



# RENNIES REPORT

## Rennies Ships Agency (Pty) Ltd

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### DEVELOPMENTS IN SOUTH AFRICA

SEPTEMBER 2014

#### ECONOMICS

The South African government will lower the economic growth forecast to 1.8%. The growth estimate in February was 2.7%.

The South African trade deficit narrowed to R190M in June – however the deficit widened to R6.88bn in July. The trade deficit grew to 6.2% of GDP in the second quarter. Economists had expected a 5.4% gap.

The latest census reports that the population of South Africa is 54 million.

Municipalities in South Africa owe the central government treasury some R94bn.

The second quarter growth in GDP in South Africa was 0.6%. The mining sector showed a drop of 9.4% due to labour unrest and the Manufacturing sector fell 2.1%. Gains in the agricultural sector 55% and the finance sector 15% contributed to a positive GDP of 0.6%.

#### RAIL

Tanzania and Zambia have injected \$800M to bail out a jointly owned rail company suffering from decades of under-investment. Some 1 860km of track is being replaced on the main export route from Zambia to Dar-es-Salaam.

Transnet is looking for a rail consultant to help with an evaluation of the rail requirements from the Waterberg to Ports and the domestic market.

Transnet is hoping to raise R100bn from private investors – they plan to spend R312bn over the next seven years.

Transnet and Swazi Railways are currently undertaking a feasibility study on developing a rail link through Swaziland. Transnet have reached agreement with landowners in SA.

The African Union Commission has, as one of its three flagship projects, a plan to link major African cities and commercial centers with a high speed rail service by 2063. The rail network would be integrated with road, oil and gas pipelines and communication infrastructures.

#### PORTS

Transnet has awarded Southern African shipyards a contract to build nine new tugs for South African Ports. The tugs will replace older tugs currently in operation and the majority of the tugs will have a 70 ton bollard pull.

A new dredger has arrived in Durban.

A feasibility study is being undertaken on a LNG terminal at Richards Bay and also the Port Authorities are looking at the feasibility of a floating dock.

Access to the Island View area in the Port of Durban is very restricted and the Port Authority, together with the Municipality is looking at reconfiguring the road access and the possibility of putting in a rail terminal.

The National Oil Corporation of Kenya is revamping plans for a new oil jetty in Mombassa to cut the costs of import and export oil. Initial plans were for an import terminal – however discovery of oil in East Africa requires that the jetty also handles exports of crude oil.



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Consideration is being given to developing a liquid bulk facility at East London as well as boat building facilities. Studies are under way on a new manganese ore terminal at Coega to handle 6M tons of ore exports. Port Elizabeth will be a "clean" Port in the future, handling vehicles, containers and fruit. There is the possibility of a waterfront development in the harbour. There are plans to transform Mossel Bay into a base for PetroSA. A feasibility study is being undertaken at Saldanha Bay for a LNG hub. Preliminary investigation is underway for the creation of a new Port in the Northern Cape, just south of Port Nolloth.

The World Bank has agreed to a \$565M deal to finance the expansion of the Port of Dar-es-Salaam. The authorities want to lift the capacity of the Port to 28M tons by 2020.

Work on a new Port in Namibia will start early next year. The Port – some 5km north of Walvis Bay – is aimed at catering for Namibia's landlocked exporter and importer neighbours. A R4bn oil tanker jetty, petroleum pipelines and 75M litre oil storage facility form part of the first phase. The second and third phases involve the construction of a dry bulk terminal and a five-berth coal terminal to cater for 65M tons per year of projected shipments from Botswana's Mmamabula coalfields. Namibia and Botswana are jointly developing a 1500km Trans-Kalahari railway from eastern Botswana to markets in India and China. Namibia has granted Botswana some 36 233 square metres of land at Walvis Bay under a 50-year lease for a dry Port. This facility has been developed at cost of R60M and has started operating.

### **ENERGY / POWER STATIONS**

#### **ELECTRICITY / POWER**

Eskom spent R10.5bn on diesel to operate two open cycle gas turbines in the Western Cape last year – this expenditure is double that of the previous year.

Eskom has handed its sustainability plan to the Minister of Public Enterprises. Apparently Eskom faces a R225bn revenue shortfall up to March 2018. The South African Finance Minister has indicated that the government was open to private investors helping to finance power plants built by Eskom to plug a funding gap.

The South African Cabinet has approved a treaty signed with the DRC to begin development of the grand Inga hydropower project. The project will cost some \$100bn and will generate 40 000 megawatts. Phase 1 of the project will generate 2 500 megawatts to South Africa. The entire project will comprise six phases.

Eskom has received cumulative contractor claims worth R5bn for work at Medupi and Kusile power stations. Medupi Unit 6 is scheduled to produce power in December 2014 – Kusile is scheduled to come on stream by the end of 2015. The Medupi power station is six units of 749 megawatts each and Kusile is 6 units of 800 megawatts each. The first power should be generated at Medupi in December 2014. The Medupi project was expected to be operational in 2011 but due to a number of strikes and other problems, the project has been delayed to late 2014. Originally the estimated cost of Medupi was R87bn – this has risen to over R105bn. The project forms part of a 17 000 megawatt capacity expansion.

