



# RENNIES REPORT

## Rennies Ships Agency (Pty) Ltd

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### DEVELOPMENTS IN SOUTH AFRICA

MARCH 2015

#### ECONOMY

At a recent seminar it was pointed out that South Africa is lagging far behind other African countries with regard to economic growth. The South African projected growth is 1.4%. Nigeria's projected growth is 6.97%, Ethiopia 8.2%, Ghana 4.47% and Kenya 5.34%. Other countries such as the DRC, Mozambique and Tanzania are projected to double their GDP in less than ten years. Namibia is predicting a 5.7% economic growth this year.

South Africa's cumulative trade deficit for 2014 was R95.3bn. In 2013 the trade deficit was R71.4bn. In December 2014 there was a trade surplus of R6.9bn. South Africa had a surplus on trade with Africa, with exports of R23.9bn against imports of R10bn. Trade with the Americas showed a surplus of R823M. Trade with Asia showed a deficit of R8.9bn, with Europe a deficit of R4.3bn and with Oceania a surplus of R131M.

South Africa's net gold and foreign reserves declined to \$42,145bn in January 2015.

HSBC has cut the South African growth forecast to 1.6% for the year, down from 2.2%. This is due to the ongoing power problems. Standard Bank has also revised its growth forecast downwards.

The recent budget presented by the South African Minister of Finance was unexciting and bland with little to stimulate the economy. Trade is showing little growth, some 3% last year. The drop in demand from Asia for commodities and considerable industrial unrest in the mining sector has hindered trade.

#### RAIL

There is \$500M Zambian rail project to upgrade 345km of rail line from Chingola to Kalumba. The line will serve the copper producers.

#### PORTS

Tenders are being prepared for the construction of two new berths at Saldanha Bay. This forms part of the plan to offer oil rig repair facilities at Saldanha. The first berth – 205 – will be 380m long and have a depth of 21m. The second berth will be shallower – 8.5m, some 500m long and cater for service vessels attending oil rigs. There are some 100 rigs operating off the Africa coast and about 120 rigs pass the Cape every year, generally on their way to the East for repairs.

Grindrods have advised that they plan to upgrade the magnetite and coal terminal at Richards bay from 3.5M tons per annum to 4.5M tons with plans for further growth to 8M tons and then possibly 20M tons. The initial phase will cost R125M and should be completed at the end of the year. The company advised that it is also involved in a 230 000 cubic meter crude oil terminal at Saldanha. The project which will include twelve 1M barrel tanks will cost R3.1bn.

The dredging at Maputo harbour to enable Panamax vessels to be accommodated with drafts of 14.2m should be completed mid 2016 at a cost of \$100M.

Transnet is planning to buy a further 170ha of land for the construction of the proposed dig out Port at the old Durban Airport. Transnet acquired 800ha of land when they bought the Airport in 2012 at a cost of R1.85bn. The new Port is expected to be completed in 2040. Currently the Port of Durban handles 2.7M TEU's per annum. It is expected that the volume will grow to 10M TEU's by 2040.



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The planned R19bn oil hub to be established at Port Durnford some 25Km south of Richards Bay has taken a step forward. The plan is to establish a tank farm at Port Durnford which will be fed by two offshore single buoy moorings connected by reversible pipelines. Phangela Holding, the developers of the tank farm have advised that they have secured the necessary overseas funding and partners. A contract has been awarded to American Tank and Vessel for all construction work. The project involves building a 2M cubic meter storage for international and local clients. The site is some 3km inland from the coast. Crude oil would be pumped ashore from supertankers offshore and stored in the tanks until required. The stored oil could be pumped back into vessels offshore or pumped to refineries in Durban via an undersea pipeline.

### ENERGY / POWER STATIONS

#### ELECTRICITY / POWER

Eskom missed the 24<sup>th</sup> December 2014 deadline to start up Unit 6 at the Medupi Power Station. Originally Eskom planned to start up Unit 6 in 2011 but shifted the date to 2013, then to the second half of 2014 and now to the first quarter of 2015. It was reported that Unit 6 of Medupi had been tested at optimal speed and it is hoped that the unit should enter operations by June 2015 – this should provide 794 megawatts.

Eskom has had a number of problems relating to operations. Last year, the boiler at Unit 3 at Duvha Power station exploded – it appears that there was a change in the sourcing of the coal feedstock and the different type of coal resulted in a residue build up causing the explosion. Reconstruction of the unit will take three to four years. In November 2014, a silo at the Majuba power station collapsed and this disrupted the entire feeder system. It appears that the silos at Majuba were not lined, as are all the other silos belonging to Eskom. The lack of lining led to corrosion and the subsequent collapse – reconstruction will take four years. In November 2014 the Lethabo power station ceased operations as it was drowning in ash. It appears that lack of maintenance resulted in a build-up of ash and this caused the plant to shut down. It is hoped that the plant will start running in April 2015.

Eskom has advised that the start of the Kusile Unit 1 will now be in the first half of 2017. The original startup date was early 2016. The project is one and a half years behind schedule.

