

IDC still has its eye on massive expansion

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NOT QUITE RUN OF THE MILL

The Industrial Development Corporation (IDC) has, for the second time in five years, set itself the target of disbursing R100 billion in five years.

That's the same target it set for the period 2009 to 2014, when it was put under the control of Economic Development Minister Ebrahim Patel's then new department.

It ended up disbursing R47 billion in those five years, which was still a huge jump after the country's central developmental financier had mostly languished from the late 1990s onwards.

The IDC and Patel, whose department is a shareholder, were in a self-congratulatory mood when they presented the corporation's annual results on Thursday.

The IDC "clearly cannot fund unviable projects" and has been trying to build a pipeline of proper projects, said Patel.

Fitch Ratings upgraded the IDC's national issuer rating to AA+, about as high as it can go, on the same day.

Fitch put out a glowing press release about how the IDC was virtually guaranteed "extraordinary support" from government if anything ever went wrong, but would not be needing that support any time soon because it is also "extremely" well capitalised and creditworthy in its own right.

IDC financial chief Gert Gouws seized the opportunity to stress, more than once, that an upgrade was "against the trend" for a South African state-owned company.

The company intends to double its debt from R20 billion to R40 billion by issuing bonds and borrowing from other development finance institutions.

This doubles its ability to provide funding for projects.

Expansion is not without risk and the IDC is "not comfortable" with its rate of impairment on loans, which is 18%, according to Gouws.

The IDC's workout and restructuring unit, which intervenes when clients are struggling, has seen its activities grow.

In 2012, R5.8 billion in loans were under workout, 16% of the total.

This year, it is R10 billion in loans, 18% of a much larger total and affecting 21%

Details emerged this week about the IDC's plan to help build a major new steel mill in South Africa with a Chinese consortium.

Hebei Iron & Steel and the China-Africa Development Fund will take the majority share, probably as high as 70%, according to the IDC's Gouws.

That does not mean the IDC will carry all of the remaining 30% of what is estimated to be a R45 billion project, which would amount to R13.5 billion.

The IDC will look for equity and debt partners, says Gouws.

The price tag vastly overshadows the rest of the IDC's multifaceted steel strategy since it fell under the control of the economic development department in 2009.

The IDC has put about R425 million in funding into a variety of small steel projects, apart from the R3.4 billion acquisition of Scaw Metals last year.

The smaller projects include three scrap metal-based "mini-mills" – Unica (Pretoria), Fortune Steel (Nigel) and Agni Steels (Coega) – that will ultimately produce a collective 290 000 tons of steel product a year.

The IDC's investments into these mini-mills is coinciding with the creation of new scrap metal export controls, based on preference prices for local users before anything

of clients.

The IDC approved R13.8 billion in funding in the year to March this year, and disbursed R11.2 billion, still far less than needed to reach the R100 billion five-year target.

The company presented the approvals as a record, but the IDC's funding is still relatively meagre compared with its heyday.

If funding approvals are adjusted for inflation by using the value of the rand last year, the past year's approvals of R13.8 billion pale in comparison next to R22 billion in 1994 and about R16 billion in 1998.

Those figures related to megaprojects like the Mozal aluminium smelter in Beluluane Industrial Park in Maputo, Mozambique.

The next five years will see the IDC

leaves the country. The controls have been implemented by the International Trade Administration Commission of SA (Itac), which sets tariffs and regulates trade.

According to Philip Snyman, Itac's senior manager for import and export control, it is too soon to tell if the regulations are working to increase the local supply of scrap at reasonable prices. The price preference system came into effect in September last year.

The new steel plant has the working title Masorini Iron and Steel on the IDC's books.

According to Qhena, the steel plant is meant to reach full capacity of 5 million tons by 2019 after a first 3 million ton phase is up and running in 2017.

A memorandum of understanding on the mill was reached in China last week.

The IDC fielded questions on Thursday about the wisdom of building so much new steel capacity while South Africa's steel monopoly, ArcelorMittal SA, is sitting with idle capacity.

The demand for steel throughout southern Africa is set to boom and the IDC can't wait for that to happen before taking the plunge to build capacity, according to Qhena.

The new steel mill is also intended to give ArcelorMittal SA a run for its money by undercutting its prices.

make the largest single investment in more than a decade – a brand new primary steel mill meant to give ArcelorMittal SA a run for its money – and make South Africa a go-to supplier for the infrastructure projects that are expected to balloon on the rest of the continent.

The IDC's shares in various large listed companies, particularly Sasol, remain a major source of its financial strength.

"We will not sell them for the sake of selling them," IDC CEO Geoffrey Qhena said in reply to questions on Thursday.

The dividends and capital growth are more important than any cash that selling the shares would provide, he said.

Dividends from these listed companies made up half of the IDC's R6.8 billion revenue in the year, excluding the revenue of its major subsidiaries like Foskor and Scaw Metals.