Experian Business Debt Risk Overview Report • Q4 2013

Experian SA in partnership with Econometrix, a leading South African economics research unit, publishes the **Experian Business Debt Risk Overview** report on a quarterly basis.

The report consists of three main sections: the Experian Business Debt Index (BDI), a macro-economic overview and a sectoral debt analysis.

The report provides a concise international and domestic macro-economic overview, highlighting selected indicators and a forecast of key variables of the South African economy and its nine major sectors (namely agriculture, mining, manufacturing, electricity, construction, trade, transport, finance and services). A more detailed analysis of the debt situation in each sector (with regard to debtors' days, the age categories of debt, judgments and liquidations) are included in the report.

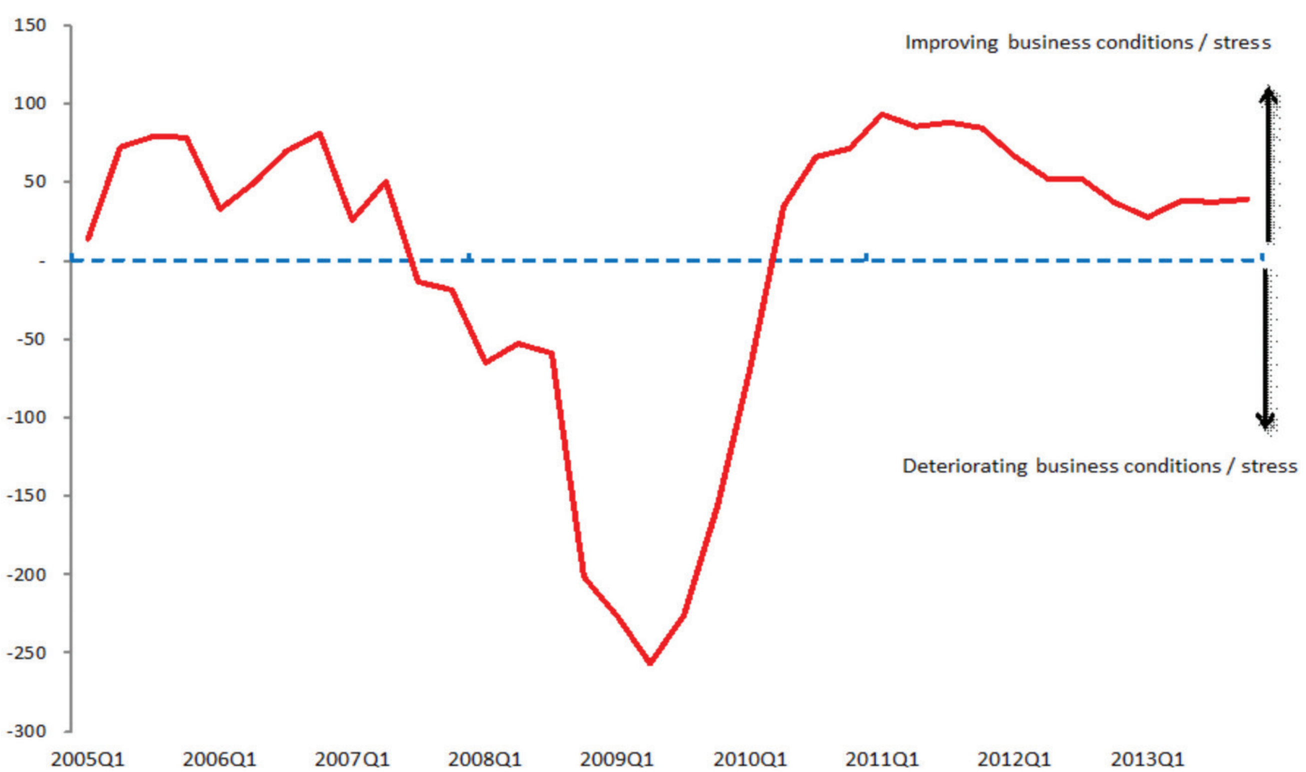
The Experian BDI is an indication of how the players in the business community in South Africa are settling their credit arrangements with suppliers – it is a reflection of the overall position of debt settlement between businesses in the economy.

The report provides clients with meaningful insight to the South African economic climate supporting them in the development of their organisation strategy.

Extract from the **Experian Business Debt Risk Overview**

The Experian business debt stress indicators for South Africa show that debt stress amongst businesses continued to fall in Q4 2013, but did not do so at an extraordinarily rapid pace. The rate of improvement in business stress remained more or less constant compared with Q3 (Chart 1).

