

ECONOMICS | SOUTH AFRICA

Nedbank

Capital Expenditure Project Listing H1 2022



Group Economic Unit

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Nedbank Capital Expenditure Project Listing



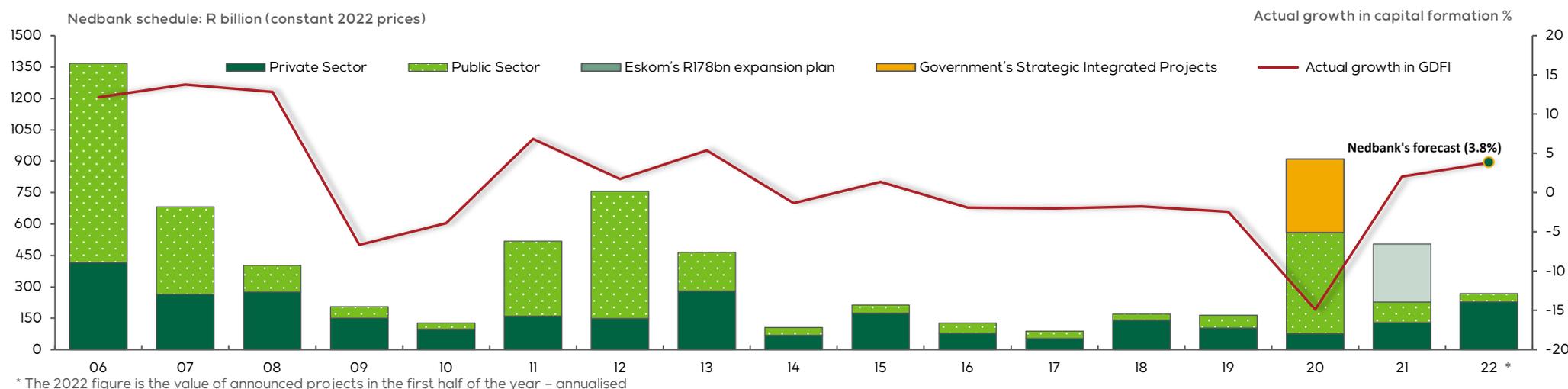
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EXECUTIVE SUMMARY OF KEY FINDINGS

- Nedbank's listing shows that the recovery in fixed investment activity continued in the first half of 2022 from the pandemic-induced implosion and the prolonged slump from 2014.
- More new projects were announced for the year to date, with the value of the projects totalling R267.6 billion (annualised), up from R214.7 billion in 2021 and the pre-Covid R138 billion in 2019.
- The private sector remained the major driver, with planned new projects of R228.8 billion, accounting for 86% of all new projects announced so far in 2022.
- Capital projects by government also picked up compared with 2021 but was lifted by one mega project. Announcements by public corporations were subdued. However, public corporations announced a number of large projects over the past two years to address economic infrastructure backlog.
- Nedbank expects capital spending to rise off a low base in 2022, with total gross fixed capital formation forecast to grow by around 3.5%. However, the level of GFCF will remain below the pre-crisis levels, undermined by electricity shortages, slow progress with structural reforms, persistent policy uncertainties and fading global growth prospects.

Chart 1: Value of announced projects and growth in fixed investment



Source: Nedbank & SARB

KEY FINDINGS

- The Nedbank capital expenditure project listing research shows an increase in the number and value of new projects announced in the first half of 2022. The value of projects amounted to R133.8 billion, which translates to R267.6 billion on an annualised basis, a 24.6% rise from R214.7 billion recorded in 2021.
- The rise in the number and value of projects was driven mainly by the private sector. While business confidence remains fragile, capital expenditure (capex) picked up as the economy recovered and global demand accelerated from the depths of lockdown in 2020. High global commodity prices also encouraged some mining companies to expand operations. Russia's invasion of Ukraine extended and amplified the upswing in commodity prices, while the sanctions on Russian exports of coal created new opportunities for local producers. Against this backdrop, private sector projects amounted to a robust R228.8 billion, accounting for 86% of the total. The biggest project captured is the Green hydrogen plant at the Coega Special Economic Zone, worth R75 billion, and the second phase of the Gamsberg's zinc mine, worth R7 billion.
- Government also announced a few new projects, after presenting its Strategic Integrated Projects two years ago. The value of government projects rose to R37 billion from R33.8 billion. The biggest project recorded is the 524 000 sqm mixed-use government district, worth R8 billion in Salvokop, Pretoria. In contrast, public corporation plans declined sharply, following the announcement of large projects by Eskom, the South African National Road Agency Limited (SANRAL) and Transnet last year.

