

## CREDIT SUMMARY

<b>ABC Mauritius Investments Ltd (Pty) Ltd. (“ABC Mauritius” or the “Borrower”)</b>			
<b>Date:</b>	March 25, 2017	<b>Facility Amount:</b>	\$10 million
<b>Borrower Country/Region:</b>	South Africa/Sub-Saharan Africa	<b>Currency:</b>	USD (No hedge)
<b>Jurisdiction (Law):</b>	South Africa – follows English Law	<b>Tenor (Facility):</b>	365 Days
<b>Year Founded:</b>	2015	<b>Tenor (Per Draw):</b>	60 Days
<b>Annual Revenue (FY’2015):</b>	\$3m (10 months)	<b>Cash Coupon:</b>	11% + 2.5% fee
<b>Annual EBITDA (FY’2015):</b>	\$50,000 (10 months)	<b>Frequency:</b>	Pays quarterly
<b>Type:</b>	Inventory finance	<b>Disbursement Fee:</b>	
		<b>Early Termination Fee:</b>	3.00%
<b>Sector:</b>	Mining	<b>Collection Account:</b>	Yes (TBD)
<b>Type:</b>	Structured trade finance	<b>Collateral Management:</b>	Shipping Agent
<b>Principal Collateral:</b>	Inventory – Chrome ore	<b>Credit Insurance:</b>	None
<b>Off-taker (Country):</b>	Various (China)	<b>Stock Insurance:</b>	Yes (TBD)
<b>Collateral:</b>	First lien on stockpiled inventory	<b>Corporate Guarantee:</b>	No
<b>Loan to Value:</b>	80%	<b>Personal Guarantee:</b>	Yes
<b>Participation (Yes/No):</b>	Yes (% varies by draw)	<b>Target Funding Date:</b>	April 21, 2017
<b>Use of Proceeds:</b>	OPEX		

### EXECUTIVE SUMMARY:

ABC RSA is a relatively new mining resources trading company started by an experienced team, who are entering into a supply Agreement with newly-formed ABC Mauritius Investments Ltd in Mauritius. ABC RSA is 100% owned by Johnson family trust. The family has a long history in trading coal and scrap metal, while ABC Mauritius is owned by Arnold Johnson

ABC RSA currently sells Chrome Ore to a range of 15 off-takers in China, each of whom pays by Letter of Credit FOB Durban Port. Chrome Ore is a low-risk product that is easy to secure, whilst being insured for the duration that the product acts as collateral for us.

The company is relatively new but has a sales track record. Financials YTD show turnover of circa \$3m with a gross margin of around 11%. We have insisted on personal suretyship from the primary proprietor. We take comfort that the company has some trading history, albeit limited. Our view on the risk is primarily based on the fact that for each drawdown, we have collateral as well as Letters of Credit in place to ensure repayment. Salient points below:

- Going forward the business will export to ABC Mauritius in Mauritius who in turn will expand the sale base significantly.
- ABC RSA identified the chromite export opportunity in early 2016 and has deployed its own capital to procure run of mine (‘ROM’) chromite ore for onward sale to ferrochrome mills in China.
- The past year has seen about 40,000 tonnes exported, and 20,000 tonnes in local trade. That equates to about \$3.5-4m.
- Each containerised ton has sold for an average of \$200 per ton and a margin of \$20 has been earned.
- Ore is procured locally against a confirmed back-to-back purchase order from a Chinese buyer, with a confirmed LC in place.
- Each trading cycle from ore purchase to 95% payment by Chinese buyer is between 30 and 60 days, with the last 5% paid on assay in China.
- The sources from about 20 suppliers with capacity of 1000-5000 tonnes per month. Suppliers are chosen on the basis of their order history, reference checks and, most importantly, their evidencing sampling certificates of past orders. Although he supplied an example from CIG, the main sampling agent is CCIC (China Certification and Inspection Group) because they are useful because of their dominance in the Chinese market. They also inspect

the product on behalf of the off-taker which can influence the remaining 5% owed by the off-taker when the container lands in China.