Eskom has signed a R4.3bn contract with a French company Areva to replace the six steam generators at the Koeberg power plant.

Standard Bank has confirmed the provision of a \$170M debt finance to support the construction of a 118 megawatt gas fired power station at Ressano Garcia in Mozambique.

Makomo resources are planning to spend 41.5bn on a 600megawatt coal fired power plant in Zimbabwe. Construction will start in 2018. The Makomo mine supplied the Hwange power plant with 720 000 metric tons last year. The new power plant was 60% owned by Zimbabweans and the balance owned by British and South African investors.

KiPower is proposing to build a 650 megawatt independent coal fired power plant south east of Delmas in Mpumalanga. The estimated cost is \$1.7bn.



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The first gas to power facility has been inaugurated in Mozambique. Gas will be supplied to the 175 megawatt power plant which is based in Temane and is 49% owned by Sasol. The cost of the plant is some \$3bn.

The Department of Energy of Botswana has approved the African Energy Sese integrated power project in Botswana. The Sese project comprises a 1.6M ton per year mine and a water allocation from the Shase Dam to a 300 megawatt power plant. It is expected that the project will be completed within five years. The coal resource feeding the mine is estimated at 2.5bn tons.

A consortium has been given the go ahead to build a 1 000 megawatt coal fired power plant by the Kenyan government.

Initial results of a feasibility study for the Rukwa coal to power project in Tanzania are positive. The economic viability of the coal mine and the planned 300 megawatt power plant show potential. The mine should supply the power plant for 40 years.

The Tanzanian government has signed an agreement with Maurel et Prom and Wentworth Resources for the supply of gas aimed at doubling electricity generation to 3 000 megawatts by 2016. Gas will be supplied via a 532km pipeline from the south to Dar-es-Salaam at an initial rate of 80M cubic feet per day – after eight months the supply will be increased to 130M cubic feet per day for a 17-year period. Tanzania has 46.5 trillion cubic feet of proven gas reserves.

Three Chinese firms are considering setting up a coal mine and a 1 200 megawatt thermal power station in western Zimbabwe. At present the State power utility only produces 1 100 megawatts which is about half the national demand. Sino Hydro is currently working on the Kariba hydro power plant to add 300 megawatts to the output.

### OIL

Algeria and Tanzania have signed a deal to start an oil and gas exploration project in Tanzania.

Woodside Petroleum has signed an agreement over the Lake Tanganika project. Woodside has a 70% control over the South Block exploration which will take place over the next twelve months.

The first publicly owned oil and gas company has been started in Tanzania. Swala Oil and Gas Limited is now on the Dar-es-Salaam stock exchange.

An oil well is being drilled in deep water south of Mossel Bay. Total is the well operator.

The oil reserves in Uganda have been revised to 6.5bn barrels based on new estimates by international companies. Recoverable oil is in the region of 1.4bn barrels.

Kenya and Somalia are seeking to resolve a dispute over lucrative oil reserves in the Indian Ocean. The International Court of Justice has been asked to determine the maritime boundary between the nations.

The SA government advises that it is ready to regulate companies that wish to explore for shale gas. Draft legislation to deal with the risks is in place.

South Africa is to resume the purchase of Iranian oil within the next three months.

Kenya expects its estimates of oil reserves to almost double to 1bn barrels. Tullow Oil has discovered 600M barrels in the South Lokichar basin. Kenya has licensed 41 oil and gas blocks.

### GAS

A prefeasibility study on a gas to liquids plant in the Rovuma basin in Mozambique has been launched. The study is being conducted by Sasol in conjunction with the National Oil Company of Mozambique.



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Challenger Energy is seeking a strategic alliance partner to develop a long term strategy on shale gas exploration in the Karoo Basin. The company has 1M acres to prospect. In 1968 there was a gas strike on the property which produced an unstimulated gas flow of 8M cubic feet per day from a vertical well. The company reports it is in advanced discussions on the Cranmere project. It is estimated that the Karoo Basin holds a resource of 370 trillion cubic feet of technically recoverable gas. The Cranmere project is estimated to hold 32 trillion cubic feet of gas.

PetroSA have stopped their plans to have a floating liquefied gas terminal at Mossel Bay as oceanographic conditions were too severe. The company is exploring other locations to import gas.

The BG Group, a British gas company, has produced higher than expected gas flows from a test well off the coast of Tanzania. This enhances the viability of a planned liquefied natural gas export terminal. Test flows at the Mzia 3 well reached 101M cubic feet per day.

It is reported that over 430bn has been invested in Mozambique's gas sector to build capacity to produce large tonnages of LNG. It is expected that the first exports of LNG will be in 2018.

Vandasia will buy 43.9% of Sunbird Energy for AS\$25M. Vandasia has extensive experience in Africa and will be a strategic partner on the Ibhuesi gas project.

### AUTOMOTIVE

The first commercial trucks have rolled off the FAW assembly line at Coega.

Ford has produced its 3 millionth engine at the Struandale plant.

