

AN OVERVIEW OF CIDB MISSION REPORT

Last November 2013, CIDB has sent over a delegation to South Africa for a fact-finding mission. The delegation had a meeting with the Department of Trade and Industry (DTI) and Economic Development Division (EDD) in which they were briefed on the South African National Infrastructure Plan for 2012-2032 and the establishment of the Presidential Infrastructure Coordinating Committee (PICC), mandated by the South African Cabinet to plan and coordinate the said National Plan aforementioned.

CIDB was also exposed to the potential opportunities for Malaysian construction companies to offer/provide consultancy services in developing master plans for specific Strategic Infrastructure Projects (SIPS). SIPS are the outcome of the introduction of the Infrastructure Bill, under which the PICC is mandated to expedite the implementation of 18 strategic infrastructure projects involving hundreds of clusters of development plans over 1,100 construction sites, worth around US\$70 billion (RM241 billion).

The CIDB delegation later had a meeting with the Construction Industry Development Board (CIDB) South Africa. The agency, which was formed to stimulate sustainable growth, reform and improvement of the construction sector for effective delivery and the industry's enhanced role in South Africa's economy, was modeled after their Malaysian counterpart. The delegation also had a program with Motlekar Holdings, an investment holding company that is foremost for providing low-cost and affordable housing in Southern Africa. Representatives of the company have shared valuable experience and information regarding their business and costing model with CIDB.

The following year in October 2014, CIDB together with the South African High Commission (SAHC) has organized the Seminar on Infrastructure Development Project Opportunities in South Africa which was held in Kuala Lumpur. The seminar provided a platform for Malaysian construction companies to gain valuable information on potential projects opportunities in South Africa and allowed them to engage with the relevant South African authorities. During the seminar, the Mpumalanga Economic Growth Agency has presented a number of project opportunities that are available in the Mpumalanga Province for Malaysian companies to explore and participate.

SOUTH AFRICA AT A GLANCE

South Africa is located at the southern tip of the African continent. It has 2,798 kilometers of coastline that stretches along the South Atlantic and Indian oceans. The nation has a population of close to 53 million people, comprising of a multiethnic society with 11 official languages. South Africa is ranked by the World Bank as an upper-middle income economy and considered to be a newly industrialized country. Its economy is the 2nd largest in Africa, and the 34th largest in the world. The nation is made up of nine provinces which are in turn divided into 52 districts, 8 metropolitan and 44 district municipalities. The district municipalities are further subdivided into 226 local municipalities.



South Africa's physical infrastructure is one of the most developed in the Sub-Saharan Africa region. The country possesses an extensive road network, with 754,600km of roads. The railway network in the country stretches a total of 20,872km, making it the largest rail system in Africa. South Africa's power supply is largely under the remit of state-owned utility Eskom, which has a net generating capacity of 38,744MW and 366,203km of power lines. The company supplies 95% of South Africa's electricity, as well as a large part of Southern Africa's electricity. This makes South Africa the powerhouse of the region and many Southern African countries rely on it for electricity supply.

SWOT ANALYSIS

Strengths

- The most developed construction market in Africa and second only in value terms to Nigeria.
- Major state-owned companies such as Transnet, Eskom, Sanral and Prasa have large-scale capital expenditure plans in place, which will support growth over our ten-year forecast period to 2023.
- The National Development Plan is in place to guide the country's infrastructure construction, including a push to have all people housed in formal settlements.
- South Africa's commodity resources have driven much investment into rail and port infrastructure, and will continue to do so.

Weaknesses

- The construction industry has a high liquidation rate, which is caused by the instability of small firms, demand volatility and fierce competition.
- The government has failed to push needed projects through the pipeline, leading to a subdued recovery.
- Highly unionized workforce exposes companies to costly strikes and wage demands.
- The economy is set to perform sluggishly in future and an increase in interest rates may limit growth in the residential and non-residential projects.

Opportunities

- Demand for South African resources is driving investment into expanding the mining sector and supporting infrastructure - particularly to support the extraction of coal and iron ore.
- The government is running a low-cost social housing program, to improve the quality of the country's living conditions.
- The Infrastructure Bill has been implemented, which will give new drive to the development of strategic projects.
- The ANC's victory in May 2014 election is hoped to give them more of a mandate to implement the National Development Plan.