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#### **FACILITY DETAIL**

- The trade finance facility commences only upon stock entering Durban port in South Africa.
- By the time any funds are disbursed the security would already have been assayed, and securely stored in a bonded warehouse within the port.
- The vessel is filled up over a 45 day period, thus creating a finance need.
- Funding takes place based on a purchase price of \$180/ton from the supplier on an LTV of 72%
- Once the stock is shipped under a Letter of Credit for \$200/ton, the balance is paid to the supplier and our funding increases to \$180/ton.
- Note we have offered the borrower a zero non-usage fee on any amount beyond \$6m.

#### **TRANSACTION FLOW CHART:**

See separate PPT chart, which includes breakdown of legal contracts recommended by SA counsel.

#### **COMMODITY /GOODS REVIEW:**

Chrome ore, pictured below, is a naturally occurring mineral with sufficient Chromite content to make commercial extraction feasible. The product resembles dark gritty sand or rough pebbles, with glistening metallic content visible to the naked eye.



Chrome is integral to the production of stainless steel. Demand is evergreen and is fueled by industrial growth. Salient points listed below:

- The chrome ore market in South Africa exceeds \$1billion p.a.
- South Africa accounts for about 55% of the worlds chrome outputs.

- China, which produces over half the world's stainless steel, is heavily dependent on ore supply from SA as it has no reserves of its own.
- The cost of shipping from South Africa to China declined in recent years adding to the viability of exporting ore.
- The shut-down of 4 of the 7 major ferrochrome producers created the need for ore miners to focus on exports.
- Chrome ore demand out of China has generally remaining strong since 2014 and has shown even further improvement recently.
- Production and demand have again been lifted by the Chinese government's latest stimulus package signalling another push in infrastructure and construction.
- Port stocks are now at a multi-year lows thanks to strong demand from stainless makers.

### 12 Month chart



- In 2015 chromium prices suffered least compared to other industrial metals, dropping by 11% from 2014
- 2016 saw prices rise slowly, thus chrome ore prices rebounded to their highest levels since 2008 on the back of strong Chinese demand.
- According to Roskill, it is highly likely that prices will remain strong throughout 2017.

See appendix for additional reading on Chrome market.

### **REPAYMENT REVIEW:**

#### **Primary Exit:**

The primary exit is secure given that our initial disbursement is only for product covered by a confirmed purchase order which is in turn backed by L/C. Funding only commences when the product is stacked in Durban port. Each L/C will be confirmed by Afrasia Bank, who in turn have a correspondent relationship with Deutsche Bank. Offtaker L/C's are currently drawn on the following banks, which will be confirmed by Afrasia:

- Industrial and Commercial Bank of China
- Agricultural Bank of China
- Bank of China
- China Construction Bank
- China Citi Bank
- China Everbright Bank Co. Ltd

- Shanghai Development Bank Co.

Afrasia is a reputable bank in Mauritius, owned by IBL, National Bank of Canada, and Intrasia Capital.

**Secondary Exit:**

Chromite demand exceeds supply. The borrower currently divides his sales amongst 15 offtakers. In the unlikely event of default, we/they are able to offload product to alternative purchasers within the same client base. We are also able to discount the product due to our lending percentage. Our claim on product is protected by a pledge which is recognized by the shipping agent. The product remains in the possession of the shipping agent who, upon our instruction can divert containers to specified destinations without consulting the borrower.

Product is also fully insured against theft or damage for the duration of our facility.

**Tertiary Exit:**

We hold personal guarantees from the shareholder and a guarantee from the South African supplier. Mr Johnson's personal assets are \$230,000. The personal guarantee is primarily to ensure a moral commitment to manage the process correctly, rather than placing substantial reliance on what we might gain from attacking his personal assets in the event of default.

