RENNIES REPORT

Rennies Ships Agency (Pty) Ltd

DEVELOPMENTS IN SOUTH AFRICA

FEBRUARY 2016

ECONOMY

The Rand has fallen 18% against the dollar during the year. Inflation is running at 6% to 7% and is expected remain at this level over the next five years. GDP growth is predicted to be 1.5% in 2015 and forecast at 1.5% for 2016. It is predicted that capital outflows and a widening current account deficit could weaken the Rand to R19 to $1. The current account is expected to widen this year from 4.1% of GDP to 5% by the year end. The Bureau of Economic research has predicted that inflation in South Africa will increase to 6.2% in 2016.

The drought in the country is severe and basic food commodity prices are rising with the price of wheat being at its highest level in 18 years. The drought is also severe in Zimbabwe and Zambia. Zimbabwe will have to import 700 000 metric tons of maize to feed the population. South Africa may need to import 5M tons of maize in 2016. The local wheat crop has been hit by the dry conditions in South Africa and there is a possibility that some 2M tons of wheat will have to be imported. The drought is the worst in over 20 years and experts believe it will reduce the GDP by 0.5%.

The Governments of Sub Sahara Africa face increasing debt financing due to poor global and domestic conditions. Only 4 out of 18 countries rated in the region have experienced currency depreciation of less than 10% against the US Dollar in 2015. The effect of a depreciating currency is increasing the country's foreign debt relative to its gross domestic product.

Foreign investors have suffered huge losses on most African stock markets in 2015 due to lower commodity prices and foreign exchange losses, prompting a move out of African bourses.

Zimbabwe has imposed a March deadline for all foreign registered companies to submit indigenisation compliance plans. The government has announced new measures to restrict foreign businesses from operating in certain areas such as retail and agriculture.

RAIL

Transnet has revised its plans on rail and Port development due to the poor economic outlook. Transnet had plans to expand the capacity for iron ore exports at Saldanha Bay to 82M tons from the current 60M tons. The price of iron ore has fallen 30% this year and the price of coal has fallen 19%. Volumes for other bulk commodities such as chrome, steel and cement have fallen and the drought has impacted on agricultural products.

China has lent Tanzania and Zambia $22.4M to purchase locomotives and rolling stock for the railway that transports copper from Zambia to Dar es Salaam.

African Development Bank has approved plans to pay up to $300M to help finance the expansion of the Nacala logistics corridor line which connects Zambia, Malawi and Mozambique and carries the coal from Moatize to the Port.

PORTS

Transnet is spending some R24bn on Durban Port over the next seven years. The construction of the new dig-out Port has been delayed for a number of years. Pier 2 at the Container Terminal will have a R70M upgrade to accommodate larger vessels. The Salisbury Island infill project will continue. The current capacity of the Port is about 3.1M TEU's and this will be increased to 5.4M TEU's. Pier 2 will be out of commission for 18 months while it is strengthened and deepened and some 400 000 TEU's will have to be accommodated elsewhere.

Transnet launched a R1.4bn tug building programme and the first new tug has been launched and will be handed over to the Port Elizabeth Port in February 2016. The plan is to build two tugs every three months until the end of the programme in 2018. The Ports of Durban, Port Elizabeth and Richards Bay will each receive two tugs, while Saldanha Bay will receive three new tugs. The new tugs are propelled by Voith Schneider systems and have a 70 ton bollard pull – existing tugs have bollard pulls of 32 to 40 tons

ENERGY / POWER STATIONS

ELECTRICITY / POWER

Environmental authority has been given a 600 megawatt coal fired power plant to be erected near Delmas by Kipower, the cost of which will be in the region of $1.7bn and the plant can be expanded to produce 2000 megawatts. The initial plant will consist of 4 x 150 megawatt units and it is expected that the first of these units will be operational in 2018.

Drought in Malawi is hampering the production of hydropower in the country and this is affecting dairy production and threatening the forests as the population is turning to using wood and charcoal as fuel due to electricity cuts.

A decision on the final investment of the Kudu Gas power station in Namibia is expected in mid-2016. The planned power station to be sited at Oranjemund will use gas, piped some 170km from the offshore Kudu gas fields.