Threats

- Labor disputes are common in South Africa, with major projects being severely delayed.
- Commodity prices have fallen and have a bearish outlook, which will reduce the available capital for infrastructure investments.
- A sell-off in the rand has seen project financing become more expensive and a possible hike in interest rates in early 2014 may reduce demand for new projects.

INDUSTRY FORECASTS

Construction And Infrastructure Industry Forecast Data (2014-2017)				
	2014	2015	2016	2017
Construction industry value, RM billion	37	48	58.4	67.4
Construction Industry Value, % of GDP	3.4	3.4	3.4	3.4
Total capital investment, RM billion	209	269	326	372.4
Infrastructure industry value, RM billion	19.4	25	30.6	35.3
Residential and non-residential building industry value, RM Billion	17.6	23	28	32.1
Transport infrastructure industry value, RM billion	10.6	14	17.2	20.1
Roads and bridges infrastructure industry value, RM billion	2.07	2.6	3.2	3.7
Railways infrastructure industry value, RM billion	5.3	7	8.8	10.3
Airports infrastructure industry value, RM billion	0.38	0.48	0.58	0.65
Ports, harbors and waterways infrastructure industry value, RM billion	2.8	3.7	4.5	5.3

South Africa's construction industry has begun its recovery after the collapse following the World Cup in 2010. At the time, government finances were pushed to the limit in order to complete projects on schedule. Hence, a drawback in funding and subsequent activity was noticed almost immediately after the tournament ended. The pick-up in growth post-World Cup crash is a result of various infrastructure programs and a general push to get the country back on track; by way of guidance of the National Development Plan, which states that infrastructure is poorly located, under-maintained and insufficient to foster higher economic growth and thus is to receive major attention in order to improve living standards.

It is expected that following the win by the ANC in the May 2014 elections, that infrastructure projects will now move forward. The residential and non-residential sectors, in particular, are showing signs that activity is set to increase. In fact, the residential sector is expected to be a major driver of growth over the next five years as the government has recently committed to build 1.5 million new homes as a move to address major housing shortage in South Africa. As for the non-residential sector, there have been announcements on plans to build 43 hospitals across the country within the next five years and commercial developments are also gaining traction with a number of major shopping malls currently under construction.

South Africa's infrastructure market is generally still attractive to investors since it has the lowest risks profile in the region, outperforming rival nations such as Nigeria and Kenya. Forecasts for growth in the South African construction industry remain passive over the upcoming years. The South African government has been largely unable to move major infrastructure spending forwards, although there is hope that there will progress made on this following new legislation and a recent election victory for the ANC.

South Africa also performs poorly in the labor market infrastructure aspect as the nation is facing a shortage of skilled workers across a number of sectors and the situation is further worsened by low educational standards and delays in importing skilled labor from outside. Worker strikes are common and unemployment remains to be a problem. And although South Africa is among the most financially advanced countries in Africa, the overall financial infrastructure is underdeveloped by international standards. South Africa also has to deal with electricity shortage issues. However, with a number of power generation projects in the pipeline, the situation is expected to improve over time.