Mr Johnson, 30, holds a BSc (Hon) from the University of Boston. He is part of a wealthy Indian family who have a long history in commodity trading since 2001 (coal, iron ore, sugar, steel scrap). After completing his studies, he branched away from the family business. He managed the family's South African company A... (Pty) Ltd for four years where he focused on collecting and selling ferrous scrap internationally, as well as exporting coal. After expanding A... into South America, he felt ready to start his own Chrome trading business in 2015, making use of trusted Indian office staff whom he relocated from India and now houses in Johannesburg. In addition he also manages the family's residential real estate development (currently a portfolio of rental property of \$1m). He also remains involved in the family business, which owns 15% of the second largest scrap dealer in South Africa.

The family business trade in Dubai from 2001 – 2015. The business turned over \$175-200m trading coal, iron ore, steel scrap and some rice. By then Arnold had already branched out on his own. Dad made enough money in Dubai and is now semi-retired in Thailand.

**COLLATERAL SUMMARY:**

The collateral is pledged to us and remains in our possession via the shipping agent who acts as our Collateral Management Agent to ensure that we can lay claim to the product without any litigation process. Note the collateral management process is only for the brief time that the product is stacked at Durban port awaiting the vessel's loading and departure.

Chrome Ore is typically desired to be 42-44% concentration of Chromite in a sampling of ore. Concentration levels are confirmed via an independent sampling agent who samples the product prior to it being placed in a sealed shipping container. Once in port in China, a representative of the same sampling agency breaks their seal and does a confirming sample. Variances in sample are virtually non-existent but nevertheless the offtaker holds back 5% of the purchase price as protection against variances (note that we are fully repaid prior to any Chinese sampling and thus no sampling

variance risk applies to us). Besides the fact that containers are sealed by both the shipping agent and the sampling agent, the temptation of theft is very low due to the bulky nature of the product and the processing facilities required to turn it into a sale-able metal.



Shipping Agent's Seal  
With unique serial no.



Sampling Agent's Seal  
With unique serial no.

**FINANCIALS TABLE:**

**Drawdown Schedule**

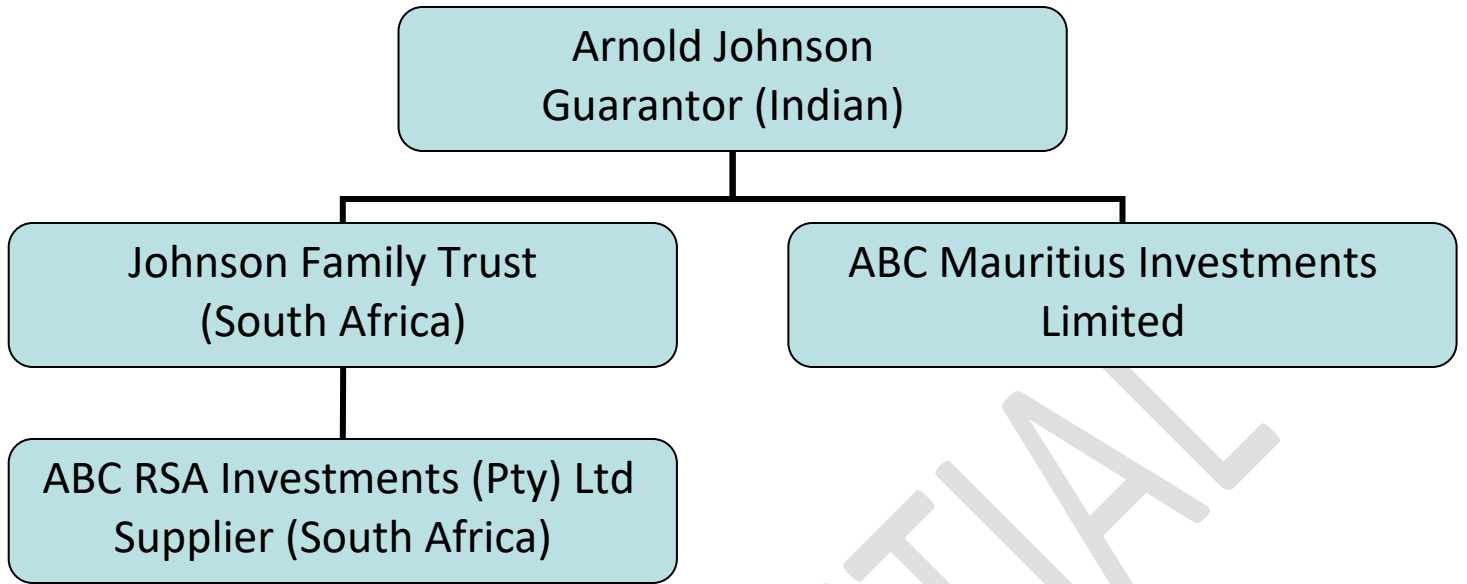
April	May	June	July
\$ 1 000 000	\$ 2 500 000	\$ 4 500 000	\$ 6 000 000