CHART 1
Experian Business Debt Index



Extract from the **Experian Business Debt Risk Overview – Debt per Sector : Mining**

Credit Risk Benchmark	At risk	Neutral	Good

Industry trend 2014/15

Following the rejection of resource nationalisation as a policy option at the December 2012 ANC elective conference, continued instability in the labour relations framework remains one of the main risks facing the mining sector in 2014. In an environment of recovering external resource demand in industrialised economies, labour unrest in the domestic mining sector has resulted in costly production shutdowns and re-runs, which has weighed on mining productivity growth. Forgone export earnings from lower mining export volumes are likely to add to the sovereign risk premium, given that South Africa already runs significant external account imbalances. While this is likely to add further downward pressure on the exchange rate of the Rand against major currencies, which actually boosts profitability metrics for mining businesses, it also has a negative impact on overall investor confidence. A sustained decline in mining productivity throughout the year could therefore increase the probability of a sovereign credit risk downgrade, other things being equal. This has negative ramifications for capital investment growth in the mining sector.

Business confidence levels deteriorated in the fourth quarter of 2013 following an improvement in the third quarter of last year. According to the Merchantec CEO confidence index for Q4 2013, the basic materials sector experienced a 2.5% decline in the final quarter of 2013. However, one anticipates that the sharp depreciation in the exchange rate of the Rand going into 2014 is likely to anchor confidence levels in the wake of the re-emergence of industrial action in the sector. The weaker Rand will salvage profitability levels in the sector in the face of rising input cost pressures and falling ore grades due to increasing mine depths posing key risks to longer-term profitability in the industry. With capital investment likely to remain at risk as the year progresses, productivity growth will remain constrained.

Key macro indicator of the sector : Mining Production

Outcome for Q3 2013

Mining production growth increased to 8.4% y/y in Q3 2013, after following a contraction of -3.0% y/y growth in Q2. However, after rising by a sharp 22% y/y in October, the latest official statistics show that mining production growth fell back to 5.1% y/y in November 2013.

Growth in mineral sales increased 6.0% y/y in Q3 2013 after a 1.6% y/y rise in Q2 2013.

Outlook

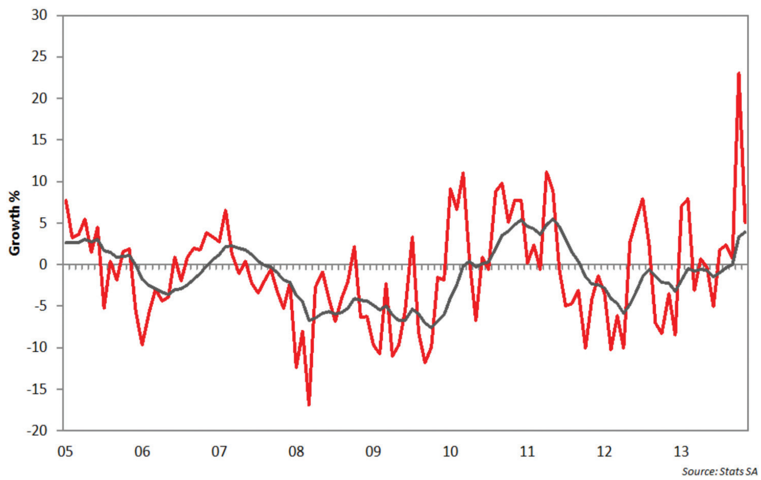
Uncertainty with regard to China's industrial demand growth outlook remains the dominant theme for the industrial commodity price outlook. China's GDP growth, at an annualised growth rate of 7.7%, undercut consensus expectations, pointing to a steady but still tepid recovery in industrial production growth as well. While China's growth is well above most developed economies' growth rates, which provides a positive signal for industrial commodity demand and the domestic mining sector, it is still not a resounding signal for a robust recovery in commodity demand. This could filter negatively into domestic mining productivity growth going forward, as the economic viability of a robust recovery in capital investment in the sector, from a cost-benefit perspective, is not yet favourable given the still subdued global resource demand climate. While the Rand's recent sharp depreciation has supported productivity gains in the sector, the prospects for a further sharp depreciation in the exchange rate of the Rand, from an economic fundamentals perspective, are limited. The lack of capital investment growth, as a result of mining tax policy uncertainty, and business risk caused by the persistent risk of a fall-out in labour relations are likely to weigh heavily on productivity growth in the sector. As a consequence, an elevation in global commodity prices, if it occurs in the months ahead, is unlikely to be met by a rise in domestic mining production as a result of the current lack of capital investment activity in the sector. The rising cost of production, which has partly been absorbed by the weaker exchange rate of the Rand, coupled with falling ore grades, will remain key limiting factors on mining production growth over the medium to longer term.

