



# RENNIES REPORT

## Rennies Ships Agency (Pty) Ltd

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### DEVELOPMENTS IN SOUTH AFRICA

#### SEPTEMBER 2015

#### ECONOMY

Efforts to shrink South Africa's current account deficit are falling short due to a weak currency, power shortages and a slump in commodity prices. The Treasury forecast an average 4.5% deficit for this fiscal year – the current account gap has not been below 4% since the fourth quarter of 2011. The current account deficit shrank from 5.8% of GDP in the third quarter to 5.1% in the fourth quarter.

The World Bank has forecast Sub-Saharan Africa's growth to 4% in 2015, down from the 4.5% growth achieved in 2014. This drop in growth is due to the fall in commodity prices and the fall in the price of oil. The Bank has cut South Africa's economic outlook to 2.5% in 2015, blaming the continued paralysis at Eskom, coupled with the unending feuds and corporate governance issues with Eskom.

Mozambique is forecasting a GDP growth rate of 7% to 8% between the present and 2019. Inflation is forecast at under 10% and the budget deficit at less than 22%.

Moody's, the rating agency, advises that its growth forecast for South Africa has been revised down to 2%, with no expectations that the rate would improve until 2017 at the earliest. Power outages have worsened in recent months impacting on industrial performance. The Government's bond rating is Baa2. The Government is under pressure to increase wages which will impact on inflation. The GDP slowed to 1.3% in the first quarter of 2015, down from 4.1% in the same quarter of 2014.

#### RAIL

Tanzania is to spend \$14bn on upgrading its rail network. The plan is to spend \$7.6bn on the construction of a 2 561 km standard gauge line from Dar-es-Salaam to Rwanda and Burundi. Two additional lines will be constructed at a cost of \$6.6bn. These lines will connect Dar-es-Salaam with coal, iron ore and soda ash production in the North and South of the country. Kenya is also upgrading its rail network with the aid of the Chinese. The plans are to build a standard gauge line from Mombasa to the border of Uganda.

#### PORTS

Tanzania is looking at developing Bagamoyo into a Port, a project costing some \$11bn. Bagamoyo is some 75 km North of Dar-es-Salaam, whereas the gas deposits are to the South of Dar-es-Salaam. Experts believe that increasing the efficiency of operations at Dar-es-Salaam will be much more beneficial to Tanzania than developing a new Port.

Two new container berths have been opened at Nquara, increasing the container berths to four. The Port, which has cost some R14bn and accommodates vessels of 14.5m draft has increased capacity from 850 000 TEU's to 1.5M TEU's. Last year the Port handled 705 377 containers of which 80% were transshipment boxes.

The Mozambique Government has confirmed that they plan to develop a new Port at Macuze which is North East of Quelimane. The Port will be built to accommodate coal exports. A 525 km rail line is planned at a cost of some \$3.5bn, however the new railway is dependent on volume which in turn is dependent on the international price.

Construction has started on the new offshore supply base at Saldanha Bay. The supply base will provide a facility for equipment and waste handling for offshore exploration and production platforms. It is expected that construction will take one year. The Port is also upgrading quay 205 to a length of 380m and a depth of 21m to be able to accommodate 2 offshore rigs at a time.



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### ENERGY / POWER STATIONS

#### ELECTRICITY / POWER

Eskom, the South African electricity utility company has a R4bn loan to be used to upgrade the grid. The funds will be used to connect solar and wind generators to the national grid.

Standard and Poor has dropped Eskom's credit rating from BBB- to BB+. The company wants to impose a 25.3% tariff increase.

Eskom is planning an additional 6 250 megawatts of coal-based power production after the completion of the Kusile and Medupi power stations. It is possible that Eskom will import coal from Mozambique or Botswana.

South Africa is planning to select a strategic partner to build a 9 600 megawatt Nuclear power plant. The procurement process starts in July 2015 – no budget has been mentioned and the selection process is expected to take 6 months.