Table 1: The value of announced projects

	Projects by type of organisation							
	Value of projects (R billion in current prices)				Value of projects (R billion in constant prices)			
	Total	Private sector	Government	Public corporations	Total	Private sector	Government	Public corporations
2010	67.5	51.8	4.2	11.4	118.6	91.1	7.4	20.0
2011	287.4	89.5	42.1	155.8	478.8	149.2	70.1	259.6
2012	465.6	91.1	54.2	320.3	700.0	137.0	81.5	481.6
2013	286.3	172.0	24.2	90.1	430.5	258.7	36.4	135.5
2014	68.5	45.0	12.7	10.9	97.7	64.1	18.1	15.5
2015	146.2	119.0	10.9	16.4	197.7	160.9	14.7	22.1
2016	92.5	58.0	18.4	16.1	117.0	73.3	23.3	20.3
2017	68.2	40.5	26.6	1.1	81.8	48.5	31.9	1.3
2018	136.6	112.2	6.7	17.8	157.5	129.3	7.7	20.5
2019	138.3	86.4	14.5	37.4	165.4	103.3	17.3	44.7
2020	424.8	66.6	357.3	0.8	482.9	75.8	406.2	0.9
2021	214.7	122.0	33.8	58.9	227.8	129.4	35.8	62.5
2022	267.6	228.8	37.0	1.8	535.1	457.6	74.0	3.6

LARGE PUBLIC AND PRIVATE SECTOR PROJECTS

Table 2: Recently announced projects by sector

General government	R million	Major industries	Infrastructure type
Salvokop mixed use government district	18 000	Community, social and personal services	Other community
Vaal River City Interchange	200	Transport, storage and communications	Transport services
K14 (P2/5) (R513) Cullinan (Rayton)	179	Transport, storage and communications	Land and pipeline transport
Private			
Green hydrogen plant	75 000	Electricity, gas and water	Electricity, gas and steam
Gamsberg Phase 2 expansion project	7 000	Mining and quarrying	Metal ore mining
Investec Property	6 000	Finance, real estate and business services	Real estate
Nkuna Smart City	5 500	Finance, real estate and business services	Real estate
Marula Phase II	5 100	Mining and quarrying	Metal ore mining
Mototolo/Der Brochen life extension project	3 900	Mining and quarrying	Metal ore mining
South32 aluminium plant	3 000	Manufacturing	Other non-metallic mineral products
Pick n Pay - Eastport distribution centre	2 000	Wholesale, retail and motor trade, and accommodation	Retail trade
Mnambithi Terminals	1 500	Manufacturing	Food, beverages and tobacco
Dakota Precinct	1 300	Finance, real estate and business services	Real estate
Bidvest liquid petroleum gas facility	1 000	Electricity, gas and water	Electricity, gas and steam
Virginia Gas Project	1 000	Manufacturing	Petroleum, chemicals and plastics
Public corporations			
Montrose interchange project	248	Transport, storage and communications	Transport services
N1: Pienaarsrivier and Bela Bela rehabilitation	200	Transport, storage and communications	Land and pipeline transport
N4: Kameeldrift and Ga-Rankuwa interchanges rehabilitation projects.	200	Transport, storage and communications	Land and pipeline transport
R63 national road project	150	Transport, storage and communications	Land and pipeline transport
Xhariep road infrastructure project	90	Transport, storage and communications	Land and pipeline transport

INDUSTRY BREAKDOWN

- So far in 2022, the **electricity, gas and water industries** dominated, with projects worth R152 billion, boosted by the Green hydrogen plant valued at R75 billion. The project - by Hive Hydrogen and Linde - involves the building of a green ammonia plant, with a production capacity of 780 000 tons per year and its own dedicated power supply at the Coega Special Economic Zone. The power plant will produce a combined 2 200 MW of renewable solar and wind energy. Bidvest's construction of a liquid petroleum gas (LPG) facility worth R1 billion in Richards Bay also contributed. We expect to see a flurry of new project announcement towards the end of the year and next year as the 6th Bid Window of the Renewable Energy Independent Power Producer Procurement Programme (REIPPP) is concluded. The window opened in April and was originally scheduled to close in August. However, President Ramaphosa recently doubled the amount of new generation capacity to be procured from wind and solar from 2 600 MW to 5 200 MW. These developments come after the conclusion of the 5th Bid Window towards the end of last year, consisting of 25 renewable energy projects with a combined value of R50 billion, which will add 2 583 MW of generation capacity.