Reasons for decline

The increase in mining production growth reflects the positive impact from production re-runs following labour related disruptions in Q2 2013. Persistent instability in the labour relations environment in the sector is likely to remain a drag on productivity growth going forward. While industrial action has been contained in the gold mining industry, labour unrest has persisted in the strategically significant platinum sector.

AMCU has instituted further industrial action at major operations along the platinum belt and will stifle overall productivity growth.

Total Mining Production Growth



Age categories of debt (growth)

Outcome for Q4 2013

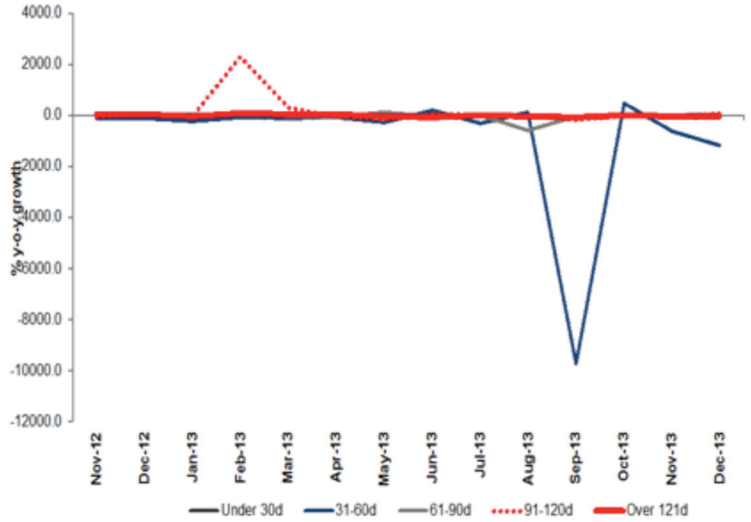
A total of R8.3bn in business-to-business debt was owed by businesses in the mining sector in Q4 2013, down from R9.7bn in Q3 2013. These figures were much lower than the double-digit figures observed since the second half of 2011.

Outlook

Rising input costs in the mining sector will remain a key business risk factor and are likely to keep business to business credit levels in the mining sector elevated in the shorter to medium term. However, the improving global economic prognosis, with advanced economies' growth ticking higher, is likely to anchor demand for resources and support commodity prices. Another redeeming feature for mining in the coming year is the fact that the Rand has depreciated still further. This ought to help generate increased revenues for the same volume of mining production, and should result in improved business cash flow positions.

Certain mining operations, which tend to be electricity intensive, were ordered to reduce production at certain times to conserve the usage of electricity, which depressed production in the sector. Electricity constraints, together with ongoing strike activity in some segments of the mining sector remain a key downside risk to productivity and could introduce renewed stress on business balance sheets, which would raise business-to-business credit levels again. As a result, one should expect continued moderation in the levels of business-to-business credit levels going forward.

Growth rate (y-oy) in age categories of debt owed by businesses: Mining



Debtors' days

Outcome for Q4 2013

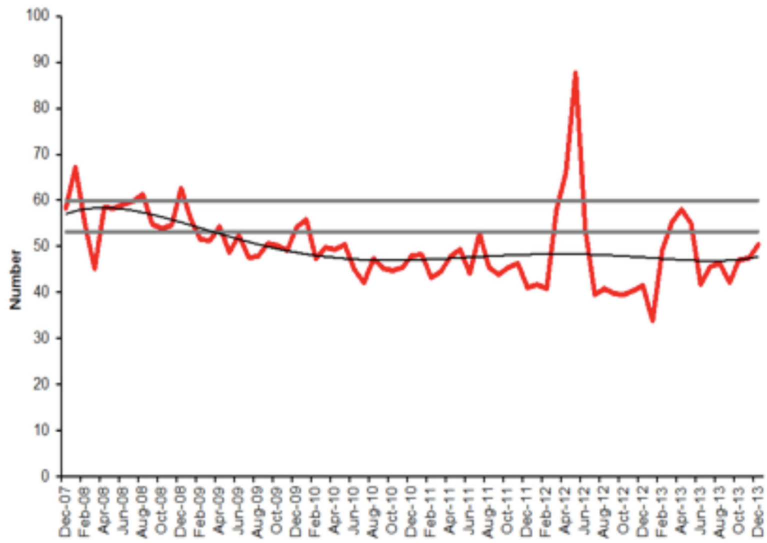
Debtors' days increased to 48.3 days in Q4 2013 from 44.7 days in Q3 2013.

