



# RENNIES REPORT

## Rennies Ships Agency (Pty) Ltd

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### DEVELOPMENTS IN SOUTH AFRICA

MARCH 2014

#### ECONOMICS

Strikes in the third quarter of last year contributed to a 6.6% contraction in the manufacturing sector which affected the GDP for the quarter. GDP grew by only 0.7% in the third quarter – this being the worst growth rate since the recession in 2008 / 2009.

South Africa has a projected growth rate of 3.5% by 2016 which is inadequate to meet the country's socio-economic needs. The country has suffered from strikes, instability in industrial relations and under-performance, and it needs to rise from the modest growth performance of 3% - 3.5% to 6% growth - as many other African states, South Africa has lost global competitiveness in recent years.

The South African Reserve bank has increased the repo rate to 5.5% and it is expected that the rate will rise by a further 150 basis points in the next three months. The inflation rate averaged 5.7% last year and it is expected to rise to 6.3% this year with a peak of 6.6%. The Rand has fallen 20% against the US Dollar since the start of last year and about 7% this year.

Consumer Price Inflation rose 0.4% in January – the CPI at the end of January stood at 5.8%.

The country's current account in the fourth quarter of 2013 was 5.1% of GDP, down from 6.4% in the third quarter. The annual current account deficit remains high due to infrastructural plans and is expected to be 5.3% of GDP in 2014.

#### RAIL

Grindrod Freight Services has established a leasing Joint Venture with Pembani Remgro Infrastructures to provide leasing solutions to the African rail industry. The company will be based in Mauritius and it has already secured orders for 31 locomotives. Grindrod, together with Northwest Rail Company plan to build, operate and maintain a new railway line costing \$1bn in Zambia. The 590km line will be built in two phases from Chingola to the Angolan border and then to connect to the Benguela near Jimbe. In time the line will connect with Lobito which will allow Zambia to import oil from Angola. Construction will start later this year subject to feasibility studies.

Botswana and Namibia have signed a deal to develop a 1 500km railway line to transport coal to the Port of Walvis Bay. Technical problems delaying the project have been solved which paves the way to develop Walvis Bay requiring an investment of about \$15bn.

Transnet are procuring 1 064 locomotives – 599 electric and 465 diesel. CSR of China, Bombardier of Canada, General Electric South Africa and CNR Rolling Stock will supply the locomotives.

#### PORTS

The Matola terminal will, in the future, handle mainly magnetite. The plan is to process 20M tons of minerals per year and magnetite is seen as the driving factor. The expansion of the terminal will be in phases – 12M tons by mid 2016.

Transnet has decided to cancel the bidding process for the financing, operation and maintenance of the Ngqura Container Terminal. No reasons were given.



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Transnet will spend R2.4bn on the Ports of Durban and Richards Bay in 2014 / 2015. The money will be spent on maintenance and developing capacity. Certain berths will be deepened and the capacity of the Durban Container Terminal will be extended. The proposed Durban Dig out Port at the old Durban Airport is in the feasibility phase.

There is debate on expanding Port capacity for coal exports. Richards Bay Coal Terminal is planning to expand capacity to 110M tons up from the current 91M tons. Grindrods has proposed a brownfields 20M ton coal export facility at Richards Bay and Transnet is looking at a 32M million ton greenfields facility at Richards Bay for junior miners – however they have reported that they will not be building a separate facility as they have sufficient capacity at the DBT.

Walvis Bay will start work on expansion before the year end. The initial expansion will be a fuel jetty and storage facilities worth some R4bn. The Port is expanding to handle shipments from Botswana, DRC, Zambia and Zimbabwe.

### **ENERGY / POWER STATIONS**

#### **ELECTRICITY / POWER**

Eskom has advised that generating capacity will be lost due to having to comply with environmental regulations. Some 2 400 megawatts will be lost in early 2014 in order to put in place emission controls.

Kenya plans to build four nuclear plants by 2030. The planned capacity is 4 000 megawatts and the first facility with a capacity of 1 000 megawatts will be in operation in 2022. Kenya will add 5 500 megawatts capacity over the next 40 months mostly from coal, geothermal sources and LNG.

Zambia Copperbelt Energy has signed a provisional contract to pay US Dollars for electricity from Namibia's State power company. Some 300 megawatts of energy will be bought from the 800 megawatt Kudu Gas fired power station.

There are reports that Eskom has opted to buy 100 megawatts of energy – to be paid in Rands. The power plant will be in Oranjemund with the gas coming by pipe line from the Kudu gas fields some 170km away. The cost will be \$1.2bn with NamPower sourcing \$1bn and the Copperbelt contributing \$100M. Nampower is looking for another equity partner for the remaining \$100M.

Eskom has started commissioning a number of critical systems at Medupi Unit 6 which is due to become operational in the latter half of the year.

