

SOUTH
AFRICA

Factsheet

2020

Investing in South Africa's Railway Industry



the dti

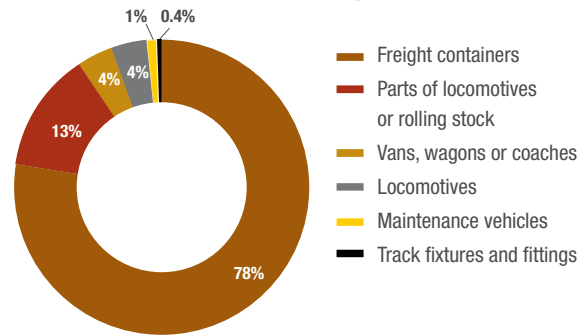
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

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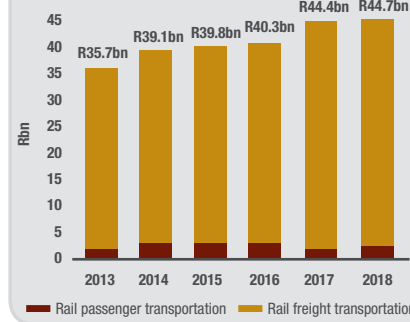
Rail in South Africa

- > South Africa's railway network is the domain of state-owned Transnet Freight Rail and the Passenger Rail Agency of South Africa (PRASA).
- > Transnet Freight Rail is the largest railroad and heavy hauler in Southern Africa, with approximately 21 000km of rail network, of which about 1 500km are heavy haul lines. Its rail infrastructure represents about 80% of Africa's total.
- > Over the last five years, approximately 220 million tonnes of freight was transported by rail per year. On average, rail accounts for 25% of total freight movements in South Africa.
- > PRASA is responsible for most of the passenger rail services in the country. It owns a 2 280km rail network and has access to Transnet's freight network.
- > In 2018, more than 20 million passenger trips per month were made by rail.
- > In 2018, South Africa exported more than US\$200m of railway-related goods, reflecting its manufacturing competitiveness in the sector.
- > An estimated 100 local companies and a number of international players are involved in the railway industry.

Rail-related exports, 2018



Income from rail transport (Rbn), 2013-18



South Africa accounts for

80%

of Africa's rail infrastructure

US\$200m

in rail-related exports in 2018

Why invest?

Major investment drive

Over the past six years, Transnet's capital investments averaged close to R30bn per year. Over the next 30 years, Transnet plans to invest R167bn in rail infrastructure and R283bn in rolling stock infrastructure.

Close to R30bn
capex per year



US\$157m
freight container exports



Competitive manufacturing capabilities

South Africa has globally competitive engineering capabilities. Transnet Engineering is a leading supplier of rolling stock (including heavy freight wagons) to the rest of the African continent. The subsidiary of Transnet produces 4 500 wagons per year with coal, iron ore and manganese wagons being among its flagship products.

Robust sector growth

Between 2008 and 2018, rail transport income increased by more than 9% annually, outperforming income growth in the road transport sector. Expected increases in the production of bulk commodities such as coal, iron ore and manganese will continue to drive demand for rail freight.

9%
annual growth in rail transport income

Established supply chain

South Africa is well endowed with natural resources including iron ore and manganese. The ready access to raw materials has led to the development of a metal fabrication industry that is capable of supply inputs such as steel and speciality alloys into the railway manufacturing sector.