Table 3: Announced projects by sector

Industry	HI 2022 (R million)	2022 Annualised (R million)	% of total
Agriculture, forestry and fishing	-	-	-
Construction	-	-	-
Mining and quarrying	16 000	32 000	12.0
Manufacturing	6 730	13 460	5.0
Electricity, gas and water	76 000	152 000	56.8
Wholesale, retail and motor trade, hotels and accommodation	2 650	5 300	2.0
Transport, storage and communication	1 267	2 534	0.9
Finance, real estate and business services	13 010	26 020	9.7
Community, social and personal services	18 130	36 260	13.6
Total	133 787	267 574	100

- Activity in the **community, social and personal services industries**, which includes government, continues to be driven by some of the Strategic Integrated Projects. The value for the first half of 2022 was boosted by the government's R18 billion Salvokop mixed-use district. It will cover 524 000 sqm in Pretoria. The first phase will include the new head offices of the Department of Higher Education and Training; the Department of Home Affairs; the Department of Correctional Services; Statistics South Africa; and the consolidated headquarters for the Department of Social Development, the South African Social Security Agency (SASSA) and the National Development Agency. The second phase will involve the development of the business premises by the private sector, while the third will include a mixed-income residential development.
- Activity in the finance, real estate and business services industries remained relatively subdued, reflecting the slump in the commercial property market caused by the pandemic-induced changes in working practices, which have reduced demand for office space. A total of R13 billion worth of new projects were recorded, including Investec's plan to spend R6 billion to redevelop the old Corobrik site in Durban into a logistics and distribution hub. Another major project is a R5.5 billion Nkuna Smart City by the Masingita Group of Companies, which involves the construction of a new shopping centre in Elim, Nkuzana. The centre will have residential and business sites, a hotel with conference facilities as well as medical, educational and sports facilities.
- Capex plans by the **manufacturing** sector remained depressed, undermined by the electricity shortage and possibly fading competitiveness. The sector announced projects worth R6.7 billion, which is low by its historic standards. The biggest new project captured is the construction of the South32 aluminium plant in Richards Bay, worth R3 billion. Mnambithi Terminals will build a chemical storage facility at Maydon Wharf for R1.5 billion. At the same time, the Central Energy Fund (CEF) will invest R1 billion to support the Virginia Gas Project in Welkom,

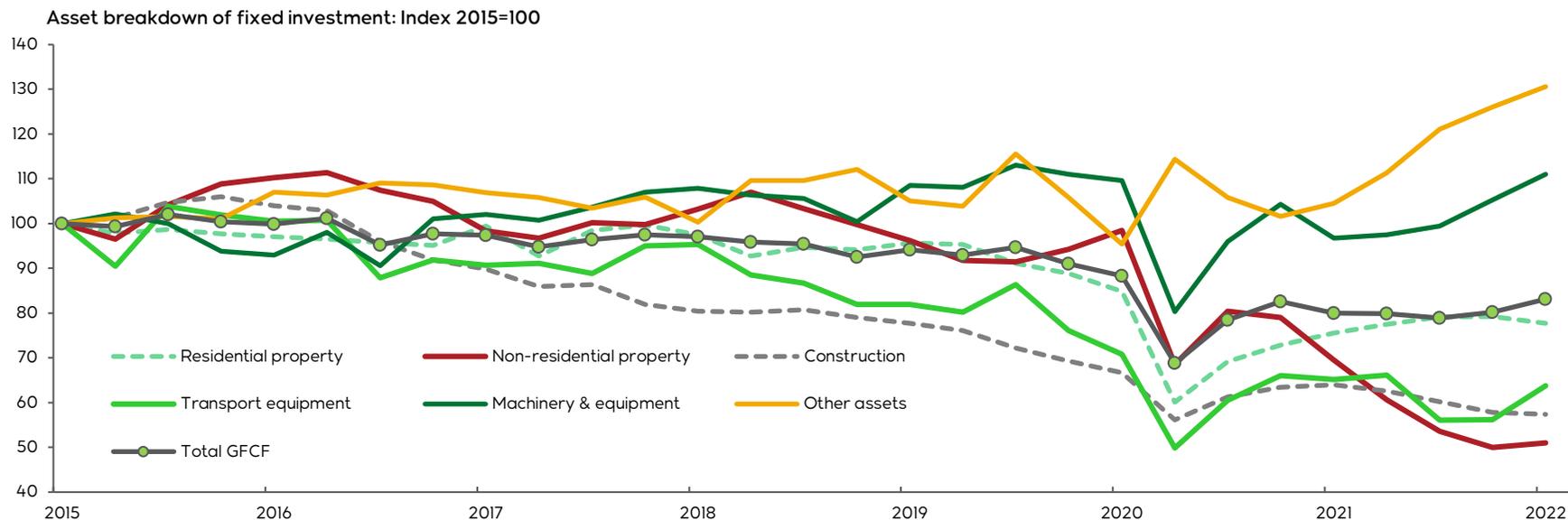
the only onshore petroleum plant in South Africa, which forms part of the push to enhance renewable energy sources. The plant will be built around the highest helium reserves globally. The area is also rich in methane gas reserves.

