

## SPECIAL REPORT: MINING - SOUTH AFRICA

# Mining industry remains the backbone of country's economy

The African continent's reputation for being a risky investment proposition is changing. Despite linguistic, jurisdictional and cultural differences in each of the 54 countries on the continent, there are an increasing number of case studies indicating that Africa is open for business.

As one of the continent's financial and political "shining-lights", South Africa, with its wealth of natural resources, is successfully balancing its economic progress with its closer ties to China.

There is renewed interest in Africa from both developed and developing countries.

Despite being the second largest continent in the world, Africa receives only 5 per cent of global foreign direct investment. Sub-Saharan Africa remains the frontier region with a wealth of untapped resources and huge opportunities for intrepid investors.

While Africa is expected to experience 6 per cent growth this year, weak African states and lack of infrastructure remain significant concerns.

Political direction in Africa this year will affect the development of the continent and "brand Africa" could possibly use a makeover next year.

The continent's 1 billion people would certainly benefit from sharing some good news with the rest of the world.

The global financial crisis is good for Africa. Firstly, capital will shift towards the continent and secondly, the crisis is causing a South African homecoming revolution. With the repatriation of talent to South Africa, skilled South Africans are returning home to play their part in the future of their country.

While unemployment, corruption and crime are major causes for concern, South Africa is recording high growth rates and there is a genuine desire to ensure the advancement of the country's population.

Infrastructure challenges are creating opportunities, the finance sector is strong and the country is creating a consumer class which will present huge opportunities to retailers and manufacturers.

Noah Greenhill, senior general



Bheki Sibiyi says investors should focus on South Africa.

manager, marketing and business development, Johannesburg Stock Exchange, says: "In 2012, South Africa will see an economic growth rate of 3.5 per cent. As a country, it can be argued that South Africa is a 'teenage economy', having been closed to international markets prior to 1994. Today, the country is heading in the right

direction. Chinese investment is playing a crucial role with long-term investors actively participating in infrastructure, mining and resource projects."

South Africa continues to benefit from its wealth of natural resources and demand from China and India is driving the mining boom. Today, South Africa is the world's

*We intend to ensure that the next generation benefits from the resources we are blessed with in South Africa*

Bheki Sibiyi  
CEO, Chamber of Mines of South Africa

largest producer of manganese, platinum, chrome and vanadium. It is the second largest producer of rutile, zirconium and palladium, and is the world's third largest exporter of coal.

Mike Teke, CEO of Optimum Coal, says: "We are bullish about the South African economy and are expecting continued growth into 2012 and beyond. The party is here in terms of business opportunities within the resource sector and there is a drive to ensure this continues through political and financial stability."

In terms of building on the strengths of a resource driven economy, while the rest of the world is taking a step back, South Africa is stepping forward.

Bheki Sibiyi, CEO, the Chamber of Mines of South Africa, says: "Mining in South Africa is the backbone of the country's economy and continues to present opportunities for growth, we represent the interests of our members and provide stability within the South African mining industry. If you are in the mining business or looking to invest in the resource sector, you should focus on South Africa."

"Citibank recently valued the minerals sector in South Africa at US\$2.5 trillion and we want to see continued investment in the future. We intend to ensure that the next generation benefits from the resources we are blessed with in South Africa. The industry is an enabler for the country's growth and the positioning of South Africa on the world stage."

While the bulk of its financial engagement in Africa is from sovereign wealth funds, China is now the most prominent trader, provider of capital and commercial actor in Africa. As China continues to expand its presence in

Africa, the interests of China and South Africa will undoubtedly increase. Martyn Davies, CEO of Frontier Advisory, says: "In 2011, Chinese investors announced they had made almost US\$3 billion worth of investments into South Africa. This year, China is likely to become the largest foreign investor in South Africa."

"While Western economies battle with sluggish growth, sovereign debt crises and government inertia, China is becoming an increasingly assertive commercial player in South Africa. Beijing views South Africa as its foremost strategic partner in Africa and a major player in multilateral global politics."

The "South Africa - China Corridor" flows in both directions. It is important that South Africa builds on its knowledge of China, increases its influence in the country and identifies the long-term implications of China's growing presence in Africa, says Davies.

