

Zambia Mining Report Q4 2011

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Abstracts

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Zambia's mining sector is set to continue the recovery seen over the last decade. The country had declining copper output throughout the 1990s but a mixture of low taxes, privatisation and elevated copper prices has seen a substantial boost to investment and output. We expect the value of the mining sector to reach US\$1.35bn by 2015 from US\$590mn in 2010, marking an annual average growth rate of 7.5%.

Copper Output To Surpass 1mtpa In 2014 Copper mining will remain the mainstay of Zambia's mining sector, with output reaching 1.3mnt (mn tonnes) in 2015, from 732kt ('000 tonnes) in 2010. Much of this growth will be driven by First Quantum, which expects to start to produce 190ktpa ('000 tonnes per annum) by 2014 at the Sentinel deposit and is increasing output at the Kanshanshi mine from 250 to 400ktpa in 2015.

We expect the country's copper production will surpass 1mtpa (mn tonnes per annum) in 2013, a year later than the Zambian government forecasts. The company appears to be focusing on Zambia as the centre of its African growth opportunities, after the legal wrangling with the DRC government over the Frontier mine. The other major contributor to growth will be Vedanta Resources, which is doubling output at the Konkola mine to 400ktpa in 2015.

Cobalt will exhibit similar levels of growth to copper as the two metals are generally mined together. In the short term, Equinox Minerals plans to double output at its Lumwana mine to 4.0ktpa in 2011. In addition, First Quantum's Kanshanshi mine is expected to increase cobalt production from 3.5 to 5ktpa in 2015. Overall, we expect Zambia's cobalt production to reach 13.4ktpa in 2015, marking average growth of 8.9% a year from 8.8kt in 2010.

Regulatory Environment Zambia's mining sector has been highly amenable to foreign investment since the privatisation of the state controlled Zambia Consolidated Copper Mines (ZCCM) at the end of the 1990s. Indeed, while one of the opposition parties, the Patriotic Front, has stated that it seeks greater control of the mining sector and will increase taxes on mining companies, our country risk team expect the ruling party to remain in power and sustain the country's investor-friendly outlook.

Aside from its substantial high-grade copper reserves, Zambia's mining sector is favourable to mining companies as the government recently ruled out the reintroduction of the windfall tax on mining companies' profits. This gives Zambia a competitive advantage over other large copper producers such as Australia, Chile and Peru where levies on mining output have been proposed or already implemented. We expect Zambia to remain a business-friendly environment as foreign investment in the country's mining sector is a key part of the Zambian government's plans to maintain strong growth over the coming years.

Key Players Zambia's mining sector is dominated by a few foreign copper mining companies, most notably First Quantum and Vedanta Resources. We forecast the sector will remain dominated by foreign mining companies as the government has privatised all the former state assets involved in mining and has given no indication of plans to re-enter the sector. We expect to see the sector remain consolidated as most of the growth plans have been announced by companies already present in the country.

That said, Vale is set to enter the sector with the development of the 50ktpa Konkola North copper mine in 2012. This mine is part of Vale's plans to invest between US\$15-20bn in Africa over the next five years, from US\$2.5bn in 2010.

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Vedanta Resources

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Copper

Aluminium

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Nickel

Tin

Zinc

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