A 50 megawatt Concentrated Solar power plant is being erected in Uppington and is scheduled for completion in February 2016. A 100 megawatt Concentrated Solar Power plant was erected at Poffader in February 2015.

The Waterberg Coal Company has submitted an application to develop a 600 megawatt coal fired plant at the mine site in the Waterberg. The power plant will be some 5 km away from the mine area and low quality coal will be transported by conveyor. The high quality coal will be exported via Richards Bay. The mine has sufficient coal resources to last 100 years.

Mozambique plans to build a second hydro-electric power station at Cahorra Bassa. They also plan to build two new dams on the Zambesi at Mpanda Nkua and Borawa with hydro-electric power stations.

The construction of the 100 megawatt power station at Ressano Garcia is progressing well. The power station is gas-fired and the cost is some R2.2bn. It is expected that the plant will be opened before the end of the year.

Lusulu Power of Zimbabwe has signed an agreement with China State Construction Engineering to build a coal power plant. The 600 megawatt plant is the first unit of a 2 000 megawatt plant. Zimbabwe produces some 1 100 megawatts which is half the peaking point demand of the country. The Chinese company has agreed to fund the \$1.1bn project subject to a power offtake agreement.

#### GAS

Shell has pulled back for its shale gas projects in South Africa due to lower energy costs and the delays in obtaining an exploration licence for the Karoo basin. Shell has waited six years for an exploration licence – they were hoping for a licence within 36 months of application. The US Energy Information Administration advises that South Africa has the eighth largest shale gas reserves in the world, estimated at 390 trillion cuft of recoverable gas. A study shows that if 50 trillion cuft of gas was extracted (12.8% of the reserve), this would add \$20bn or 0.5% of the GDP to the South African economy every year for 25 years. The SA Mining Minister announced in March that he expected to start issuing shale gas exploration licences later this year.

Sunbird Energy, a natural gas explorer has signed an agreement with Eskom to supply gas from the offshore Ibhubesi fields which have a resource of 540bn cuft. The field is located 380 km North of Cape Town, some 105 km offshore. The company is expected to deliver the first gas in 2018 and the plan is to supply 30bn cuft annually.

Eskom has two open cycle gas turbine generators, one of 2 332 kilowatts and the other of 740 kilowatts. These units are designed to operate 3 hours per day during peak consumption periods – however they have been running 12 hours per day consuming a considerable amount of diesel. The units consume 661 000 litres per hour. Eskom spent R10.5bn on diesel in the 2013/2014 year. The plan is to use gas to run the turbines and they will be converted to be able to use gas or diesel. The project involves production wells, an offshore production platform and onshore gas production.



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Challenger Energy Ltd could potentially be awarded a licence to start work on shale gas in the Karoo in the third quarter of this year. The process does not involve fracking.

Anadarko Petroleum is selecting a construction team for the potential \$15bn Mozambique liquefied natural gas project. The company will make its final decision on whether to proceed with the project by the end of the year.

Eskom is exploring options around importing gas to make up the 3 000 megawatt shortfall in South Africa's needs.

### OIL

The Saldanha Bay crude oil terminal is to be completed in 2017. The terminal will have 12 concrete tanks to hold some 13.2M barrels of oil.

### AUTOMOTIVE

Wesbank forecasts the new vehicle sales for 2015 at 650 031 units – some 0.87% up on last year. Passenger vehicle sales will be flat while light utility vehicle sales should rise 3% and trucks by 1.1%.

Hyundai have started production of light commercial vehicles at the new plant in Benoni.

Mercedes are considering producing a 1 ton pickup vehicle. The planned production will start in 2020.

New vehicle sales in SA dropped by 1.9% in April to 30 184 units – however new vehicle exports in April grew by 40.5% to 23 615 units. Exports of new vehicles are on target to improve by 255 in volume to about 325 000.