Sven Grimm, director, Centre for Chinese Studies, says: "China's decision to 'go out' at the dawn of the new century marked an opportunity for the African continent."

Africa has been given a chance to diversify its relationships with the outside world and to actively use and shape globalisation."

South Africa is spearheading the continent's desire to engage with China through its resources sector. As South Africa continues to build on its partnership with China and encourage stronger commercial ties, the future of the South African and Chinese alliance looks secure.

Greenhill adds: "Our message to China is that we are open for business and that working with South Africa will create mutual benefits for both South Africans and our Chinese partners."



The Siyanda management team.

## Developing assets and partnerships

As the global crisis continues to cause concern, Africa is positioning itself as the continent in which the international investment community can do business. South Africa has a wealth of resources and the required skills to develop its mining sector. Siyanda Resources is positioning itself as an attractive investment opportunity and the company continues to build on its reputation for developing lasting partnerships.

As one of the first two black executives to receive a mine manager's certificate in South Africa's gold industry in 1992, Lindani Mthwa, executive chairman of Siyanda Resources, understands that mining requires long-term commitment.

"At Siyanda we understand the mining industry and are fully committed to the development of the company," he says. "We are in the process of attracting funds in order to develop our assets. With increased competition as more companies enter the resource sector, mining firms must be more focused and driven - at Siyanda, we are here for the long term."

Kangwane and Eloff mining coalfields are Siyanda's present coal projects. Through its employees' high-level engineering skills and experience in the mining sector, the company has the capacity to manage projects and develop strong partnerships with companies such as De Beers, Total and BHP.

Siyanda Chrome Investments, a subsidiary of Siyanda Resources, has a shareholding in Masa Chrome Company, a joint venture with Anglo Platinum which produces chrome for the export market.

"With the right partner, now is the time to invest in South Africa," Mthwa



says. "We encourage the rest of the world to look at the economic opportunities this country offers and work with us to move South Africa forward. It is our time, and the youth of South Africa understand that we need to develop the country for the benefit of future generations."

With a flexible approach to doing business, the ability to understand South African legislative dynamics and a track record of meeting production targets, Siyanda Resources' future looks bright. "As a company, we will continually operate in a responsible, yet highly ambitious manner, to become a globally competitive resources company," Mthwa says. "We are focused on consistently increasing shareholder value through well researched investments, our ability to effectively operate strategic assets and by developing our network of reliable partners."

[www.siyandaresources.co.za](http://www.siyandaresources.co.za)  
[info@siyandaresources.co.za](mailto:info@siyandaresources.co.za)

## Continent offers lucrative opportunities for investors

The African continent is the main area of focus for Rand Merchant Bank, the investment banking arm of FirstRand Bank, Africa's second largest financial institution and one of the largest companies listed on the Johannesburg Stock Exchange (JSE). Rand Merchant Bank, which is based in South Africa, has representations in numerous African countries where it has spent many years helping clients understand potential opportunities, and the challenges of doing business on continent. Its services include: acquisition finance, project finance, mergers and acquisitions financing and advice, debt and equity capital markets solutions, and financial risk management solutions.

"With prospects of high economic growth in many African countries, a growing middle class and improving governance, we are seeing the re-emergence of Africa as a region for investment opportunities and the consequent increased interest from

global investors," says Rand Merchant Bank CEO Alan Pullinger. "We understand how the continent works and we provide a range of investment banking services to our clients to help them successfully source and conclude business on the continent."

Rand Merchant Bank's key focus in Africa is the resources sector, in which it has been involved since 1977, along with infrastructure development and the agriculture and telecommunications sectors. "We have experience in all commodities with our main thrust in terms of investment banking offerings being project finance solutions," says head of resource financing Henk Deist.

Rand Merchant Bank has done deals in more than 30 African countries in the past 15 years, most of which were in resources related businesses. Some of the larger resources transactions include: advising diamond mining company De Beers on the disposal of the Finsch diamond mine in Kimberley, South Africa;

financial adviser, main underwriter and sponsor of the initial public offering and listing of Royal Bafokeng Platinum on the JSE; and acting as co-funder and lender for the expansion of the Morupule Colliery in Botswana; and Paladin Energy's uranium operations in Namibia. Some other deals in which it has been involved are joint mandated lead arranger for a project finance transaction for Anvil Mining in the Democratic Republic of Congo, lead arranger and underwriter for Avmin/Chambishi in Zambia, and lender to BP in Angola.