MAJOR PROJECTS

Project Name	Value (RM mil)	Size	Unit	Timeframe Start	Timeframe End	Status
Cape Town International Airport runway realignment	690	-	-	2014	2017	Feasibility studies/EIA under way
Nkangala Airport City Project, Mpumalanga Province	1,247	4.4	km	-	-	At planning stage
Export facility at Richards Bay Port	5,186	14000	'000 tonnes	2020	2020	At planning stage
Swaziland Link Railway Project	5,567	140	km	2017	-	Feasibility studies/EIA under way
Expansion route of Gautrain System, Guateng Province	-	80	km	2019	-	Feasibility studies/EIA under way
Lephalale-Ermelo Rail link	62,229	16000	'000 tonnes	-	-	At planning stage
Corridor project (Gauteng - Mpumalanga), PPP	3,170	-	-	-	-	Feasibility studies/EIA under way
Motherwell-Coega Industrial Zone rail link	-	35	km	-	-	Announced
Cape Town International Airport Rail Link	947	3.2	km	-	-	At planning stage
Two port rail corridors(Richards Bay and Durban port rail corridors), Kwa-Zulu Natal	4,191	-	-	-	-	Announced
Aswan-Dongola Highway	1,728	400	km	-	-	At planning stage
Sani Pass Road Upgrade	-	19	km	-	-	Approved
N3 National Road Upgrade (between Durban and Pietermaritzburg), KwaZulu-Natal Province	4,978	-	-	-	-	At planning stage
Limpopo Bridge, at the Beitridge border PPP	-	-	-	-	-	At planning stage
Toll Road Bypass, Knysna	-	650	km	-	-	At planning stage
Blyde River Canyon Cable Car Project, Mpumalanga Province – Thaba Chweu Municipality	156	-	-	-	-	Feasibility studies completed/EIA under way
Gods Window Skywalk Project, Mpumalanga Province – Thaba Chweu Municipality	31	-	-	-	-	Feasibility studies completed/EIA under way
Blyde River Hydro Power Project, Mpumalanga Province – Thaba Chweu Municipality	31	-	-	-	-	At planning stage
Solar Panel Project, Gauteng	2,016	300	MW	-	-	At planning stage
Kinyerezi 2 Gas-fired Power Plant	-	240	MW	2014	2016	At planning stage
Delmas Coal fired power plant in Mpumalanga	5,877	600	MW	-	2018	Approved
Mulilo Sonnedix Prieska Solar PV Project, Northern Cape	373.4	86	MW	2014	2015	At planning stage
Nojoli Wind Farm, Eastern Cape	-	87	MW	2014	2015	At planning stage
Tsitsikamma Community Development Wind Farm (TCWF) Project	-	94.8	MW	2014	2016	At planning stage

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Xina Solar One project	3,140	100	MW	2014	2016	At planning stage
Power plant at Coega IPP	3,112	2400	MW	-	2017	At planning stage
Nuclear power plant	-	4000	MW	-	2018	At planning stage
Grootegeeluk Coal fired power plant, IPP (Lephalale)	5,871	600	MW	-	2018	Announced
Mokolo and Crocodile Water Augmentation Project (MCWAP)- Phase 2	-	128	km	-	2019	At planning stage
Upgrade Midmar Waterworks Plant, Howick	70	-	-	-	-	At planning stage
Bulk Water Programme, Mpumalanga Province	311	-	-	-	-	Feasibility studies under way
Affordable rental housing project	145	1800	units	-	2016	Project finance closure (Funding agreed by PIC)
Social and Affordable Housing Project	700	34000	units	-	-	At planning stage (March 2011 - Loan to be provided by EIB)
International Conference Centre (ICC)	155	-	-	-	-	At planning stage
Bourke's Luck Potholes Hotel and Restaurant Project, Mpumalanga Province – Thaba Chweu Municipality	31	-	-	-	-	Feasibility studies/EIA under way
Mpumalanga International Fresh Produce Market (MIFPM), Mpumalanga Province	-	-	-	2013	2018	Feasibility studies completed
Steel plant	-	5 mil	tonnes	2011	-	At planning stage
Cement Production Facility, Limpopo	-	1.095 mil	tonnes	2013	2015	Announced (August 2012)

INFRASTRUCTURE AND CONSTRUCTION PLAYERS

Eskom is a South African electricity public utility. Established in 1923 as the Electricity Supply Commission, it was converted into a public limited liability company, which became wholly owned by the government in July 2002. The utility is the largest producer of electricity in Africa and among the top 20 utilities in the world by generation capacity. The company directly provides electricity to about 45% of all end-users in South Africa, while the other 55% is through redistributors – providing it a monopoly position in the market. Eskom is currently pursuing an ambitious expansion plan that is supported by the government and also has major new build power projects in the pipeline.

Transnet is a large holding company for a variety of state-controlled transport companies, in the passenger and freight sectors. The group consists of a number of divisions and subsidiaries. In March 2011, Transnet announced plans to build a US\$14.6 billion (RM50.5 billion) port in Durban. The port is now undergoing a pre-feasibility study. The port will be built in two phases. Construction is expected to begin in 2015 and be completed in 2019. The new port will require private sector assistance as the over costs will be a lot for the government and Transnet to cover alone. To this end, the company has announced a potential privatization program to attract investment.

Murray & Roberts Group is an industrial and infrastructure holding company involving in engineering, design and project management of industrial projects, mining and specialist infrastructure facilities; engineering, design and manufacture of steel and specialist aluminum products; building, mining and structural contracting; construction services; concession management and operations; and transport and logistics. As South Africa is currently investing heavily in infrastructure, and being one of most prominent companies in the country, it will certainly benefit Murray & Roberts Group.

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