The Automotive Production and Development Programme is to be revised. The current production threshold of 50 000 units will be replaced by tiered levels of production.

### VANADIUM

Bushveld Minerals has submitted a mining rights application for its vanadium project. The application also covers the extraction of a number of other minerals including, iron ore, titanium, phosphate and platinum group minerals. The feasibility study into the vanadium project continues.

### IRON ORE

Kumba Iron ore is looking to close its Thabazimbi mine. The mine is over 80 years old and is no longer viable. Over the past 15 years the closure has been postponed six times through a number of mine life extension programmes.

Arcelor Mittal has indicated that they wish to open up negotiations with Kumba in view of the decline in iron ore and steel prices. Arcelor is investigating the option of importing iron ore.

### COPPER

The Zambian Government has set the mining royalty at 9% for open pit mines and underground mines. This is due to the considerable opposition to the initial proposal of 20% for open-pit mines and 8% for underground mines.

Ivanhoe Mines of Canada has agreed to develop the Kamo a copper discovery in partnership with the Zijin Mining Group of China. Kamo a is described as the most significant find of undeveloped mineral discovery of our age. The plan is to target shallow high grade copper ore to produce some 100 000 metric tons of copper concentrate in 2018.

### NICKEL

The Ambatovy project in Madagascar has reached a milestone in that annual production is now 54 000 metric tons which is about 90% of the planned capacity of the plant.



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IMX Resources has been granted a five-year retention lease on their Ntaha Hill project in Tanzania. IMX has agreed to a \$6M deal with Figtree Resources for a 70.65% stake in the project. The area has 20.3M tons of ore at 0.58% Nickel and 0.13% copper.

### ZINC

The first blast at the Gamsberg mine has taken place. The mine at Aggeneys is owned by Vedanta of India and is expected to cost \$630M. The zinc ore will be taken to the Skorpion roaster in Namibia to produce zinc concentrate. It is expected to produce 250 000 metric tons of concentrate per year.

### COAL

Hwange Colliery is acquiring heavy earth moving equipment to boost coal production from 300 000 metric tons to 450 000 metric tons. The equipment will be paid for out of a \$18.2M loan.

Botswana has some 212bn tons of coal resource. The government has appointed a consultant to carry out a feasibility study to construct a rail line from the coal fields to Walvis Bay.

Resource Generation continues to seek financiers for the Boikarabelo project in Waterberg. South Africa is rated as having the world's ninth largest recoverable coal resources.

RBCT is embarking on a R1.34bn equipment replacement programme.

The Benga mine in Mozambique was bought from Rio Tinto about a year ago by Coal Ventures Private Limited of India. The mine has a production capacity of 5.3M tons and the new Owners are planning to expand production to 13M tons. The limiting factor is the rail system which currently has a capacity of 6M tons.

Vale has had a setback – their mine in Mozambique, which has an output of 7M tons, uses a 900 km rail line to truck the coal to Nacala. A coal stacker at Nacala has collapsed and this will take months to repair.

### GRAPHITE

The Triton Nicada Hill Graphite project in Mozambique has received a boost with an offtake agreement being signed with Yichang Xincheng Graphite of China. In terms of the agreement 100 000 metric tons per year will be supplied to Yichang. The resource contains 51M tons of ore at 12.4% graphitic carbon.

Mozambique Land Ministry has given the go ahead for the development of the Balomo graphite project. A definitive feasibility study is due shortly. The Chinese Aluminium International Engineering Corporation has signed an offtake agreement for some 80 000 metric tons per annum.

DNI Metals has been granted a full mining permit over the Vohotsara project in Madagascar. Initial analysis shows good quality large flake graphite at the site.

### GRAIN

The South African maize crop is forecast at 9.666M tons, the smallest crop for eight years. Some 4.639M tons of white maize and 5.026M tons of yellow maize.

**RENNIES SHIPS AGENCY (PTY) LTD**  
**SEPTEMBER 2015**