

# Overview of the agricultural industry in South Africa

Research: 2013

South Africa has a dual agricultural economy, with both well-developed commercial farming and more subsistence-based production. Agricultural activities range from intensive crop production and mixed farming in winter rainfall and high summer rainfall areas to cattle ranching in the bushveld and sheep farming in the arid regions.

South Africa is among the world’s top five exporters of avocados, grapefruit, tangerines, plums, pears, table-grapes and ostrich products. Sugar accounts for the largest export value as well as wine, citrus fruit, grapes, preserved fruits and nuts. The other large export groups are maize, fruit juice, wool, and deciduous fruit (such as apples, pears, peaches and apricots). Finally, a number of high-growth niche markets are emerging, such as herbal beverages and luxury seafood.

## Competitive advantages

South African agriculture and agribusiness have a number of competitive advantages, making the country both an important trading partner and a viable investment destination.

## Emerging economy

Ranked 52nd and 3rd among the BRICS on the WEF competitive index (1), South Africa is one of the largest economies in Africa. The country has a relatively stable democracy and a low level of sovereign risk (S&P and Fitch ratings BBB, and Moody’s rating Baa1).

## World-class infrastructure

South Africa has three deep-water ports, three international airports, a network of roads and railways, well-developed cold chain facilities, and a sophisticated financial sector.

## Counter-seasonality to Europe

South Africa’s counter-seasonality to Europe, the country’s primary export market for horticultural and floricultural products, is a major competitive advantage. South Africa is the closest major southern hemisphere exporter of horticultural and floricultural products to Europe, and has significantly shorter shipping times than its rivals.

## Biodiversity

South Africa’s diversity of climates - tropical, subtropical and desert - allows for a vast and varied array of agribusiness enterprises. South Africa has almost 3,000 kilometers of coastline, which is commercially used both for conventional harvesting and for marine-culture and aquaculture.

## Competitive input costs

While South Africa boasts infrastructure comparable to first-world countries, its cost structures remain highly favorable. Electricity is still relatively inexpensive, and labor rates are also competitive.

## Trade agreements

South Africa’s agriculture and agribusiness sector are benefiting from increased market access to its key trading partners, the EU and the US, as well as to sub-Saharan countries, through a number of trade agreements.

## Secure land ownership

South African property law provides for various types of registered land title including freehold title, long lease and sectional title. The land system provides both local and foreign owners with security of title.

## Key figures

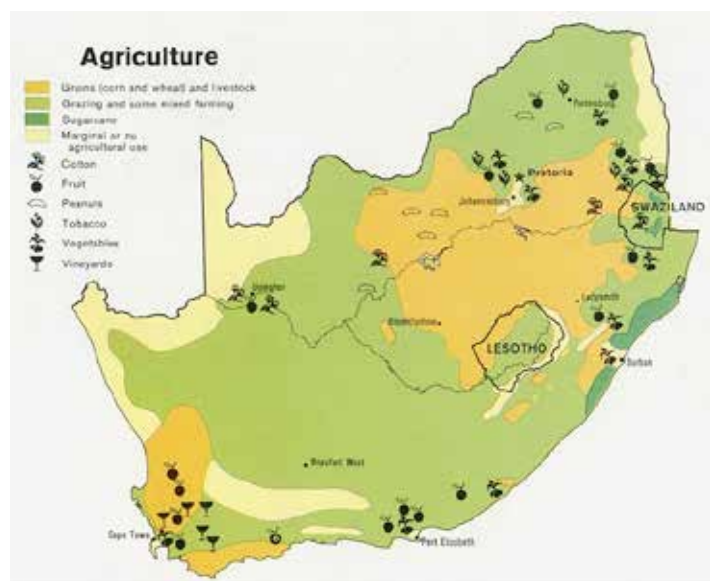
| Macro   |       |
|---|-------|
| Population (millions)   | 52.90 |
| GDP (US\$ billions)   | 382   |
| Agricultural share of GDP (%)   | 2.52  |
| CPI (%)   | 5.9   |
| Percentage of agricultural import over total import (%)                     | 5.37% |
| Percentage of agricultural export over total export (%)                     | 7.20% |
| Total value agricultural production (US\$ billions)                         | 23.79 |
| Total land and fixed improvements value on commercial farms (US\$ billions) | 18.22 |
| Total value of commercial farm debt (US\$ billions)                         | 10.37 |
| Total value of agri CAPEX (US billion)                                      | 1.55  |

| Resources                                |        |
|--|--------|
| Superficie (million square km)           | 1.2    |
| Length coastline (km)                    | 3      |
| Total arable land (1000 ha)              | 14,350 |
| Percentage total country area cultivated | 12.60% |
| Number of cattle (millions)              | 13.9   |

| Infrastructure                                      |        |
|---|--------|
| Number of commercial ports                          | 8      |
| Size of route and railways network (km)             | 21,224 |
| Number of commercial farms (000)                    | 40     |
| Agricultural area equipped for irrigation (1000 ha) | 1,670  |

(1) World Economic Forum, Competitive Index 2012  
(2) Data source: BFAP, DAFF, FAOStat, AquaStat, IMF.