- The **wholesale, retail and motor trade, hotels and catering** industries also remained subdued. However, Pick n Pay is investing R2 billion in a new distribution centre in Gauteng.
- Similarly, few new plans emerged from the **transport, storage and communications** industries, following the announcement of some big projects last year by the South African National Road Agency (SANRAL), the Department of Roads and Transport, and the Passenger Rail Agency of South Africa (PRASA), mostly centred on the upgrade of the highways in KwaZulu-Natal and Gauteng.

IMPLICATIONS FOR FIXED INVESTMENT

- Gross fixed capital formation (GFCF) has been slow to recover from the implosion caused by the strict lockdowns of 2020, but underlying activity is starting to pick up. GFCF grew by a more convincing 3.6% qoq in the first quarter of this year, after turning positive in the final quarter of last year. So far, the upturn has been dominated by capital outlays on machinery and equipment, including computers and processing equipment, as well as other assets, which includes outlays on computer software. More recently, investment in transport equipment picked up off a low base. These trends suggest that the focus for companies remain on automation, mechanisation and the digitisation of production processes and operations. Part of the surge in machinery and equipment probably reflects the activity in the renewable energy sector, but most of the spending appears to be directed at improving the efficiencies of existing operations rather than expanding production capacity. In contrast, outlays on construction works, residential- and non-residential buildings remain exceptionally weak, suggesting that the companies still lack the confidence to undertake expansionary investments.