Independent Power Producers of SA have been given the mandate to produce some 1 600 megawatts of power to be linked through the national grid. The association says that 1 600 megawatts is not enough to make some projects viable, they need a mandate to produce 2 500 megawatts.

Sonnadex will develop an 86 megawatt solar photovoltaic power plant in the Northern Cape at Prieska. The project will start in the second quarter of 2015 and will be in commercial operation in the third quarter of 2016.

Nampower, the State owned Namibian utility, is planning a \$300M gas fired electricity plant. Construction will start before July 2015 and the 250 megawatt plant should be commissioned in 18 months. The plant will be located in the Erongo region and gas will be sourced from a US gas trader.

Kenya and Tanzania have invited bids for a consultant to oversee the construction of a high voltage power line. The line will be 510km long carrying 400 kilovolts and the project is expected to take 2 years. The line will come from a geothermal power station unit in Kenya's rift valley and would connect Tanzania and Kenya. Kenya wants to add 5 000 megawatts to the generating capacity by 2017.

The South African government is planning to go ahead with a nuclear power program. Bids are being sought from China, USA, France, Russia and South Korea to add 9 600 megawatts of atomic power to the grid. The planned first output is 2023. The cost of the nuclear program could be as much as R1 trillion.

Zimbabwe and Zambia have been working on a power plant in the Batoka Gorge, initial plans were for a 1 600 megawatt plant, but feasibility studies have shown that these plans can be extended to a 2 400 megawatt plant. Costs will be known in June this year.



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### GAS

Challenger Energy expects to hear by the third or fourth quarter of this year as to whether its subsidiary Bundu Gas and Oil will be allowed to explore for gas in the Karoo basin. Bundu is one of three companies that have applied for exploration rights, the other two are Shell and Falcon Oil and Gas.

A \$200M I-loop in the new gas line from Temane to Secunda has been completed. The project involves laying a parallel pipeline to the existing 865km line from Temane in Mozambique to Secunda. The plan is to double the gas feed to Secunda.

It is possible that gas exploration will take place off the Zululand coast.

Sasol is working with Eskom on a possible Public Private Partnership (PPP) to establish a LNG floating platform facility along the SA coast to facilitate the importation of gas. PetroSA has pulled out of its plans for a proposed floating platform off Mossel Bay as sea conditions are too rough. There is a possibility of a LNG terminal being established in Saldanha. The Eskom diesel fuelled plants may be converted to gas.

### AUTOMOTIVE

The South African new vehicle sales for 2014 were 0.7% less than for 2013. The passenger car sales contracted by 2.5% to 439 179 units. The forecast for 2015 is that exports should grow to 325 000 units – a rise of 17% and the forecast for 2016 is for 375 000 units to be exported. In February, new vehicle sales were 1.1% up on the previous year at 52 368 new vehicles. Exports rose 35.6% compared to the previous year.

GM S.A. advised that Opel sales in SA rose by 36% to 3 700 units in 2014. They plan for sales of 7 000 units in 2015.

Truck sales in 2014 were up 2.04% on the previous year to 31 554 units. Medium commercial vehicle sales fell by 4.36% to 11 021 units. Sales of heavy commercial vehicles were the same – however extra heavy unit sales increased by 7.68% and bus sales increased by 19.77% to 1 253 units.

New vehicle sales in January fell by 1.2% when compared to the same time last year.

Ford South Africa improved sales last year to 70 795 units, some 12.4% of the market. The company is launching 10 new products into the domestic market during the course of the year.

### MANGANESE

Aquilla Resources has taken the SA Government to the Supreme Court over the overlapping of mining rights at its Avontuur project in the Northern Cape. Aquilla is a subsidiary of Baosteel. The Department of Minerals & Energy has granted overlapping prospecting rights to Pan Africa Mineral Development Co., an entity owned by the Governments of South Africa, Zimbabwe and Zambia after accepting Aquilla's application for a mining right at the project.

### FERRO ALLOYS

Merafe has reported that production in 2014 was 5% higher than the previous year – output was 334 000 metric tons of ferrochrome.

### IRON ORE

Kumba increased production by 11% year on year. The Anglo American Sishen mine increased output by 11% year on year and plans to produce 36M tons in 2015. Export sales increased by 23% year on year, while domestic sales fell by 31%. Kumba announced that it would close or sell its Thabazimbi mine.

Ferrum Crescent Moonlight in Limpopo has undertaken a drilling programme as part of the projects feasibility study. The company has reported that a new magnetic zone in the area has been found which potentially is a new area of mineralisation.



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### COPPER

First Quantum Minerals is starting up a copper mine in Zambia to feed a \$850M smelter. The smelter will produce 300 000 to 350 000 metric tons per year. Sentinel Mine will produce 270 000 tons to 300 000 tons of copper metal in concentrate form annually.

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

Copper production in Zambia last year was the lowest for three years, at 708 258 metric tons. In 2013 the country produced 790 007 metric tons. The new tax system that increases royalties may cut copper output by 158 000 metric tons this year.