A natural extension to Rand Merchant Bank's mining business is upstream and midstream oil and gas project finance as Africa's contribution to global oil production increases each year. Rand Merchant Bank participated in the financing of the Jubilee oilfield in Ghana for Kosmos Energy and Tullow Oil and, most recently, in a pre-production financing facility for the Nigerian National Petroleum Corporation and ExxonMobil Nigeria.

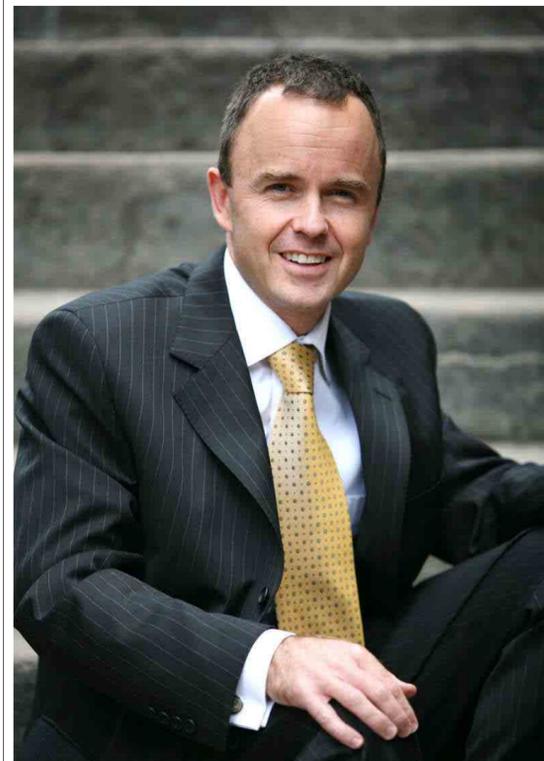
Some infrastructure related deals concluded include: financing and advising a public-private partnership on the Lekki-Epe Expressway, a toll road in Nigeria; and structuring and financing the Adonea undersea cable in Angola.

Along with its strategic focus on Africa, Rand Merchant Bank is developing links with China as Chinese, and other Asian investors, show a growing interest in Africa's resources, and sectors associated with mining, such as infrastructure. In 2009, FirstRand entered into a strategic co-operation agreement with the China Construction Bank to focus on joint financing and advisory services for Chinese and African companies. Both companies have provided dedicated teams to fulfil the mandate. Rand Merchant Bank's parent company FirstRand has operated a representative office in Shanghai since 2007 to help with trade between Africa and Asia.

"With our long track record, experience and client relationships, we believe we can provide Chinese companies with the necessary knowledge and expertise needed on the African continent," says Mark Treagus, head of international operations.

One of the more recent South Africa/China deals for which Rand Merchant Bank provided advice, was the acquisition of South African resources company Gold One International by a consortium of Chinese investors led by Baiyin Nonferrous Metal Group.

Rand Merchant Bank continues to grow its Chinese/African business while increasing its visibility in Africa, and aims to be financier of choice across the African continent.



Alan Pullinger says Africa is a region for investment opportunities.

### A DEAL WORTH ITS WEIGHT IN GOLD ONE



#### Rand Merchant Bank advises a consortium of Chinese investors in the acquisition of a controlling interest in Gold One International Limited

Rand Merchant Bank is proud to have advised a consortium of Chinese investors, led by Baiyin Non-Ferrous Group Co Ltd, on an innovatively structured transaction that sees the consortium becoming the long-term strategic partner of Gold One, whilst also providing capital to accelerate Gold One's growth plans. This deal represents the largest investment by Chinese investors in the African gold sector and endorses our ability to deliver investment banking solutions to clients in the China-Africa investment corridor. Contact Craig Forbes on +27 11 282-1156, email [craig.forbes@rmb.co.za](mailto:craig.forbes@rmb.co.za) or Julia Zhu Jin (朱瑾) on +86 21 621-00909, email [zhu.jin@firstrand.co.za](mailto:zhu.jin@firstrand.co.za)

THE MOST INNOVATIVE INVESTMENT BANK FROM AFRICA - THE BANKER INVESTMENT BANKING AWARDS, 2011.