Chart 2: Fixed investment by assets



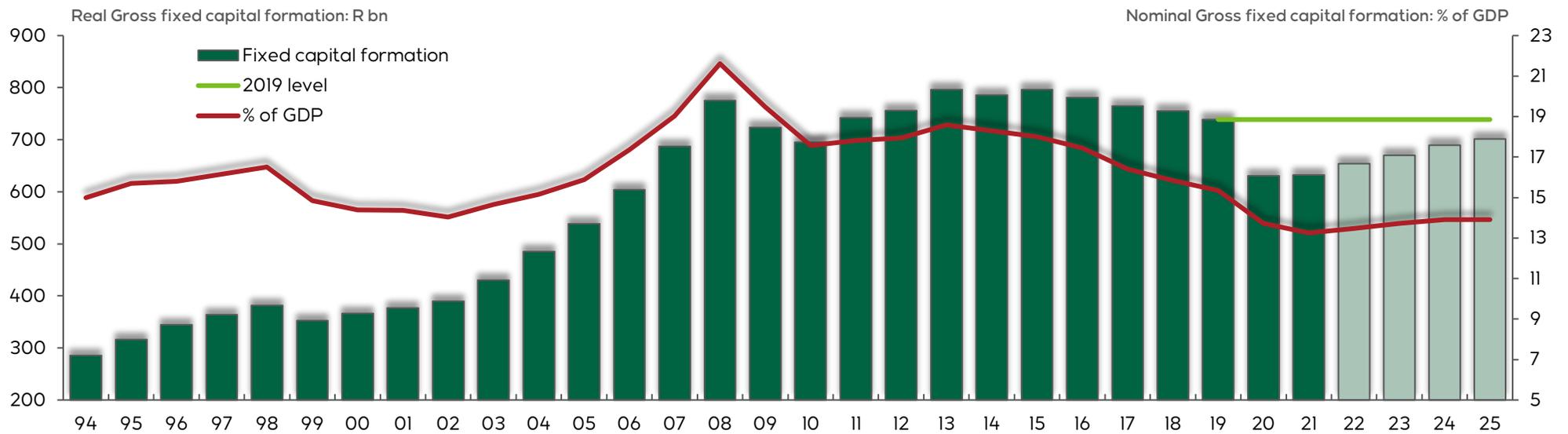
Sources: SARB, Stats SA

- Even so, Nedbank's listing shows that there is reason for guarded optimism. After years of delays, we are now beginning to see some evidence of investment in essential economic infrastructure, particularly in energy, road and telecommunications. Although still not nearly enough to erase more than a decade of underinvestment, President Ramaphosa's efforts to lift infrastructure expenditure, crystallised in every State of Nation Address since 2018, in the Economic Reconstruction and Recovery Plan, and the annual investment conferences, are finally starting to materialise in tangible new projects. The sweeping reforms to energy regulation announced by President Ramaphosa on 25 July could unlock much faster growth in

fixed investment and overall economic activity, directly through new investments in renewable energy over the short term and indirectly by eliminating the energy shortage over the longer term and thereby enabling a broader and more sustainable upswing in fixed investment. To achieve such a virtuous outcome, government must avoid the many mistakes and traps of the state capture era. Spending on current and future projects must be efficient, transparent and ultimately deliver quality assets on completion.

- We expect the gradual recovery in fixed investment to continue during the remainder of this year. GFCF is forecast to expand by 3.5% in calendar 2022, better than the modest 0.2% increase recorded in 2021, and a significant improvement on the preceding five years of contraction. However, we still do not anticipate a broad-based upswing in fixed investment, as the domestic environment remains unfavourable and global trading conditions are deteriorating. The energy shortage will persist for at least the next five years, which combined with other infrastructure defects, an impaired labour market, fragile fiscal metrics and persistent social instability will continue to undermine growth prospects and elevate risk premiums elevated. This will keep hurdle rates for new investments at high levels. In additions to these underlying challenges, the global business cycle is turning. Persistently high global inflation and much tighter monetary policies are likely to result in a global economic slowdown over the next 12 to 18 months. Weaker global demand will eventually tame commodity prices, which could convince some companies to err on the side of caution and postpone capital outlays. In conclusion, we expect a gradual improvement in fixed investment over the next five years, driven by pockets of activity in certain sector, but the downside risks are significant.

Chart 2: Gross fixed capital formation – Recent trends and Nedbank forecast



Source: Stats SA & Nedbank Forecast

APPENDIX 1: LARGE CAPITAL PROJECTS ANNOUNCED SINCE 2021 THAT ARE LIKELY TO DRIVE FIXED INVESTMENT ACTIVITY

Year	Announced date	Project name	Company name	Estimated completion date	Estimated value (R million)
2021	Feb-21	Lanseria Smart Mega City	Crosspoint, with the Gauteng Department of Human Settlements	Dec-41	500000
	Nov-21	Eskom grid infrastructure investment plan	Eskom	Dec-32	178000
	May-21	Renewable Energy Independent Power Producer Procurement Programme (REIPPP) - Fifth round - 25 projects	Various companies	Dec-26	50000
	Feb-21	South African National Roads Agency Limited (SANRAL) N2 and N3 highway upgrade	SANRAL	Dec-22	30000
	May-21	SA Connect Phase 2	Department of Communications and Digital Technologies	Dec-30	20000
	Mar-21	Gauteng Department of Roads and Transport infrastructure project book	Gauteng Department of Roads and Transport	Dec-30	17400
	Feb-21	Ford SA Silverton factory upgrade	Ford	Jun-22	15800
	Oct-21	Vantage Data Centres Johannesburg Campus	Vantage Data Centres - DigitalBridge Group and PSP Investments	Dec-25	15243
	May-21	One Stop Border Posts	Department of Home Affairs and Border Management Authority (BMA)	Dec-30	6000
	Mar-21	Two Rivers Merensky project	African Rainbow Minerals (54%) and platinum group metals producer Impala Platinum (46%).	Dec-22	5700
	Mar-21	Gauteng Department of Roads and Transport infrastructure project book - Private developer contribution	Various	Dec-30	5600
	Sep-21	Zaaiplaats gold project	Harmony Gold	Dec-25	4500
	Feb-21	K4 platinum group metals (PGMs) project	Sibanye Stillwater	Dec-22	3900
	May-21	Strategic Integrated Projects - Student Housing Infrastructure Programme	Department of Higher Education and Training (DHET)	Dec-30	3400
	May-21	Saldanha Bay Industrial Development Zone Phase 1	Saldanha Bay Industrial Development Zone (SBIDZ)	Dec-30	3200
	Sep-21	Kareerand tailings facility	Harmony Gold	Dec-25	3200
	May-21	Crocodile Mokolo water augmentation project (CMWAP) - Phase 2	Department of Water Affairs and Trans-Caledon Tunnel Authority (TCTA)	Dec-30	3000
	Jun-21	PRASA Cape Town commuter train service	Passenger Rail Agency of SA (PRASA)	Dec-24	3000
	Oct-21	Sibanye-Stillwater platinum group metals (PGMs) operations solar photovoltaic (PV) projects	Sibanye-Stillwater	Jan-25	2500
	Jan-21	SAB investment plan	South African Breweries (SAB)	Dec-22	2000
	Apr-21	Bekezela Colliery greenfield project	Menar, subsidiary of Canyon Coal	Dec-23	1500
	Apr-21	Inxuba Yethemba local municipality road projects.	South African National Roads Agency Limited (SANRAL) and Inxuba Yethemba local municipality	Dec-24	1200
	Apr-21	Transvaal Gold Mining Estate Ltd (TGME) underground project.	Theta Gold Mines	Jun-23	1009

