



RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA

DECEMBER 2014

ECONOMICS

The South African trade deficit worsened to R16.3bn in August as exports fell sharply. The budget deficit in the first five months of the fiscal year was R111.847bn compared to a shortfall of R93.297bn for the same period last year. The cumulative trade deficit for the first eight months of this year was R70.7bn which is 36% higher than for the same time last year and this is one of the reasons for the Rand weakness. The trade deficit improved in September to R3.05bn, but plummeted to a record R21.3bn deficit in October. The cumulative deficit for 10 months is R95.11bn compared to R73.08bn last year.

The new South African Minister of Finance Mr Nene has cut the country's growth estimate to 1.4% from the February projection of 2.7%. South Africa will see its worst economic performance since 2009. The treasury predicts a growth of 2.55 next year and 2.8% in 2016. The Minister is concerned about the economy. The youth unemployment rate is at 60% and confidence in the country's leadership is at an all-time low. The debt to GDP ratio is 40% which is a result of a year of spending to boost economic growth and a huge unwieldy public sector wage bill.

The trade gap narrowed to R2.9bn in September as production in the export of precious metals gained pace after the end of a five-month miners' strike.

Moodys downgraded the SA Government debt rating to Baa2 – this is just two notches above junk status.

The World Bank will loan some \$1.2bn to Kenya and Tanzania to improve inland waterways and Ports.

RAIL

Transnet has bought 34 used locomotives from Queensland Australia to help ease the locomotive shortage in the country.

Namibia may seek private investors to fund a railway line linking the north of the country with Zambia and the DRC for mineral shipments through Walvis Bay. A feasibility study has to be undertaken for the 800km line.

Transnet is spending R1bn on the rail infrastructure in the Waterberg to facilitate the export of coal from the region. The plan is to export some 26M tons per annum from the Waterberg and infrastructure will be put in place over the next 4 years.

PORTS

The National Oil Company of Kenya plans to develop a new offshore loading and offloading facility.

Portnet of SA has ordered eight new tugs. The first tug is expected to be launched in November 2015 with the final tug being launched in 2018.

Transnet has advised that it will not be constructing a further coal terminal at Richards Bay – they will concentrate on providing the correct rail infrastructure to feed the existing coal terminals.

The construction of a new Port at Bagamoyo some 75km north of Dar-es-salaam will start in July next year. The Port will cost some \$10bn and will be funded by the Chinese. A MOU has been signed with China Merchant Holding International and the State General Reserve Fund of Oman.



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ENERGY / POWER STATIONS

ELECTRICITY / POWER

Kenya plans to increase electricity generation by 5 000 megawatts over the next 3 years. The first phase is a 960 megawatt thermal energy plant, costing some \$2bn. The plant – owned by Gulf Energy – will be located on the coast in Lamu province and will use imported coal. Later plans involve the plant using coal mined in the Mui basin. The country has a current generating capacity of 1 664 megawatts.

Unit 6 of the Medupi power station has started the firing up process.

South Africa has cut its power deficit to 3 000 megawatts from last year and plans to add 27 000 megawatts by 2018. The country has a generating capacity of 51 000 megawatts and a peak demand of 54 000 megawatts. Not all the new electricity will come from South Africa. Some new electricity will come from Angola, the DRC, Zambia and Tanzania.

South Africa has been talking to France and Russia in regard to nuclear technology for a future Nuclear Power Station. South Africa has signed Inter Governmental Framework Agreements with France, Russia, China and South Korea for nuclear co-operation regarding a planned development of a 9 600 megawatt nuclear power plant. It is possible that a further agreement will be signed with Japan.

Eskom has received a further bail-out of R20bn – the money being raised through the sale of non-strategic State assets. The company is in some disarray – the collapse of a silo at Majuba, threat of collapse of a further silo and the delay of meeting the deadline of starting unit 6 at Medupi have all contributed to load-shedding in South Africa. The start of the Medupi power station has been delayed for several years and the project is costing far more than the original budget of R78bn. Sources estimate that the cost has escalated to R130bn.

A silo collapsed at the Majuba power plant reducing output from 4 100 megawatts to 1 800 megawatts. The silo was relatively new, some 13 years old. No explanation has been given for the collapse. There are reports from the trade union that another silo has a 2m long crack. No official report has been issued.

The SA Parliamentary Portfolio Committee has recommended ratification of the report on the Inga Hydro-Power project. The first phase will include the erection of power lines through Zambia, Zimbabwe and Botswana.

