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THE VALUE OF KNOWING

Legal specialists with unique African knowledge

GROWTH POTENTIAL OF THE RESOURCES SECTOR IN SUB-SAHARAN AFRICA

Over the next decade Sub-Saharan Africa (SSA) will continue to increase in popularity as an investment destination thanks to its natural resource wealth, a flourishing consumer market and infrastructural improvements.

The resources sector will remain attractive to investors, mainly due to low labour costs, strong mining sector growth and a solid competitive landscape.

There are also some challenges including policy uncertainty (due to mining-related regulatory changes particularly in the Democratic Republic of the Congo, Kenya, South Africa and Tanzania); the gradual stabilisation of commodity prices; as yet underdeveloped infrastructure; and relatively small mining sectors.

With six offices in four African countries – South Africa, Kenya, Uganda and Tanzania – we believe we are ideally positioned to assist our mining clients with their investment strategies into these regional markets. We have highlighted some key developments in each of these jurisdictions overleaf. Examples of our work includes advising:

- Africa Barrick Gold (now Acacia plc) with respect to numerous regulatory, compliance, environmental and employment law matters affecting Acacia's group of mines in Tanzania (including Bulyankulu Mine, Buzwagi Mine and North Mara Gold Mining Ltd).
- African Rainbow Minerals on its joint venture with Vale for mining assets in the Democratic Republic of the Congo, Mozambique, Namibia and Zambia.
- AngloGold Ashanti Ltd in respect of its proposed restructuring (demerger) of the current portfolio of AngloGold Ashanti into separate listed vehicles for each of its South African and international mining operations. The proposed demerger was coupled with a proposed rights offer, both of which were withdrawn following lack of shareholder appetite (total deal value of USD 7.1 billion).
- Bank of China Ltd, FirstRand Bank Ltd, Nedbank Ltd, ABSA Bank Ltd, Investec Bank Ltd, JP Morgan Chase Bank and Standard Bank of South Africa in the negotiation and conclusion of a ZAR 4.5 billion secured term and revolving facility comprising a ZAR 2.5 billion revolving credit facility and a ZAR 2 billion term loan facility provided to Sibanye Gold Ltd, a company listed on the JSE Ltd.
- Harmony Gold Mining Company in relation to its announced acquisition of AngloGold Ashanti's Moab Khotsong operations in the North West of South Africa for approximately ZAR 4 billion (USD 300 million).
- Rio Tinto on the South African aspects of its acquisition of Africa focused Riversdale Mining, listed on the Australian Stock Exchange, and the subsequent sale to the Menar Holding Group of its equity interest in Zululand Anthracite Colliery (Pty) Ltd.
- Royal Bafokeng Platinum Ltd in relation to a combined offering of its shares (involving a primary issue by the company, and a secondary issue by its shareholders).
- Shanduka Group (Pty) Ltd and the majority shareholders in relation to the restructuring of Shanduka Group (Pty) Ltd and merger with Pembani Group (Pty) Ltd, to create a new ZAR 13.5 billion black-controlled natural resources and industrial holding group.

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KEY DEVELOPMENTS

Kenya:

- An outperformer in the region, as a result of its relatively diversified economy, robust long-term growth prospects, and advantageous location in the East African Community.
- Real GDP growth was dampened by the drawn-out presidential election in 2017. The selection of President Uhuru Kenyatta will see these figures increasing into 2018/19.
- The economy remains burdened by large fiscal deficits and a growing debt burden. It is also vulnerable to volatility in external financial markets.
- Kenya has proven deposits of coal, gold, zircon, ilmenite and rutile and is understood to hold significant deposits of copper, limestone, manganese and niobium.
- Its nascent mining sector is set for growth. Government has recently updated mining legislation with the intention of making the industry more attractive to investors.

South Africa:

- One of the most trusted investment destinations in the region for the past 20 years and a relatively stable investment environment compared to many other SSA countries.
- Boasts a diversified competitive landscape, with both large international and smaller local players.
- Economic growth is predicted to rebound only slightly in 2017 and 2018, after a sharp slowdown in 2016. Investment will continue to face headwinds, driven by:
  - elevated unemployment levels;
  - sluggish credit growth;
  - fiscal consolidation (limiting government spending);
  - a deterioration in the investor-friendliness of the regulatory environment (e.g. the suspended new Mining Charter); and
  - increased policy uncertainty.
- Has significant mineral reserves including coal, gold, iron ore, palladium and platinum.

Tanzania:

- Significant potential for development due to its:
  - East African Community integration;
  - vast, but underdeveloped natural resources, in particular mining deposits; and
  - natural gas sector, which will be transformative when developed: boosting growth, improving the balance of payments position and addressing electricity shortfalls.
- Tanzania has the potential to become one of the leading mining centres in SSA. It has vast coal and gold reserves.
- The challenging operating environment and underdeveloped infrastructure are currently impeding the mining industry.
- The trend towards resource nationalism is of concern to overseas investors, as are the growing restrictions and financial charges on foreign-owned mining operators.

Uganda:

- Economic growth is predicted to accelerate in 2018 owing to:
  - success in diversifying the export base, especially horticulture and gold;
  - improved trading links throughout the region; and
  - significant discoveries of oil and gas.
- Challenges include:
  - rising dissatisfaction with President Yoweri Museveni's decades-long rule;
  - corruption;
  - underemployment;
  - over-reliance on the agricultural sector (>60% of exports); and
  - unstable neighbouring countries which could lead to social unrest.
- The mining industry remains small, contributing around 0.4% to GDP in 2016.
  - A national mineral survey, completed in 2014, identified resources such as coltan, copper, gold, nickel, tin and uranium.
  - Policy statements indicate a desire to attract investors by creating a 'favourable investment climate', with transparent allocation of licences and up-to-date geophysical and geological data.
  - A wide range of tax breaks (tax has in the past been seen as a stumbling block) as well as scrapping of import duties on mining equipment have also been proposed.

Bowmans offices

Relationship firm

Significant transaction or advisory experience