The plant is planned to produce 885 megawatts and the cost is expected to be $2.3bn. Zambia has expressed interest in purchasing up to 300 megawatts for the copper belt and South Africa will buy 100 to 300 megawatts. The Kudu gas fields were discovered by Chevron in 1974, the proven resource is 14 trillion cubic feet of gas and the field has not been developed to date.

Botswana plans to export power by 2018. The Botswana Power Corporation produces 470 megawatts from the Morepule Power Station and the current demand is 550 megawatts in summer and 620 megawatts in winter. The country plans to produce an additional 2000 megawatts in phases up to 2018. The Morepule plant will construct two more units to produce at least 300 megawatts.

Zimbabwe has to import 300 megawatts from South Africa due to low water levels in Kariba. The electricity is supplied to Zimbabwe during off peak periods in South Africa, enabling Zimbabwe to conserve water in Kariba at night. Kariba dam levels are dangerously low, prompting shutdowns of the hydro-power plants.

Eskom needs to repay loans of about R104bn the next 2 to 5 years. If Medupi and Kusile power stations were operational by 2014 and 2017 as respectively planned, the debt would have been paid through cash generated by normal operations. Medupi is expected to be on line in 2020 and Kusile in 2021.

Inga 3, the hydropower project on the Congo River in the DRC, plans to start construction early in 2017.

GAS

South Africa is looking to develop a tender for a floating gas import terminal in the first half of 2016.

A 865km gas pipeline from Temane to Secunda is being developed at a cost of $210M.

OIL

Sasol is to continue exploring for oil and gas with wells adjacent to the Pande and Temane fields in Mozambique.

FUEL

Botswana will start on a coal to liquids plant next year. The plant will cost $4.2bn and will have a capacity of 20 000 barrels per day. The plant will also produce fertilizer.

Botswana has some 200bn tons of coal and the CTL project will run in three phases from 2016 to 2020. Botswana currently imports all its fuel – about 1.2bn litres. The CTL plant will consume 4.3M tons of coal per annum from Morepule and will create some 9 000 jobs – it is expected to have a $810M positive impact on the country's balance of payments.

AUTOMOTIVE

The slowdown in the economy is being felt in the sales of premium range vehicles. Sales in the top end bracket are down by 255 in September and 9% year on year.

BMW will be injecting some R6bn into the Rosslyn plant near Pretoria to produce the next generation X3 sports utility vehicle for local and export markets.

New vehicle sales are down by 4.1% in 2015 compared to 2014. Sales decreased to 617 927 units compared to 644 256 units in 2014. Exports of vehicles are expected to improve by 42 000 units – up 12.5% in 2016, to reach 380 000 units. It is expected that new vehicle sales in 2016 will be 598 200 units – roughly some 50 000 units less than 2014.

Renault will introduce the Alaskan 1 ton truck to the SA market in 2017 and has plans to produce the vehicle at their Pretoria works.

PHOSPHATE

Ioreh Chemicals of Israel is looking to establish a phosphate operation in Namibia. They are looking at large scale maritime mining and a phosphate operation.

Montero Mining and Exploration is looking at mining phosphate some 30km offshore at Saldanha Bay. Initial reviews of the ore body have proved positive.

COPPER

Glencore has made a decision to halt some of its copper production in the DRC which will cost the DRC Government some $216M in tax revenues. The decision is to halt production at the Katanga Mine for 18 months while the company concentrates on the Mopani Copper project in Zambia. The Mopani Copper project will cost about $950M over the next three years and plans to refurbish assets and lower the cost of production at the mine. Current costs of production are $2.50 per pound and the upgrade will reduce this to $1.70 per pound.
Cupric Canyon is trying to raise $350M to bring Khoemacau copper mine into production. The feasibility studies show that the mine could produce 50 000 metric tons of copper per year and 1.5M ounces of silver. The ore body is conducive to low cost underground mining.

First Quantum Minerals have advised that some 730 workers at its Sentinel copper mine will have to be laid off as the mine is not getting enough power to keep operations running.

The Tschudi Mine in Namibia is unable to service their debt due to the low price of copper. The financiers have agreed to defer the debt.

NICKEL

Botswana Minerals have advised that preliminary results from ongoing exploration at the Maibele nickel project indicate a significant resource which could boost investor confidence.

GENERAL
Botswana has signed an agreement with Lesotho and South Africa to draw water from the Highlands Water Scheme

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