore terminal at Port Elizabeth to Ngquara. They plan to start shipping manganese ore from Ngquara in 2019 as opposed to their initial plan of 2016.

Maydon Wharf in Durban is being upgraded and steel sheet piling at the berths is being replaced. Some four berths will be out of commission at any one time during the upgrade.



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ENERGY / POWER STATIONS

ELECTRICITY / POWER

Zambia will regularly export electricity next year when a new plant comes on stream.

Zambia has appealed to the World Bank and other financiers for funds to rehabilitate the Kariba Dam wall. Apparently the dam has developed serious faults and some \$250M will be needed for repairs. The spillway is no longer bending and not opening automatically due to the expansion of the concrete and heavy rust accumulation. The plunge pool gives cause for concern as it initially was 10m deep when the dam was constructed in 1959. However it is now some 90m deep and the erosion is gradually moving towards the dam wall foundations.

Eskom has contracted some 6352 megawatts from 82 private producers within SA.

Experts advise that Eskom will need a R50bn to R100bn bale out if the company is to survive over the next few years.

Medupi Power station is coming on line with expected commissioning of one unit of 800 megawatts at the end of this year. Full commissioning will take place during 2015. The Kusile power station is expected to be commissioned during the latter part of 2015 and into 2016. Eskom will contract to buy 500 megawatts from Independent Producers to cover the power shortfall before the start-up of Medupi.

Phase 12 of the Lesotho Highlands Scheme will be completed by 2023 at a cost of R11.2bn. The addition will see the construction of the Polihali Dam and relate infrastructure.

AUTOMOTIVE

Ford is considering expanding its manufacturing footprint in Africa. Ford does not operate in 16 countries in Africa and is initially looking at Nigeria as a possible manufacturing location.

Hyundai will start truck assembly at a R110M plant at Benoni. Trucks in the 5t to 6t range will be assembled.

The first new C Class Mercedes has rolled off the production line at the Mercedes plant in East London. Mercedes invested some R5.4bn in the plant to produce the new C Class. Production will be about 100 000 units per year with 80% to 85% being exported to some 80 different markets around the world.

The Automotive industry had a trade deficit of R24bn in 2013 which is half the deficit incurred in 2012 (R42.3bn). The industry has projects and capital expenditure of R7.92bn in 2014.

Hino will relocate the assembly plant at a cost of R54M to make way for the Quest Corolla sedan and taxi assembly.

CHROME

Jubilee Platinum is in negotiation for the interim processing of tailings from the Dilokong Chrome Mines in Limpopo. An agreement with ASA Metals will see the establishment of a purpose built chrome and platinum process plant at the mine.

IRON ORE

Ferrum Crescent has updated its resources at the Moonlight project in Limpopo. The resource is estimated at 307M tons at 26.9% FE. The valuation of the project has been estimated at \$33M. The company is looking for some \$10M to \$13M to evaluate the development of a pelletizing plant to produce some 6M tons of iron ore pellets to export through Richards Bay.



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Baobab Resources advise that tests indicate that they can produce low impurity pig iron at their plant in the Tete province of Mozambique.

Ironveld have conducted a feasibility study which shows that they have the ability to produce high grade, high purity (98.5%) iron at their Limpopo plant.

Bushveld Minerals is undergoing a test-work program for the beneficiation of magnetite at its vanadium deposit in Limpopo. The process produces vanadium pentoxide flakes or ferrovandium and pig iron.

HEAVY MINERALS

Savanah Resources have the Jangamo mineral sand project in southern Mozambique. The project shows encouraging signs and has the potential to host a major heavy minerals plant.

Kenmare Resources Moma mine increased mining production to 7.5M tons in the first quarter, producing 287 000 metric tons of Heavy Mineral Concentrates and 210 800 metric tons of Ilmenite – an increase of some 52%.

COPPER

The Tschudi Copper Project in Namibia is 44% complete and expects to start producing copper in the 2nd quarter 2015. It is estimated that the cash cost of the copper will be \$4 226 per ton.