1 200
new trains by 2035



6.4m
tonnes annual steel production

Fleet Renewal Programme

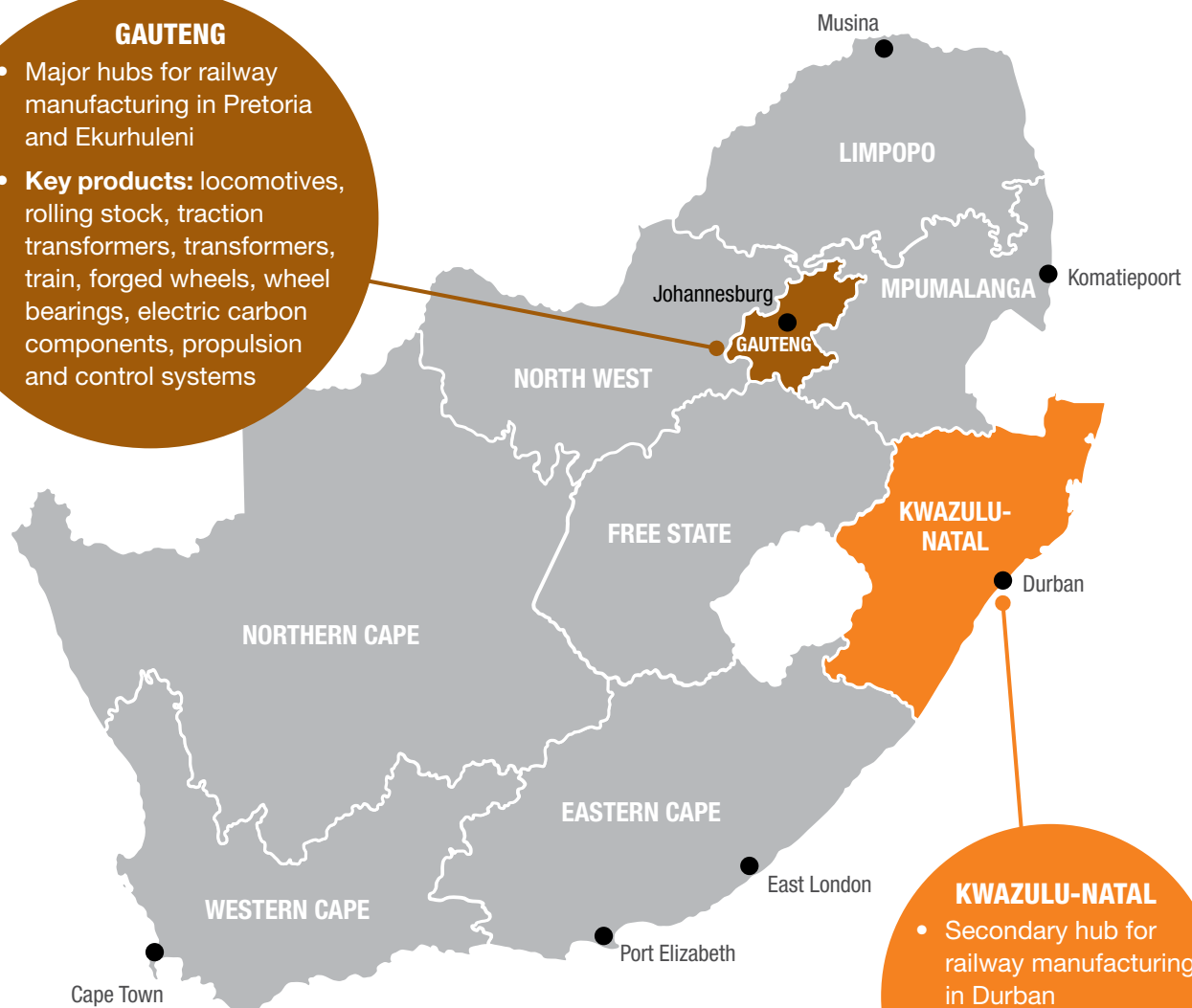
PRASA intends to procure 1 200 new trains consisting of up to 7 224 rolling stock over a 20-year period. The first 600 trains are expected to be delivered by 2025 at a cost of R58bn. The remaining trains will be procured between 2025 and 2035. Given the 65% local content requirement, this programme is expected to create attractive opportunities for local manufacturing.

Where to invest?

- > Transnet Freight and PRASA operate the most extensive rail networks in the country, connecting all provinces, and connecting South Africa to the rest of the region.
- > Metrorail's rail network services the major metropole areas in Gauteng, KwaZulu-Natal, Eastern Cape and Western Cape. Metrorail is a division of PRASA.
- > Shosholoza Meyl, a division of PRASA, connects Johannesburg to Cape Town, Port Elizabeth, East London, Durban, Komatipoort and Musina.
- > The Gautrain, Africa's first high-speed urban train, connects Pretoria and Johannesburg to OR Tambo International Airport.
- > Local and international railway-related manufacturers are concentrated mostly in Gauteng, as well as in KwaZulu-Natal.