South African motor manufacturers are re-thinking their strategy to penetrate the African market as a number of countries have introduced trade barriers such as duties and levies. Nigeria is looking at developing vehicle assembly plants which will reduce exports from South Africa.

The new vehicle sales in 2014 are likely to be 630 000 units, down from the 650 000 new units sold in 2013. It is expected that new vehicle sales in 2015 will be 610 000 units and growth in sales would be flat in 2016 with a possible rise in 2017.

South African new vehicle sales in August were 1.4% down on the previous year – some 55 722 units were sold. Sales of commercial units were 14.2% down on previous year's sales.

Hyundai have officially opened their commercial vehicle assembly plant at Benoni.

### MANGANESE

BHP and Anglo American are looking to jointly sell their manganese-owned assets in South Africa and Australia. The assets include mines in South Africa and processing plants.

### IRON ORE

Tsodiolo Resources, a Canadian company, has defined a mineral resource of 441M tons with an average grade of 29.4% FE at block 1 of the Xandium iron ore project in North West Botswana. There is possibly some 5bn to 7bn tons of iron ore in Botswana.

### COPPER

Metals of Africa report they have identified three targets in their Changara project in Mozambique. These consist of large zinc-copper deposits with high grades.



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The Tschudi project in Namibia is 57% complete.

Ivanhoe Mines reported the first assay results of the exploration program at Kipshi. The results show high grade copper/zinc/germanium.

Discovery Metals reported a monthly production of 2061 metric tons of copper at their Baseto copper mine in Botswana in July. The company is raising AU\$25.7M to develop the Zeta underground mine at the Baseto Copper Project.

Palabora Mining is awaiting shareholder approval for a R9.3bn expansion to extend the life of the mine by 20 years to 2033. A bankable feasibility study has been undertaken.

Botswana has blocked copper trucks from the DRC from transiting the country due to the threat of Ebola virus.

Zambia will waive the rule requiring companies to produce an import certificate from the country of destination for Zambian cargoes. It is impractical for exporting companies to obtain these certificates and the government will repay VAT which has been withheld. Some 4 600M will be paid to copper mines.

The Zambian Environmental Management has issued an approval to Berkeley Minerals for a proposed Lead-Zinc recovery and copper processing plant at Kabwe in Zambia.

### COAL

Edenvale International of Tanzania has undertaken an EIA to start a coal mine at Namwele and Momolo near Lake Rukwa.

Wescoal is expecting production of its first coal mine in Elandspruit in Mpumalanga in January next year.

Keaton has reported steady production at the Vangatfontein mine with some 617 324 metric tons of coal – from the first quarter's production – going to Eskom.

India Power Corporation is scouting for coal assets in South Africa for coal to supply 1 000 megawatt power projects in India.

A Thai-Mozambique consortium has set a target of 2018 for a \$4.5bn rail export line and a Port terminal to export coal from Moatize. The rail line of 537km will join the Moatize coal fields with Macuse on the coast.

Shumba Coal Resources has raised \$2.2M to be used in developing a new Botswana coal mine.

Coal of Africa has agreed to pay for the under-utilization of the Matola terminal in Mozambique. In terms of the contract, Coal of Africa had to ship some 2.25M tons per annum. The company plans to raise \$64.9M from investors to assist in the planned disposal of noncore assets. These include the Mooiplats, Holfontein and Woestalleen collieries. The funds raised would go into the Velle colliery and settle outstanding acquisition obligations of the Greater Soutpansberg project.

The Vale Moatize mine in Tete produced 4M tons of coal last year – of this some 3M tons was transported to Beira along the Sena rail line and exported in 35 shipments. The cost of the Phase 1 coal project is \$1.88bn and the mine has a capacity of 11M tons per year. Phase 2 of the project will double the capacity to 22M tons per year at an investment of \$2.06bn. This phase will start next year.

Production has been hampered due to inadequacies in the rail infrastructure and Port capacity and consequently Vale has become a major investor in the logistics infrastructure. It is planned to link the coalfields to the Port of Nacala and the cost of this will be \$4.4bn.

Universal Coal has been granted a mining right over its Brakfontein project.



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International Coal Ventures Ltd of India plans to triple production at their newly acquired Benga mine in Tete province in Mozambique over the next three years. The mine was acquired from Rio Tinto for \$50M. The plan is to take output to 13M tons per annum. Currently coal is transported on the Sena rail line which has an annual capacity of 6.5M tons. The Port of Beira has an annual capacity of 6M tons but due to technical faults and flooding these capacities have not been realized.

### VANADIUM

Everaz is selling 34% of their stake in Everaz Highveld Steel and Vanadium for R298M. Macrovest are the buyers.

Bushveld Minerals is bringing its low cost, high margin, integrated vanadium mine into production in the Bushveld complex in Limpopo.

### GRAPHITE

The Epanko graphite deposit in Tanzania has indicated a 12.8M ton resource at 10% graphitic carbon. Studies show that 40 000 metric tons per year can be produced.

### CEMENT

Sephaku Cement has started producing clinker at the Aganang plant in the North West Province.

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**SEPTEMBER 2014**