Eskom has advised that they could not agree on a price with four Independent Power Producers which could have supplied 1 730 megawatts. Load shedding has been reintroduced into South Africa. Recent reports from Eskom advise that the company will spend R500bn in 2017 adding 11 000 megawatts of capacity to the grid.

Zambia wants to export some 200 to 300 megawatts after a \$5bn expansion programme. The Zambian capacity is now 2 200 megawatts.

A 25-year contract has been signed for the development of a 300 megawatt, \$1bn power plant to be built in the Tete province of Mozambique. The plant will be owned by an independent power company ACWA, a Saudi Arabian company which has a 15 979 megawatt portfolio of plants globally. The plant is being sponsored by Vale and Mitsui and 250 megawatts will be used by the mines and the balance of 50 megawatts will go to the national grid.

### **AUTOMOTIVE**

New vehicle sales in 2013 exceeded sales in 2012 by 3.2%, however exports in 2013 were 0.8% less than in 2012.

The new FAW motor assembly plant at Coega should begin production in July 2014. The plant has the capacity to produce 5 000 commercial trucks per year.



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Imperial Holdings have acquired a further 11% of Renault South Africa, bringing their shareholding in the Joint Venture from 49% to 60%. The rationale was that the Brand should be managed by a South African management team

It is expected that vehicle imports in 2014 will be lower than in 2013.

Toyota is investing more than R1bn into production capacity at its plant in Durban. The Corolla production line will be upgraded.

### MANGANESE

Kalagadi Mining has officially opened its mining plant at Hotazel. The plant will produce about 2.4M tons of Manganese ore per year as from May 2014. Kalagadi plans to construct a 32 0000 metric ton smelter at Coega with construction beginning in February 2014. The company has secured a R2.2bn loan from the African Development Bank. The mine will produce 3M tons of ore per annum and will be beneficiated to 2.4M tons of sinter.

### IRON ORE

Kumba has allocated some R4.4bn to relocate about 3 000 people in order to mine an area. Sishen Iron Ore Company, a subsidiary of Kumba has been given mining rights over a section of railway property. The rail line and water and electricity supply have to be relocated and new houses, businesses and social facilities have to be built. It is expected that work will start on the new mining area in the second half of this year.

Tenova Mining and Minerals SA is carrying out a feasibility study on Baobab Resources pig iron and ferrovanadium project in the Tete province of Mozambique. The study covers the beneficiation and smelting of some 1M tons of pig iron per year. The remote location of the project raises some challenges.

Iron Mineral Beneficiation Services (IMBS), which is 67% owned by the IDC has developed a 50 000 metric ton per year plant at Phalaborwa. The plant produces Supascrap, a granulate form of iron. Production costs are in the region of \$200 per ton and the international price of scrap is about \$400 per ton.

Ironveld, an AIM listed company plans to develop a 1M ton per year pig iron facility in Limpopo, using Magnetite. The plant will also produce Vanadium and Titanium byproducts. Some 2.4M tons of Magnetite will be used per year and this will be drawn from a 32M ton recoverable resource. The project will start in mid 2015 with a pilot plant and an initial investment of \$60M – the larger plant will require an investment of \$938M. The pilot plant will use 12 mega watts of electricity and the final plant consisting of 4 smelters will consume 300 mega watts. It is expected that Eskom will have the capacity to produce this in 2018.

There are reports that Rio Tinto has found huge deposits of iron ore in Southern Botswana. The discovery is apparently in an area called Werda and is thought to be an extension of the Sishen deposits.

### ALUMINIUM

BHP Billiton is reviewing the economic feasibility of the Bayside smelter at Richards Bay. Formal consultations with the staff are taking place.

### CHROME

ASX has received approval from the Zimbabwean Authorities to acquire 70% of African Chrome Fields which has a number of high grade chrome deposits.

Zimbabwe Alloys Chrome which was declared insolvent in June last year is evaluating three takeover bids. The company is trying to raise \$40M to refurbish three chrome smelting furnaces. Three bidders have submitted bids which closed at the end of February. Zimbabwe Alloys Chrome owns up to 40% of the country's chrome reserves.



# RENNIES REPORT

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### COAL

Mozambique is launching a round of bidding for coal mining in some blocks in Tete and Niassa provinces in June 2014.

Kenya is signing an agreement with Fenxi Mining Group of China to develop coal mining projects in two blocks in the east of Kenya. One of the blocks is estimated to contain 400M tons of coal.

Richards Bay Coal Terminal exported 70.2M tons in 2013 compared to 68.3M tons in 2012. The current capacity of the Terminal is 91M tons. The Terminal plans to expand the capacity to 110M tons per year. The expansion would require another tippler, an additional ship loader and an extension to the stockpile area. The coal Terminal has 19M tons of capacity available to junior miners.