# Well-positioned legal powerhouse

WEBBER WENTZEL | ALN



Roddy McKean, head of the Africa group, Webber Wentzel

**W**ebber Wentzel is one of the leading corporate law firms in Africa. The firm's client base includes some of South Africa's top-100 companies in mining, banking, insurance, media, property and telecommunications. With more than 400 lawyers, the firm is well-positioned to help clients seeking African business opportunities and is advising clients in more than 35 countries across the continent.

Roddy McKean, head of the Africa group, says: "People are waking up to the fact that there are almost unlimited opportunities on the African continent. While seven out of 10 of the world's fastest-growing economies are in Africa, every country must be approached differently as each has its own history, culture, and legal and regulatory system. With thorough due diligence and the right legal team, businesses can achieve success in Africa. We expect to continue facilitating business for our clients through our skills, experience and expertise."

*Who's Who Legal* recognised the firm's strengths and named Webber Wentzel as South African Law Firm of the Year, 2011 and, according to *Legal 500*, Webber Wentzel is rightly regarded as part of South Africa's "Magic Circle".

At Webber Wentzel, a significant strength lies in the firm's natural resources, energy and infrastructure practices. It has the largest team based on the continent. This dedicated team provides clients with focused advice relevant to the commercial environment in which mining, energy and natural resource companies operate.

The firm has become part of ALN, an established group of Africa's foremost law firms, the largest and only group of its kind on the continent. ALN's coverage extends to 12 African countries and has a total headcount of more than 580 lawyers.

ALN strengthens Webber Wentzel's footprint in Africa and creates a pan-African platform for the firm when working on cross-border deals.

McKean says: "At Webber Wentzel, we want to encourage international investment into Africa. A great deal of the Chinese investments that we are seeing flow into Africa are entering the continent through the gateway of South Africa. We are raising our profile in China to ensure investors are aware of Webber Wentzel's track record of helping businesses succeed in Africa."

Webber Wentzel also has a dedicated tax team offering combined legal and tax-structuring advice for transactions all over sub-Saharan Africa, and advice on African holding company structures through various offshore jurisdictions.

[www.webberwentzel.com](http://www.webberwentzel.com)

# Pretoria's efforts to build close ties with Beijing are paying dividends

While Western economies battle with sluggish growth, sovereign debt crises and government inertia, China is becoming an increasingly assertive commercial actor in South Africa. Beijing views South Africa as its foremost strategic partner in Africa and a major player in multilateral global politics.

I wrote in 2010 that China and South Africa's "strategic partnership" was underperforming on the commercial front. I said that South Africa needed to "do more to leverage its political relations with Beijing for greater investment return". This is no longer the case. Politics has enabled China's strong pipeline of investment into South Africa. Since August 2010, there have been four high-level political engagements between Pretoria and Beijing – President Jacob Zuma's state visit (August 2010), Vice-President Xi Jinping's visit to South Africa (November 2010), the BRICS (Brazil, Russia, India, China and South Africa) summit, which Zuma attended in Sanya (March 2011), and Deputy President Kgalema Motlanthe's trip to Shanghai and Beijing. Pretoria's political efforts to build close ties with Beijing – far more than under former president Thabo Mbeki – are now paying commercial dividends. Most of the investment is in mining resources and manufacturing. In May 2011, the China-Africa Development Fund, state-owned mining firm Jinchuan and China Development Bank, providing debt finance, invested US\$877 million into the listed platinum firm Wesizew Platinum. The investment created 3,500 permanent jobs in Northwest Province. Other



As China expands its presence in Africa, the interests of China and South Africa will increasingly intersect

MARTYN DAVIS, CEO, FRONTIER ADVISORY

investments are into Johannesburg Stock Exchange-listed mining firms Metorex (US\$1.335 billion), Gold One (US\$158.7 million), FAW into a car manufacturing plant in the Eastern Cape (US\$100 million), and another car factory in Harrismith to the value of US\$1 billion. These projects reflect China's confidence in South African business.

## South Africa in China

In contrast, the relatively few South African corporations that have invested in China have been extremely successful in penetrating its often challenging market. A handful of firms have been "industry shapers" in the Chinese economy. After entering the market in 1994, SABMiller is the largest brewer by volume in China and Naspers is the leading foreign media player in what is China's most closed sector for foreign firms, having adopted an apolitical approach to investment, in contrast to that of Google. South Africa possesses the only private sector in Africa that is able to effectively engage the China market and this comparative political advantage needs to be further leveraged in the future.