Regal Resources of the DRC advise that the Kalongwe deposit has been measured at 11.17M tons at an average of 2.7% copper and 2.29M tons at an average of 0.57% cobalt. Within the resource 3.3M tons of copper is at 3.61% and 1.24M tons is at 3.35% cobalt.

Discovery has secured a \$110M funding from Castlepin Global Equity to develop the Zeta underground copper mine in Botswana.

Vedanta will have to make a tough decision on its Zambian copper mines after the government announced royalty taxes on open cast mines rising from 6% to 20% and reducing on underground mines from 8% to 6%.

Cupric Copper plans to develop a copper mine in Botswana and has started a full feasibility study on the Khoemacau mine within the Kalahari copper belt. An application has been submitted to the authorities with plans to start construction in 2016 and production of the first copper in 2018.

Konkola Copper Mines of Zambia say that the resolution of the dispute on VAT will allow it to ramp up production. The dispute on the documentation has held up some \$600M in VAT refunds which has put a strain on the cash flow of Zambian copper mines.

Palaborwa Copper has had approval for a R9.3bn project to extend the life of the mine to 2033.

### CHROME

Bauba A Hlabirwa Mining Investments has received authority for water use at the farm Moeijelik in the North West for an open cast mining chrome project. This will allow for the mining of 240 000 metric tons per month run of mine with a planned production of 20 000 metric tons per month of product. The first production is planned for the end of March 2015.

### ZINC

Vedanta has advised that the Gamsberg project is expected to start this year with first production in 2018.

### COAL

Minas Moatize, the coking coal operation in Mozambique has informed the London Stock Exchange that they will run out of working capital by the end of January 2015. The company has not managed to secure refinancing.

South African coal exports suffered a R23bn foreign exchange loss in 2014. The Mining Ministry is looking at how to counter these losses.

Richards Bay Coal Terminal is targeting exports of 74M tons in 2015. Last year 71.3M tons were exported of which 4M tons was under the Quattro banner. Some 23 junior miners make up Quattro. Of the 71.3M tons, 67% was exported to Asia, 25% to Europe and 6.5% to Africa. A total of 41 countries received South African coal.



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Coal explorers in Botswana are going ahead to start production and use existing rail capacity to Ports in Mozambique and South Africa instead of waiting for rail capacity to be built to Namibia. Namibia and Botswana are developing a 1500km rail line to transport coal from the Botswana mines to a Port in Namibia for onward shipment to India and China. The coal terminal at Matola has capacity of 7.5M tons per annum. The Navitrade terminal at Richards Bay is being developed into a 20M ton terminal. There are seven active coal companies in Botswana – two are at exploration stage and four are at prefeasibility stage. Jindal Africa, a unit of Jindal Steel and Power, received a mining licence in August last year and plans to start export next year. It is estimated that Botswana has 200bn tons of coal resource, most of which is in the East of the country. The country has the Moropule power station with a capacity of 600 megawatts. The Palapye power station is currently not operating. Moropule coal has reported a sales deal agreement with Turkey and a cement plant in South Africa.

Glencore is considering closing some coal mines in SA. The company plans to reduce its production by at least 5M tons per annum and this could affect some 1 000 employees. Glencore is looking at its Optimum plant which produces coal for export as well as the domestic market.

Firestone Energy has a coal project in the Waterberg and agreement has now been reached on water use. It has been agreed that the project will use treated water from the Paarl treatment plant. The plan is to ship the coal through the Richards Bay Coal Terminal.

Benicon Mining has been sold to Roan Coal for R36.8M.

Springbok Flats Coal might have some potential. In the past, this coal resource in the centre of South Africa could not be exploited due to its high uranium content – however new Japanese technology can remove the uranium.

Lemur Resources advise that the Imaloto basin of the Sakoia coal fields looks promising for open cast mining. The main seam is suitable for power generation. The company is looking at setting up a fluidized bed 45MW power station within 10km of the mine.

Resource Generation advises that it has negotiated finance with regard to the construction of the 4 480M Boikarabela mine in Limpopo. The 745M ton project will include a \$200M handling and preparation facility.

A feasibility study on the proposed Rukwa coal to power project in Western Tanzania has suggested a two-phased development. The first phase would see the establishment of 2 x 60 megawatt units and the second phase, 2 x 120 megawatt units. The study has shown sufficient surface coal to supply the 120 megawatt units for 30 years.

### **GRAPHITE**

Magnis Resources has signed an MOU with China Railway for the development of the Nachu project in Tanzania. They have also signed a 100 000 metric ton offtake agreement with Sinosteel and an 80 000 metric ton agreement with Sinoma.

The Epanko graphite project in Tanzania could increase output to 100 000 metric ton per annum.

### **GRAIN**

The protracted drought in South Africa has threatened the overall maize crop. The domestic price of maize has risen by 23% with the probability that prices will rise a further 30%. Currently the estimate for the 2014 / 2015 crop is just enough for local demand. There is a possibility that the country may need to import if rains do not fall. It is expected that the crop will be the smallest since 2011 at 10.5M tons. The crop in 2014 was 14.25M tons.

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**MARCH 2015**