# Final Results for 30 September 2013

**19 November 2013**

Ketso Gordhan - CEO
Tryphosa Ramano - CFO
Richard Tomes - Joint MD (SA)
Njombo Lekula - MD Zimbabwe

PPC

PPC STRENGTH GUARANTEED

# Agenda

- Context
- Financial Overview
- Divisional Overview
- Strategy & Outlook
- Questions

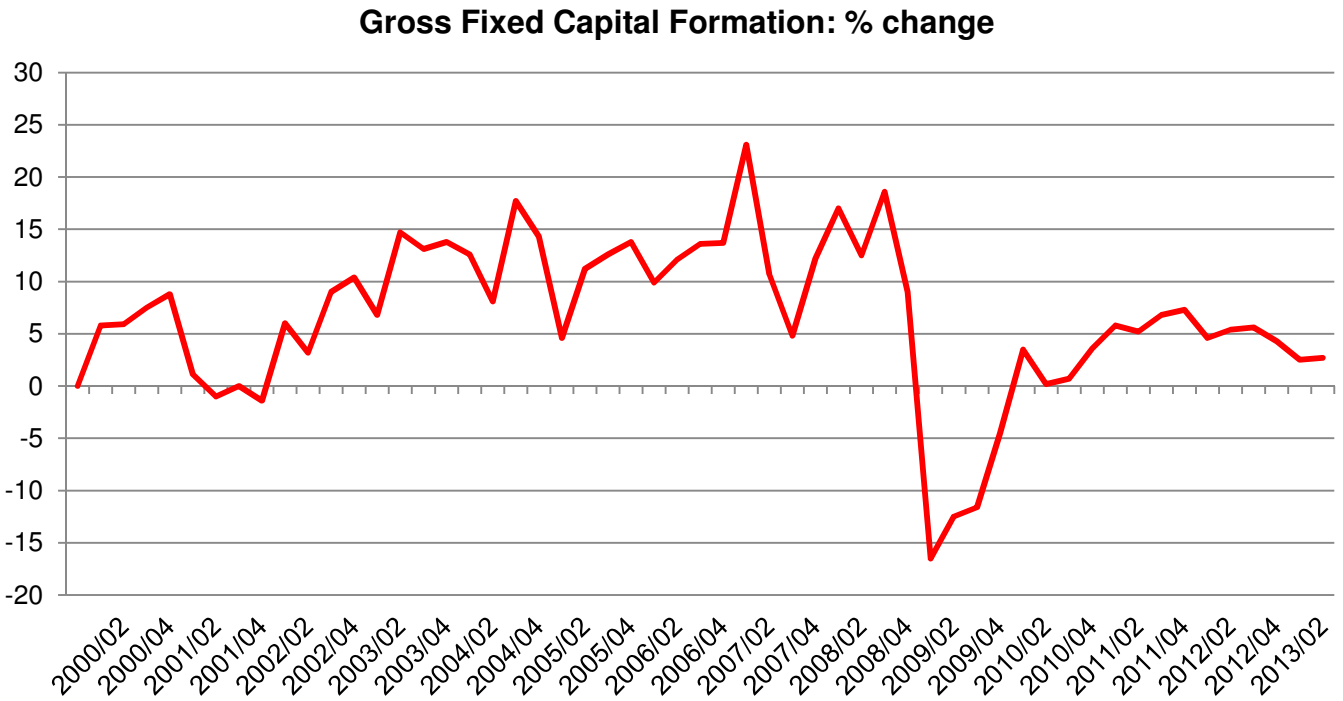
# Context

- For the financial year ending September 2013
  - PPC's total cement sales up 7%

    - Supported by strong volume growth in SA and Zimbabwe
    - Botswana and Mozambique remain under pressure
  - PPC margins under pressure
    - Input costs higher due to electricity prices, depreciation and sub-optimal sourcing
    - Margins in Lime and Aggregates divisions contracted due to weaker demand

# Context

- For the financial year ending September 2013
  - PPC SA's cement volumes up 7%
  - This compares favourably to SA cement industry sales - up 4.2% for 9 months from October 2012 to June 2013
  - Growth achieved despite deceleration in GFCF



# Context

- Key events
  - Progress on rest of Africa projects
    - Significant progress with construction at CIMERWA Ltd, Rwanda
    - Construction of 1.4 mtpa plant in Ethiopia has commenced
    - Construction of 1 mtpa plant in the DRC to start in Q1 2014
    - Final bankable feasibility in Zimbabwe/Mozambique underway for 1.2 mtpa output
  - Zimbabwe and Slurry operations celebrated their centenaries in 2013
  - Inaugural bond issue 4.6 times oversubscribed
  - Announced acquisition of Safika Cement, awaiting regulatory approvals
  - Acquired a further 25% of Pronto Readymix, balance in May 2014
  - Implemented BBBEE II; Eight fully converted mining rights, two in process
  - Construction of 60MW wind energy facility at our Grassridge site in Nelson Mandela Bay began in October 2013

# Strength beyond the Bag

## Building a Sustainable Corporate

- Kambuku Revitalisation
- Profiling SB Cement (age 53)
  - Factory Operator Support
  - Years of service: 24
  - FY 2013 basic salary: R6 854
  - FY 2013 total cost: R9 657
  - 2013 salary increase (6.5%): R 446
  - Management Investment: R 875
  - FY 2014 new basic: R8 175
  - FY 2014 new total cost: R11 273
  - Net change of 17%