**See separate spreadsheet attached covering financials.**

The financial statements reveal a very young company. To his credit Mr Johnson started the company and funded all startup costs and operating costs from his own capital. The business model as well as his competence has therefore been tested, albeit to a limited extent.

The facility however is motivated on the basis that all our loan disbursements are over-collateralized and backed by a confirmed letter of credit. Our view is therefore on a secure trading cycle rather than the history of the business.

ORGANIZATION CHART:



CONFIDENTIAL

### **Chromium: Global Industry, Markets & Outlook**

Southern Africa hosts about 90% of the world's chromite reserves and resources. South Africa has reserves of 3.1Bnt and estimated resources of 5.5Bnt. Chrome ore is generally mined as a primary product although in South Africa, increasing volumes of chromite concentrates are recovered from tailings of PGM operations. Five countries produce more than 1Mtpy of chromite. As of 2015, South Africa accounted for 55% of world output. Kazakhstan (14%), India (10%), Turkey (5%) and Finland (3%) are also major producers.

In 2015, 92% of chromite consumption was in metallurgical applications. Stainless steel alone represents more than two-thirds of total chromite consumption. Chemicals represented 6% of consumption, with foundries (2%) and refractories (1%) accounting for the remainder. Trends in stainless steel production are, therefore, the main determinant of levels of both chromite and ferrochrome demand.

Some 80% of ferrochrome is consumed in the production of stainless steel, where it imparts corrosion and oxidation resistance, and enhances hardenability, creep and impact resistance. World consumption of high-carbon ferrochrome and charge chrome totalled 10,789kt in 2015 and increased at nearly 6%py between 2008 and 2015. World consumption of medium- and low-carbon ferrochrome increased at 2%py over the same period, reaching 777kt.

World consumption of chromium chemicals is estimated at 672kt sodium dichromate equivalent in 2015. Worldwide, the largest markets are leather tanning and metal finishing, although the pattern of consumption varies between regions depending on regional environmental regulations and the size of end-markets. Consumption of chromite in foundry sands has steadily declined since 2012 and is estimated to have been 600kt in 2015. Refractories are the smallest end-use sector for chromite, accounting for around 200kt.

Although a transition in the Chinese economy has led to a slowdown in global crude steel consumption, higher-levels of per capita income are shifting demand towards higher-value products and construction projects that typically involve more use of advanced steels. Roskill projects that total output of stainless steel will grow at 4% to 2026 and will continue to drive demand for chromite and ferrochrome. However, trends in scrap usage are expected to become an important factor towards the end of the forecast period. In 2015, around 30% of the chromium units in stainless steel were derived from scrap. This will rise to nearly 45% by 2026 as scrap usage rates increase in China and other emerging economies, potentially reducing demand for virgin chromite.

The outlook for chromium chemicals demand growth is positive. Consumption of chromium chemicals in leather tanning, chromic acid use in plating, and chromic acid in used in industrial wood preservation) is forecast to increase, although a decline is expected in the use of chromium pigments. Demand for chromite foundry sands is expected to grow slightly over the period to 2026, while the use of chromite in refractories is forecast to marginally decline.