GAUTENG

- Major hubs for railway manufacturing in Pretoria and Ekurhuleni
- **Key products:** locomotives, rolling stock, traction transformers, transformers, train, forged wheels, wheel bearings, electric carbon components, propulsion and control systems



KWAZULU-NATAL

- Secondary hub for railway manufacturing in Durban
- **Key products:** locomotives and rolling stock

Key investors in South Africa's railway industry:

BOMBARDIER



What support exists?

- > Given the sector's strong contribution to overall economic growth and its spill-over effects to other sectors, the South African government is committed to creating an enabling environment for both local and international investors in the sector.



Critical Infrastructure Programme (CIP)

The CIP is a cost-sharing incentive available to approved applicants or infrastructure projects. Infrastructure is deemed "critical" to the investment if the investment would not take place without it, or if the investment would not operate optimally.



Downstream Steel Industry Competitiveness Fund (Dscif)

The Industrial Development Corporation's Dscif provides quasi equity and loans for activities such as upgrades of plant machinery and equipment, capacity expansion of existing plants, process improvements, working capital, industry quality certification and development/testing of prototypes.



Transnet Enterprise Development Hub

Transnet, in partnership with other government entities, offers business development and support services, training, financial support, procurement advisory services, Central Supplier Database registration and queries services through its Enterprise Development Hub programme.



Skills Development

Transnet's award-winning School of Engineering offers a range of accredited training and skills development programmes for the railway and engineering sector.

1st in 2015:
Transnet Engineering's Durban facility became the first fabricator in the Southern Hemisphere to be certified to the highest level of EN/ISO 15085-2.

1st in 2009:
In February, the Gautrain, Africa's first high-speed urban train, made its maiden public passenger trip.

What are the opportunities?

- > In addition to rolling stock and rail infrastructure development driven by government procurement, the supply of raw materials, parts, components and services provides attractive opportunities for local and foreign investors.

Key opportunities in the railway value chain include:

- Bulk cars and dedicated **rolling fleets**
- Railway **parts** and **components**
- **Advanced materials**
- Smart **signalling** and **operations** automation
- **Refurbishment** and **maintenance** services
- **Security** equipment
- Route design and **network planning** services
- Automatic/smart **fare collection** systems
- Rolling **stock depot** design services
- Train **station re-design** and upgrade services
- **Components:** use of composites

How to invest?

Opportunity identification

- 1 Conduct feasibility study for your product or service
- 2 Evaluate outcome of feasibility study
- 3 Take investment decision
- 4 Decide on investment strategy in order to best align to the market opportunity

Go ahead



Location identification



Resourcing requirements (HR, capital, finance, IT)



Compliance and legal affairs

Investment preparation

- ✓ Decide on geographic location most suitable for investment
- ✓ Consult property specialists, real estate agents to identify suitable offices for operations
- ✓ Conduct site visits of suitable locations
- Consult with HR/recruitment agencies about staff requirements
- Determine immigration requirements
- Determine funding model (e.g. self-funding, debt, equity)
- Consult with IT systems providers
- Determine corporate structure
- ✓ Determine licensing and permit requirements
- Consult with labour lawyers
- ✓ Consult with InvestSA to identify eligibility for incentives, skills and other support initiatives

Investment execution

- Acquire/lease site, rent office space
- Apply for municipal services (e.g. water, electricity)
- Conduct interviews, hire staff
- ✓ Apply for work permits for expatriate staff
- Open a bank account
- Apply for finance
- Set-up IT infrastructure/systems
- ✓ Register company
- ✓ Apply for licenses and permits
- ✓ Apply for National Level Incentives Schemes, Skills and Other Support Programmes

✓ InvestSA ready to assist



Key contacts for more information

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Information sources

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Research partner | **Deloitte.**



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