Glencor and its partner are investing some \$360M into refurbishing electricity production in the DRC. The DRC produced some 914 631 tons of copper last year. The country cannot produce more copper without electricity. Power demand is 912 megawatts to 1 202 megawatts and Katanga has a power deficiency of 734 megawatts. The copper mines presently import power from Zambia and this power is derived from diesel powered generators, the cost of which is substantial – about \$3M per month. The plan is to refurbish SNEL's 1 424 megawatt Inga 2 hydropower plant and upgrade some 2 000 km of power line. About 450 megawatts will be produced with 380 megawatts reserved for Kamoto.

Zimbabwe has signed a \$1.5bn deal with the Sinohydro Group of China to expand the coal fired power plant at Hwange. Hwange has a designed capacity of 920 megawatts but due to ageing equipment and lack of maintenance, production is less than 400 megawatts. Sinohydro has started work on two units at Kariba to generate an additional 300 megawatts. Zimbabwe has an electricity demand of 2 200 megawatts and a production capacity of 1 600 megawatts. Zimbabwe has sought a \$1.17bn loan from the China Import and Export Bank.

Botswana's Morepule power station has broken down and the country has to import power from South Africa. All four units at the 600 megawatt power station have broken down due to boiler leaks or generator faults. Another power station – Morepule A – is currently being refurbished and should be operational in 2015.

The gas to power plant at Ressano Garcia in Mozambique has been inaugurated. The plant has gas supplied by a central processing facility at Temane. The plant is a 175 megawatt facility which will supply 23% of the country's demand. The economy is fast growing and it is expected that demand for electricity will grow at 14% per annum.



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Ncondezi Energy has signed a MOU with Shanghai Electric Power which could see SEP becoming a controlling shareholder in the planned 300 megawatt power plant to be constructed in the Tete Province of Mozambique.

Edenville Energy is undertaking a feasibility study to establish a 100 megawatt thermal power plant at the Rukwa coal project in Tanzania. Initial test results show high quality coal near the surface. The study will be completed in the first quarter of next year.

The plans to develop a 1 050 megawatt plant powered by gas in Namibia have received a setback. Tullow Oil has announced that it is in talks to quit the \$2bn Kudu gas project. The plan was to erect a power plant by the end of 2018. Namibia currently imports some 60% of its power requirements.

OIL

Angola plans to increase oil output to 2M barrels per day as from 2017. Angola pumped 1.87M barrels per day in September.

Kenya has bought the remaining 50% of the East Coast oil refinery from Essar for \$5M. A decision now has to be made as to whether the refinery is upgraded at considerable expense, or whether it is used as a storage facility.

South Africa plans to drill at least 30 deep water oil and gas exploration wells over the next 10 years. It has been suggested that South Africa has a potential of 9bn barrels of oil with the possibility of extracting 370 000 barrels per day.

PetroSA produced 14% less refined products than budgeted – this was due to diminishing gas feed-stocks. The company produced 5.8M barrels of petrol – the company's capacity is 15M barrels. In order to sustain the Mossel Bay facility, some five new wells are being drilled and the company has been looking at importing LNG. The company's loss for the year was R1.65bn.

Botswana is considering a coal to liquids industry in order to exploit the country's large coal resources. A decision to proceed will be made in the next 3 to 5 years. Botswana has an estimated 212bn tons of coal. A major consideration is the supply of water as CTL technology consumes considerable quantities of water.

GAS

PetroSA has confirmed that they will process the pending shale gas applications that have been submitted. Applications have been received from Shell, SA Upstream, Falcon Oil and Bundu Oil and Gas. Regulations governing the exploration of shale gas are still to be published.

Tanzania is in talks with BP and Total with regard to exploration rights. A number of companies are already involved in exploring for gas and oil – these include Statoil of Norway, Petrobras, Shell, BG Group and Exxon Mobil. Total has expressed an interest to explore for oil and gas in Lake Eyesi. Earlier this year, the Chinese state oil and gas company CNOOC and the Russian gas producer Gazprom submitted bids for eight oil and gas blocks offshore Tanzania. Tanzania estimates that the country has 53.2 trillion cubic feet of recoverable natural gas.

Falcon Oil and Gas advise that their application to explore for shale gas in the Karoo basin is being processed by PetroSA. They expect that technical regulations will be gazetted by the end of January 2015. Falcon Oil and Gas have an exploration area of 30327 sq km. US Energy estimates that there is some 390 trillion cuft of gas in the Karoo basin.