Recent drilling at Ivanhoe Mines Kamoa mine in the DRC confirm an indicated resource of 739M tons of ore at 2.67% copper. Reported early results at the Kipishi mine indicate a significant down dip in the Big Zinc discovery at some 1700m from the surface.

Discovery Metals Ltd has been granted approval by the Botswana Government to develop the Zeta underground site at their copper project.

NICKEL

Bindura Nickel will resume operations at their plant in Zimbabwe in the second half of this year. The capital cost of the restart is about \$26M and the expected production will be 160 000 metric tons of nickel concentrate.

COAL

Mick Davis the former head of Xstrata, has offered to buy the BHP Billiton thermal coal division.

Bushveld resources have taken over the Imaloto Coal Project from Lemur resources.

Mozambique is opening fresh bidding for coal exploration licences in central Tete province.

A deal has been concluded with an Isle of Man company to raise R95M which will settle the 50% portion of the R50M debt owed by Nkomati Anthracite Mines to Sentula.

A pre-feasibility study at the Mmamabula project in Botswana shows that logistics costs are too high to sustain the project at current coal prices. The project plans to produce 3M tons of high quality 6200kcal coal per year over a twenty-year period. The study showed that the coal resource, which is in three seams, could be mined at a cost of \$17 per ton for ROM with the export product costing \$25 per ton at the mine gate.

African Energy have an inferred coal resource of 2.5bn tons at its Sese West project in Botswana.

Sasol mining has confirmed a R14bn mine replacement program which includes the development of Impumel and Shandoni collieries. The Impumelelo coal mine should start production in the first half of next year and the Shandoni mine will be opened in the second half of the year.



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Exxaro has approved a new R3.8bn mine to produce coal for export and to supply one of Eskom's power plant. The Belfast project is expected to produce an average of 2.2M tons of A Grade export coal per year and 500 000 tons of coal for power utility. The mine is expected to start in the second half of 2017.

CEMENT

Jidong Development Group of China is building a 1M ton per year plant on a limestone deposit near Northam in Limpopo. This plant will serve Johannesburg, Pretoria and Rustenberg. The project is called the Mamba Cement Company.

PHOSPHATE

Bushveld Minerals have demonstrated the production of elevated phosphate at their P-Q zone deposits in Limpopo. Initial tests show saleable concentrates grades of 33.25% P₂O₅. They have announced a 442m ton phosphate resource at a grade of 3.6%.

Namibia is reviewing the temporary ban on marine phosphate mining. The US based Leviev Group planned to invest about \$800m to mine about 2m tons of ore. There is apparently a resource of 2bn tons.

MAIZE

Malawi is expected to harvest 3.9M tons this year, up some 8% on last year's crop. The annual consumption is 2.9M tons, so the country will have a surplus of about 1M tons which will be exported to neighbouring countries.

OIL

Total will go ahead with the Kaombo project offshore Angola. The project has been delayed due to cost – however Total managed to reduce costs by \$4bn, which has made the project viable.

ANADARKO has suspended exploration in South Africa until the new petroleum law is more clearly explained. The law was passed very quickly through Parliament before the elections and petroleum companies are alarmed by the terms. Shell, Anadarko, Total, Exxon Mobil all have expressed concern. Critics say that the new law amounts to nationalization without appropriate compensation. In terms of the law, the State gets 20% of the oil of all new ventures.

Videsh Limited of India has bid for offshore oil and gas blocks in Tanzania.

Kenya, Uganda and South Sudan are expected to invite bids for a single consultant to oversee the building of an oil pipeline. Kenya and Uganda have discovered significant commercial quantities of oil and are expected to start production in about three years. South Sudan currently produces oil but the pipeline runs through Sudan and ties between the two states have been strained since the two states split in 2011. The pipeline would transport oil to the Kenyan coast.

Sonangol the Angolan oil company is offering up for Tender 12 new offshore oil blocks.

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