Outlook

The rise in average debtors' days reflects an increase in underlying business credit risk in the mining sector. Much of this is as a result of mining production being severely hampered by regulatory considerations as well as by industrial action.

The unremitting drag on productivity levels in the sector, as a result of unstable labour relations and low levels of capital investment growth, pose an upside risk to average debtors' days over the shorter to medium term.

Average debtor's days: Mining & Quarrying



Judgements

Outcome for Q3 2013

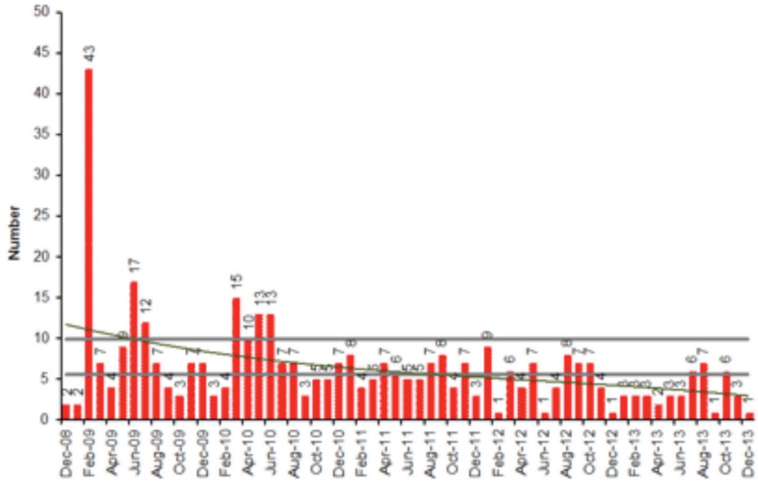
The total number of judgments in the mining sector fell to 10 in Q4 2013, from a higher 17 over Q3 2013. The overall number of judgements per annum appears to be on a downward trajectory.

Outlook

The sustained low number of judgments in 2013 is consistent with a relative improvement in business balance sheet health during this time period. The weaker exchange rate of the Rand will continue to support net profitability metrics in the sector, which should weigh on the number of judgements. However, disruptions from renewed labour unrest in the sector, most recently in the platinum sector, could exert upward pressure in judgements going forward as a result of loss in production due to prolonged industrial action.

Rising cost pressures, from all of energy, wages and extraction costs, and through higher inflationary pressures from Rand weakness, also pose a risk to the current falling trend in judgements.

Judgements: Mining & Quarrying



Liquidations

Outcome for Q3 2013

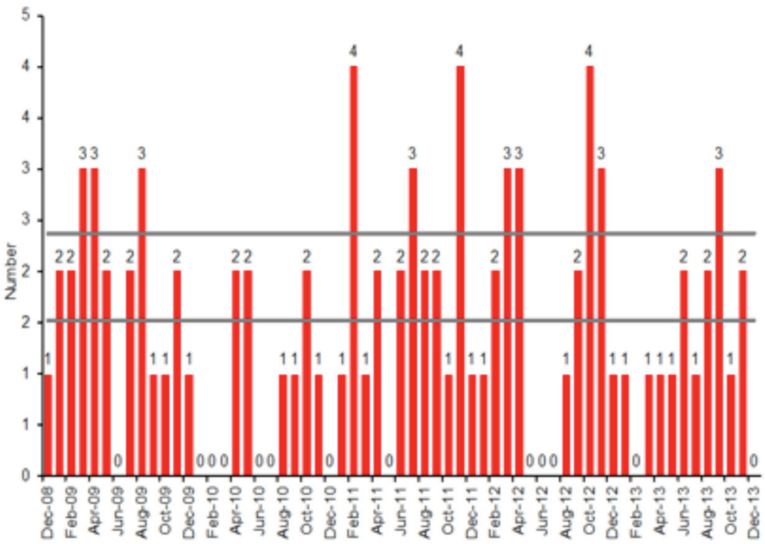
The total number of liquidations fell back to three in Q4 2013, down from six in Q3 2013 and eight in Q4 2012.

Outlook

The number of liquidations appears to be falling on an annual average basis. This trend could however start edging up due to downside risks in the sector. Downward pressure on productivity growth due to continuous strike activity coupled with increasing cost pressures if wage agreements are to go through, constrains the economic capability of operations in the sector.

On a positive note however, improved conditions in growth in the Eurozone and other advanced economies will be supportive of commodity demand and price gains over the shorter term at least. The renewed weakness in the exchange rate of the Rand, mostly due to tapering off of quantitative easing which will ensue, could well support net profitability levels in the sector and sustain downward pressure on the average number of liquidations in the sector.

Liquidations: Mining & Quarrying



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