Botswana has a large potential for coal. The country currently has one coal operation – Morupule Coal Mine which is situated 15km west of Palepye. The mine provides the 600 megawatt Morupule Power Station with coal, having recently increased production to 3.2M tons per annum. The country has considerable coal reserves, some 212bn tons and has the capacity to produce 90M tons per year. The country has appointed a Coal Development Unit under the Ministry of Minerals, Energy & Water Resources to oversee the coal strategic plan, developed in a document published in February last year. The greatest problem is to develop an export channel. The Governments of Namibia and Botswana have invited bids to construct and operate a 1 500km rail line from the coal fields in Botswana to the Port of Walvis Bay. An area behind Dune 7 has been allocated at a coal storage Terminal. The successful bidder will have to finance the rail line, with Namibia and Botswana paying back the outlay over an agreed period.

The Waterberg Coal Joint Venture partners have delivered a feasibility study for a 10M ton per year open cast mine to Eskom with a view to agreeing an off-take contract.

Glencore has acquired Optimum Mine coal rights from BHP.

### CEMENT

Sephaku Cement has begun commercial production at its Delmas plant. The plant has the capacity to produce 1.4M tons of cement per year. Another major Sephaku project is the Aganang plant located at Lichtenberg which will start production in the second quarter of this year.

### SODA ASH

The Industrial Development Corporation has called for bids to establish a soda ash plant in South Africa. South Africa imports some 357 000 metric tons per annum at a cost of about R1.5bn.

### GRAPHITE

Titan Minerals plans to raise A\$4M in a rights issue to advance their graphite project at Balama North in Mozambique.

### OIL

Total will drill an exploration well off the south coast of South Africa, in the Outeniqua Basin about 175km offshore.

Mozambique's first commercial oil production will start next year. Sasol advises that they produced 236 000 barrels of light oil as part of an appraisal programme at Inhassoro.

Two offshore single buoy moorings are planned for construction off Port Durnford on the Zululand coast. The buoys will link up with a storage farm about 26km south of Richards Bay. The tank farm will have a capacity of 2M cubic meters and will be built by American Tank and Vessel.



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Angola will sell production rights for the first onshore oil concessions. Ten blocks will be allocated for sale.

Exxon Mobil plans to start a three year exploration for oil and gas off the KwaZulu-Natal Coast. The exploration zone is from Port St Johns to Richards Bay some 50kms off the coast line.

### GAS

Botswana has granted prospecting rights for methane gas in the Central Kalahari Game Reserve. Prospecting rights have been issued to Tulow Energy of Australia and African Coal and Gas Exploration.

Mozambique will start exporting liquefied natural gas in 2018. About 150 trillion cubic feet of gas have been found in Mozambique – enough to supply Europe for fifteen years. It is expected that Mozambique has double this resource. Japan will fund the construction of a new gas fired power plant in Mozambique. The plant will produce 110 megawatts as from 2018. The funding is \$174M.

The Gigajoule Group has secured a concession to distribute natural gas from Mozambique and is planning to run a gas pipeline to Richards Bay. The overall plan is to have gas fired power stations at Beira, Maputo and Richards Bay. Apparently some 170 trillion cubic feet of gas has been discovered in the Rovuma basin alone and it is thought that further discoveries will be made which will double the resource.

Challenger, an Australian company, has applied for exploration rights for shale gas in the Karoo. Other companies that have applied for exploration rights include Shell, Falcon and Chevron. Original exploration wells were drilled by PetroSA and the well in the middle of the Challenger block gave good results. The US Energy Information Administration estimates that there are 1559 trillion cubic feet of gas in the Karoo basin and that there are at least 370 trillion cubic feet of recoverable resources.

The South African Minister of Mineral Resources has advised that the country will move ahead with the exploration of shale gas. The regulations for the exploration of gas have been published and legislation will follow shortly.

Sunrise Energy has started construction of the 5 500 ton LPG terminal at Saldanha Bay. Sunrise Energy has secured a contract to run the terminal for 30 years. The first phase of the terminal is the construction of a mooring buoy, an undersea pipeline and five storage tanks. The cost of the terminal will be R1.3bn.

Shell is to drill for oil and gas off the coast of Namibia. Shell has taken over exploration rights on blocks 2913A and 2914B in the Orange Basin. Shell had previously been involved in exploration around the Kudu gas field but stepped away in 2002.

Sasol is looking at the potential of a gas to liquids plant in Mozambique. There is an estimated 65 trillion cubic feet of recoverable gas in the Rovuma basin in Northern Mozambique. Sasol is also considering a gas to power plant. There is another 140 megawatt gas to power plant under construction at Rassano Garcia.

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**MARCH 2014**