U.S. TRADE AND DEVELOPMENT AGENCY

EXECUTIVE SUMMARY

AFRIC OIL TERMINAL

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Sector: Oil & Gas Exploration & Development
Region: Africa/Middle East
Country: South Africa

1.1 Project Overview

Afric Oil, one of South Africa's Top 300 companies of 1999, was the first black controlled and managed oil company in South Africa when it was established in 1995. Afric Oil commands only approximately 11% to 2% of the South African liquid fuels market and competes with several large multi-national oil companies. The multinational oil companies have traditionally dominated the South African oil industry, although a recent trend has been that smaller companies have gained market share from the larger companies. This is largely as a result of several Black Economic Empowerment initiatives.

The industry is heavily regulated by the Department of Minerals and Energy Affairs and is complex and cumbersome as a result. Government is investigating methods of re-regulating the industry to increase its efficiency, but also protecting the newly emerged smaller oil companies.

Afric Oil has no refining capacity and, as a result, is required to purchase product from its competitors. Afric Oil would like to reduce its dependence on these suppliers by importing product directly from international refineries. This method of procurement is also expected to save Afric Oil approximately 8% of its current product cost. This requires an import permit from the Department of Minerals and Energy Affairs, which has traditionally only granted permits should market demand be greater than South Africa's refining capacity for that product. SAPIA's latest annual report shows that this imbalance is not likely to occur before 2003, when only relatively small amounts of petrol and illuminating paraffin may be required. Afric Oil believes that it will be able to obtain this permit from government as part of an innovative Black Economic Empowerment initiative to be supported by the re-regulation of the industry.

To reduce its dependence on other members in the value chain, Afric Oil plans to build a storage and mooring facility outside Durban. This facility will enable ships to deliver product to Afric Oil without utilizing Durban Harbour, and will provide Afric Oil with significant storage facilities. The initial construction of the facility is estimated to cost approximately R390 million and will take approximately 16 months to complete. Thereafter, working capital financing of approximately R120 million will be required when its operation commences.

The success of the project will largely be determined by Afric Oil's ability to increase sales volumes and margins. The directors believe that the 15% growth in sales per annum assumed in their financial forecasts is conservative and should be easily achieved. The level of Afric Oil's margin will largely be determined by government margin increases and its ability to consistently import product at a cost cheaper than local costs (IBLC).

Mkhuseli Faku was appointed as the Managing Director of Afric Oil in 1997 and has retained his position since then. He is a well-respected businessman in South Africa and is committed to the long-term success of Afric Oil.

1.2 Description of Facilities

The Afric Oil Terminal Project will consist of the following:

- Pipeline end manifold (PLEM) and single point mooring (SPM)
- 4.7 km (2.92 miles) of 24-inch offshore pipeline
- 2.0 km (1.24 miles) of 24-inch onshore pipeline
- Six product tanks:

  Two 24000 M3 (151000 barrels) diesel tanks

  Two 12000 M3 (75500 barrels) petrol tanks

- Two 12000 M3 (75500 barrels) kerosene tanks
- Rail loading facilities
- Truck loading facilities
- Pumping facilities (for delivery to the Petronet system)
- Metering facilities

TABLE 1.1: Yearly Product Throughput Schedule

This table was omitted due to format.

1.3 Cost Estimate

ITEM	COST (USD)	COST (ZAR)
Pipeline Material	$2,223.256	R13,717,492
Pipeline Construction	$9,070,576	R55,965,454
Offshore Material And Installation	$13,600,000	R83,912,000
Terminal Material And Installation	$11,628,600	R71,748,462
Factored Costs	$17,429,666	R107,541,038
Total Cost	$53,952,098	R332,884,446

1.4 Project Economic Feasibility

Based on the sensitivity conducted in section 9.5 of this report, it appears that the SMF project is feasible given management's assumptions. The sensitivity analysis showed however, that should some of the key assumptions be slightly different to those forecast, the feasibility of the project could be threatened. Management's assumptions appear to be the minimum threshold for the project to be feasible. Normally a level of contingency built into the assumptions would provide further comfort on the feasibility when assessing sensitivities.

It is assumed that the balance of the assumptions made in section 9.3 of this report, which were not considered under different scenarios are accurate. These assumptions were generated by discussions with the client and are in no way guaranteed. It is possible that these assumptions will be subjected to significant variation, which may result in the financial performance of the SMF being significantly different to that forecast in this report.