## Farm income and profitability



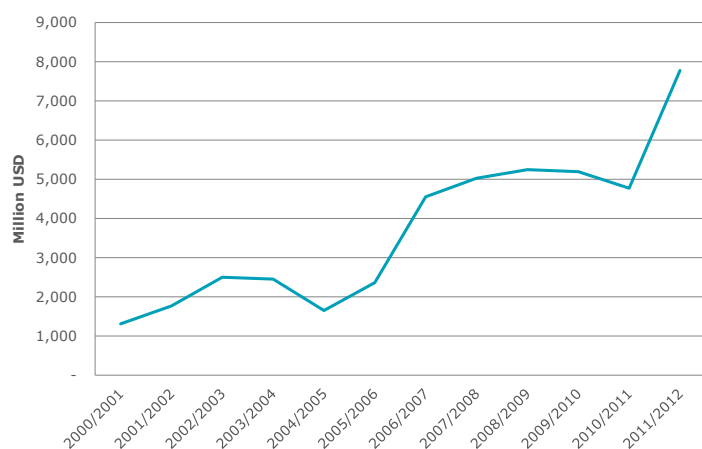
### Gross farming income (GFI)

Gross income from all agricultural products amounted to US\$ 23 billion for the year ended June 2012, which is 25% higher than the previous year. Over the past twenty years, farming gross income has increased by 14% per year on average. The Bureau for Food and Agricultural Policy's (BFAP), is bullish on near-term GFI growth with a more moderate long-term outlook. A decline in commodity prices would be counterbalanced by higher production volume driven by rising food demand both locally and on a global level. The South African population is projected to grow by 2% per annum reaching 82 million by 2035.

### Real net farming income (NFI)

Net farming income stood at approximately US\$ 7 billion for the year ended June 2012, which is similar to the previous year. Graph 1 shows that over the past decade, farmers' profitability has been volatile with a peak in 2008 which was reversed in 2011 as a result of a high growth in gross income compared to production costs.

graph 1. SA net farming income in USD



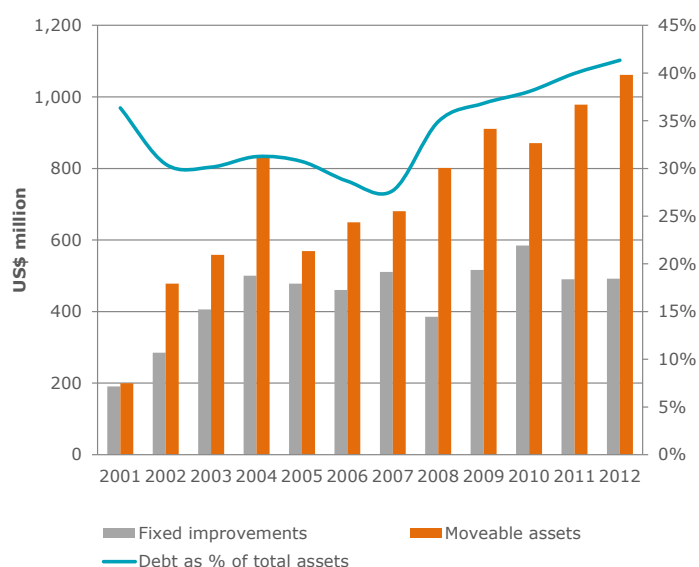
Exogenous factors such as weather conditions, international commodity prices, input costs (highly correlated to oil prices), stock levels, consumption demand and exchange rates will continue to weigh on farmers' results, however, we are of the view that in the long run, South African farming enterprises will further consolidate into large-scale production units and modernize through more mechanization and adoption of more efficient technologies, resulting in higher productivity, economies of scale and better profit margins.

### Historical CAPEX and debt levels

Capital expenditures in farmland, agricultural related assets and movables have increased on average by 10% between 2001 and 2012, reaching US\$ 1.55 billion (excl livestock). Leverage has steadily increased since 2007, particularly to finance acquisition of machinery, tractors and implements. In the next ten years, BFAP projects debt level to remain around 30%.

Financing is mainly sourced from commercial banks, the Land Bank and Cooperatives.

graph 2. Historical CAPEX & leverage



## Conclusion

South African agriculture is undergoing structural changes towards a more developed and efficient system which combines highly-skilled labor and technology (through mechanisation). The country has sufficient resources in terms of uncultivated arable soil and additional irrigated land to expand and intensify its production.

The Old Mutual African Agricultural Fund (OMAAF), which allocates 50% of its investments in South Africa, facilitates this transition by enabling the farmer to focus on the operations while freeing some capital and expanding the scale of the agricultural assets. Furthermore, every investment realised by OMAAF is tailored to generate social positive impacts on the farm and communities where it invests through specific programs in education, health and housing.

(3) SA Human Sciences Research Council, SA Deeds Office, SA Stats.

(4) UBS Global Asset Management, "Modeling Illiquidity Premia for Alternative Investments". 2008

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## Important notice

Old Mutual African Agricultural Fund (Luxembourg) ("the Fund") has been incorporated for an unlimited period under the laws of the Grand Duchy of Luxembourg as a "societe d'investissement a capital variable (SICAV) under the form of a "societe anonyme" on 31 May 2012 organized under Part II of the Law of 2010.

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