## Competitive pressures

The pace of China's industrial rise and integration into the global economy through trade continues to force other economies to adapt. It is exposing competitive weaknesses in industrial sectors in our economy at a speed that has taken government by surprise. One could argue that government's recent Industrial Policy Action Plan (IPAP) is a strategic response to competition from China – our single largest trading partner.

South Africa's public and private sectors need to get a handle on China's drivers of competitiveness in order to compete better. Protectionism and insular policies designed to discriminate against Chinese competition are not

sustainable and only satisfy a domestic political constituency. Ultimately however, the structural issues of improving competitiveness need to be addressed.

## Aligning our interests in Africa

As China expands its presence in Africa, the interests of China and South Africa will increasingly intersect. For South African business, China's move into the continent poses a major strategic consideration. Chinese firms have rapidly established themselves in markets which South African firms have been slow to expand; into Angola for instance. Perhaps the question of the previous government in Pretoria is "who lost Angola to China"?

Do we seek to compete or collaborate with Chinese business in the sub-Saharan region, which has – at least Anglophone Africa – become South Africa's commercial sphere of interest? To better engage China's "state capitalist" approach, it is imperative that we reduce the disconnect between the state and the private sector in South Africa in order to enhance our ability to project a more co-ordinated and focused economic diplomacy in Africa – a region in which China is now the most influential trader, provider of capital and commercial actor. South Africa needs to make a conscious decision to strategically position itself and couple its economy with the Chinese long-term growth train.

Dr Martyn Davis is CEO of Frontier Advisory

## FAST FACTS



**Full country name** Republic of South Africa  
**Area** 1.22 million sq km  
**Population** 50.5 million (UN, 2011)  
**Capitals** Pretoria (executive capital), Cape Town (legislative capital), Bloemfontein (judicial capital)  
**Largest city** Johannesburg  
**Main exports** Gold, diamonds, metals and minerals, cars, machinery  
**Major languages** 11 official languages, including English, Afrikaans, Sesotho and Zulu  
**Monetary unit** 1 Rand = 100 cents  
**International dialling code** +27  
**Internet domain** .za



Cars move on an illuminated section of a motorway with the Johannesburg skyline in the background. Photo: Bloomberg

## USEFUL LINKS

The Government of South Africa's Department of Mineral Resources.  
[www.dmr.gov.za](http://www.dmr.gov.za)

The Chamber of Mines of South Africa is a prominent industry employers' organisation which exists to serve its members and promote their interests in the South African mining industry.  
[www.bullion.org.za](http://www.bullion.org.za)

Started in 1894, the South African Institute of Mining and Metallurgy is a professional institute with local and international links aimed at assisting

members source news and views about technological developments in the mining, metallurgical and related sectors as well as embracing a professional code of ethics.  
[www.saimm.co.za](http://www.saimm.co.za)

The Institute of Mine Surveyors was established in 1923. The primary objectives are to advance the science and practice of mine surveying and allied disciplines, to promote and protect the character and interests of the profession of mine surveying and to foster professional etiquette.  
[www.ims.org.za](http://www.ims.org.za)

The Council for Geoscience is actively engaged in various activities within and outside the borders of South Africa, including geological mapping, metallogenetic mapping, coastal erosion studies, marine geology, geotechnical mapping and economic geology.  
[www.geoscience.org.za](http://www.geoscience.org.za)

South African National Union of Mineworkers.  
[www.num.org.za](http://www.num.org.za)

Johannesburg Stock Exchange  
[www.jse.co.za](http://www.jse.co.za)

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Rand Merchant Bank is proud to have been awarded the Most Innovative Investment Bank from Africa by The Banker magazine. Across a wide range of industries, Rand Merchant Bank has a respected track record for providing innovative investment banking solutions to clients in over 35 countries in Africa. For more information on what we can do for your business in Africa contact Michael Larbie on +27 11 282-1233, email michael.larbie@rmb.co.za or Julia Zhu Jin (朱瑾) on +86 21 621-00909, email zhu.jin@firststrand.co.za