APPENDIX 1: LARGE CAPITAL PROJECTS ANNOUNCED SINCE 2021 THAT LIKELY TO DRIVE FIXED INVESTMENT ACTIVITY - CONTINUE

Year	Announced date	Project name	Company name	Estimated completion date	Estimated value (R million)
2022	Jan-22	Green hydrogen plant	Hive Hydrogen and Linde, through its wholly owned South African subsidiary Afrox	Dec-26	75000
	Jun-22	Salvokop mixed use government district	Public Works and Infrastructure	Dec-25	18000
	Mar-22	Gamsberg Phase 2 expansion project	Vedanta Zinc International	Dec-24	7000
	Feb-22	Investec Property logistics hub	Investec	Dec-23	6000
	Feb-22	Nkuna Smart City	Masingita Group of Companies	Jun-24	5500
	Apr-22	Marula Phase II	Impala Platinum	Dec-28	5100
	Jan-22	Mototolo/Der Brochen life extension project	Anglo American Platinum (Amplats)	Dec-24	3900
	Jan-22	South32 aluminium plant	South32	Dec-23	3000
	May-22	Pick n Pay Eastport distribution centre	Pick n Pay and partner Fortress Reit	Dec-23	2000
	Jan-22	Mnambithi Terminals	Mnambithi Terminals	Dec-23	1500
	Feb-22	Dakota Precinct.	Improvon and Nedbank	Dec-24	1300
	Mar-22	Bidvest liquid petroleum gas facility	Bidvest	Dec-23	1000
	May-22	Virginia Gas Project	Reenergy through its subsidiary company Tetra4	Jun-23	1000

APPENDIX 2:

What is fixed investment?

- Fixed investment is spending on physical assets such as buildings, infrastructure, plant, machinery and equipment, which adds to production capacity.
- Fixed investment is a flow concept, consisting of additions to the capital stock of a firm, a public enterprise or government.
- It can take two forms:
- Replacement investment maintains the existing capital stock, replacing depleted or fully depreciated assets.
- Expansionary investment allows for the production of more goods and services. These are projects that increase production capacity, such as new plants or infrastructure and expansions to existing operations.
- It is not easy to distinguish between these two types of investments. There are many grey areas. The overhaul or refurbishment of existing plants with new machinery and equipment more often than not expands capacity, enabling the production of more goods and services at a lower cost through the use of improved design, processes and technology.

What is Nedbank's Capital Expenditure Project Listing?

- Nedbank's schedule is a record of major capital projects undertaken within SA's borders.
- The schedule only includes projects that have been announced to the public. The information is gathered from a variety of sources, but the listing would not be possible without the valuable work done by Engineering News and Mining Weekly.
- The schedule tries to isolate and record expansionary projects, but also includes the automation or modernisation of existing capacity. These projects are included because they result in the production of more goods and services by improving the productivity of existing operations.
- Only projects of R20 million and above are included. The details of all projects over R250 million are verified directly with the company or institution undertaking the investment. This implies that the schedule does not always reflect changes to the scale, the value, starting and ending dates of the projects below this cut-off value.
- Nedbank's project listing is not an approximation of the official fixed investment figures, which records actual fixed investment spending in a quarter. The listing records project announcements. There is always a lag between when a project is announced and the spending starts. The schedule is a rough guide of the trajectory of fixed investment in the years ahead. It is also a useful guide to identify and track activity in the various industries.

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