AUTOMOTIVE

New vehicle sales in September rose by 11.5% to 608 54 units. Vehicle export sales were 30 778 units – this was up some 258% on the previous period last year. New vehicle sales rose 4.7% in October, however, sales showed only marginal growth in November.



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At least four automotive component suppliers have relocated or disinvested from South Africa due to the high cost of doing business in the country and the instability of labour. This was reported by the Association of Automotive Component Manufacturers.

MANGANESE

Ntsimbintle Mining could build another manganese mine near Hotazel. A feasibility study on the viability of a new mine is being conducted – the new mine would be called Mokala Manganese. The mine holds an estimated 18M tons of manganese ore and would produce 800 000 metric tons per year. Ntsimbintle operates the Tshipi Borwa mine which opened in 2011. This mine is expected to double production from 1M tons to 2M tons this year.

IRON ORE

Kumba lifted its last quarterly output by 37% year-on-year as at the end of September. Sishen produced 9.3M tons for the quarter and is on track to produce 35M tons for the year. Kolomela produced 3.4M tons for the quarter and will produce 11M tons for the year, and Thabazimbi produced 300 000 tons. Kumba's full production should be 45M to 46M tons for the year.

Traders and economic forecasters are predicting the price of iron ore will be below \$60 per ton in the third quarter of next year. It is expected that the price will be \$65 per ton in 2015.

COPPER

The Tschudi copper project in Namibia will start production in the second quarter of 2015.

NICKEL

Norilsk is selling its South African assets to BCL of Botswana for \$337M. These assets include 50% of the Nkomati Nickel and Chrome mines and 85% of the Tati Nickel Mining Company. BCL has advised that concentrate from these mines would be refined at the BCL smelter in Botswana.

Bindura Nickel Corporation of Zimbabwe is issuing a \$20M bond to fund the restart of nickel smelting. It is expected that production will resume in the first half of 2015.

CHROME

Bauba Platinum subsidiary Bauba A Haibirwa Mining Industries has been awarded a mining permit to mine 240 000 metric tons of run-of-mine chrome ore at a planned production of 20 000 metric tons per month. The mining permit paves the way for the application of a mining license at the Limpopo based mine.

ZINC

Vendata Resources is planning to inject \$782M over a three-year period into establishing a new zinc mine near Aggeneys in the Northern Cape. The mine will be open-pit which will produce some 250 000 metric tons per year along with an integrated roaster at Skorpion in Namibia. The first ore is likely to be produced in 2018 and the mine's life expectancy is 13 years.

COAL

Rio Tinto has sold its coal assets in Mozambique to an Indian company, International Coal Ventures. The assets include the Benga mine and other coal projects in the Tete province.

Continental Coal accepted an offer of R700M for its 74% of Continental Coal South Africa. The buyer is LSP Energy.



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Wescoal has proposed a R42.5M acquisition of Muhanga Mines. The company secured a R200M loan from Investec Bank mainly for the funding of the Elandspruit Colliery development in Mpumalanga.

ICVL of India will invest some \$500M in infrastructure in Mozambique over the next 2 to 3 years. A 500km rail line needs to be constructed to link the mines to the Ports. ICVL has one mine that produces 5M tons of coal per annum and they have plans to increase production to 12M tons per annum. ICVL has acquired Rio Tinto's coal assets in Mozambique.

Resource Generation is developing the Boikarabela mine in the Waterberg. The mine has a resource of 744.8M tons and some \$400M is being sought to fund the construction of the site and install the required infrastructure.

A feasibility study for the Waterberg Coal Company will be completed in December. It is expected that agreements Transnet, Richards bay Coal Terminal and buyers will be concluded in November. Two more companies have been granted mining rights in Mozambique. Eurasian Natural Resources based in Kazakhstan with a head office in London has a concession of 23 860Ha in the Cahora Bassa basin and ETA Star of the UAE has a concession of 4 000ha some 40km from Tete. The mines are expected to start at the end of next year.

GRAPHITE

Kibaran has launched a feasibility study into its Epanko graphite deposit in Tanzania. The study is based on a 15-year life of mine, producing 40 000 metric tons of high grade, large flake graphite. The indicated resource is 1.28M tons and the study is expected to be completed in June 2015.

Magnus Resources has raised AU\$3 million to carry out a prefeasibility study on their Nachu graphite project in Tanzania.

Triton minerals advise that their Nicada Hill project in Mozambique will produce 210 000 metric tons per year of graphite composite. The project has an indicated resource of 51M tons at 12.4% graphitic carbon. Production is expected to start in 2017.

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