*"I think PPC is a very fair & caring company"*, Nomawonga Speelman, PPC Port Elizabeth

South Africa | Botswana | Zimbabwe | Mozambique

# Financial Overview

# F2013 – Financial overview

| | | | | |
|---|---|---|---|---|
| • Revenue | R8.32bn | ↑ | 13% | [R7.35bn] |
| • EBITDA # | R2.50bn | ↑ | 8% | [R2.33bn] |
| • EBITDA margin # | 30.1% | ↓ | | [31.7%] |
| • Cash generated from operations | R2.89bn | ↑ | 26% | [R2.28bn] |
| • Normalised operating profit # | R1.98bn | ↑ | 6% | [R1.87bn] |
| • Normalised earnings per share# | 214 cps | ↑ | 16% | [185 cps] |
| • Normalised HEPS | 215 cps | ↑ | 16% | [185 cps] |
| • Final dividend | 118 cps | | | [108 cps] |
| • Net debt to EBITDA | 1.5 times | | | [1.4 times] |

# Excluding BBBEE IFRS 2 charges, Zimbabwe indigenisation and restructuring costs

# F2013 – Summary income statement

| | 2013 R million | 2012 R million | % Change |
|---|---|---|---|
| **Revenue** | **8 316** | 7 346 | 13 |
| Cost of sales | **5 546** | 4 809 | (15) |
| **Gross profit** | **2 771** | 2 537 | 9 |
| Administration and other operating expenditure | **853** | 671 | (27) |
| **Operating profit before items listed below** | **1 917** | 1 866 | 3 |
| BBBEE IFRS 2 charges | **48** | 123 | |
| Zimbabwe indigenisation costs | **93** | - | |
| **Operating profit** | **1 776** | 1 743 | 2 |
| Net finance costs | **357** | 347 | (3) |
| Exceptional items | **(1)** | - | |
| Earnings from equity accounted investments | **20** | 7 | |
| **Profit before taxation** | **1 438** | 1 403 | 2 |
| Taxation | **507** | 557 | 9 |
| **Profit for the year** | **931** | 846 | 10 |
| **EPS (cents)** | **178** | 161 | 11 |
| **HEPS (cents)** | **179** | 162 | 10 |
| **Normalised EPS (cents) #** | **214** | 185 | 16 |
| **Normalised HEPS (cents) #** | **215** | 185 | 16 |
| **DPS (cents)** | **156** | 146 | 7 |

1. Impacted by sub-optimal sourcing due to Dwaalboom technical issues and Slurry mill upgrade. Also increases in electricity and depreciation

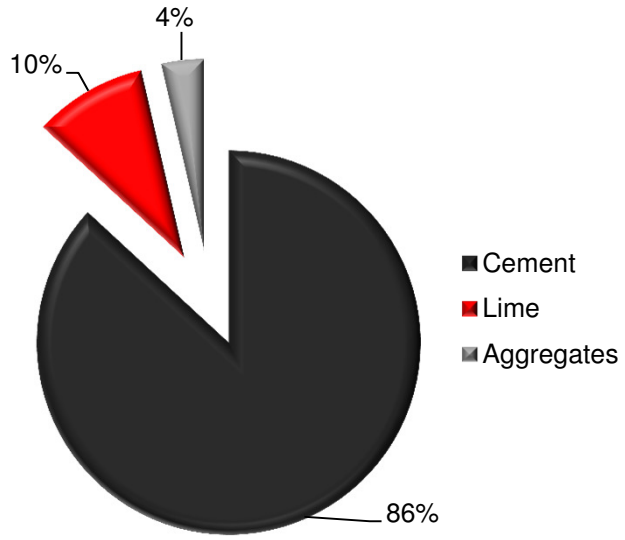
2. Costs of restructuring and business development as well as increased business and regulatory compliance costs

3. No STC charge due to change in tax legislation (2012: R53m)

# Excluding BBBEE IFRS 2 charges, Zimbabwe indigenisation and restructuring costs

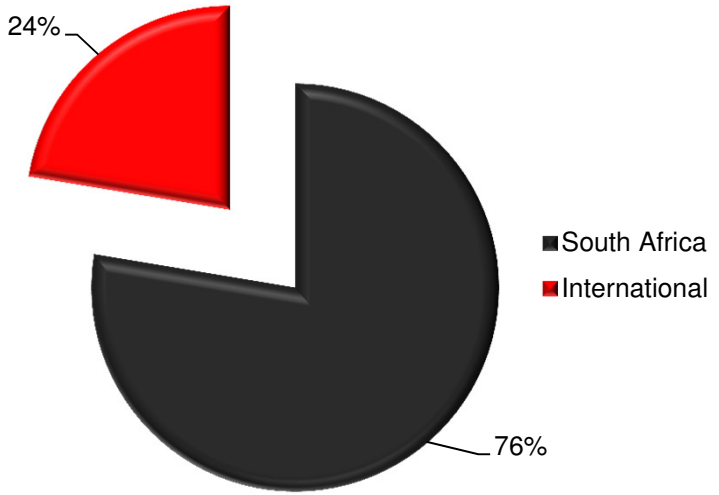
# F2013 – Segmental analysis

## Revenue split per division




| Revenue (R million) | Sept 2013 | Sept 2012 |
|---|---|---|
| **Cement** | **7 183** | 6 209 |
| **Lime** | **798** | 838 |
| **Aggregates** | **335** | 299 |
| **Group** | **8 316** | 7 346 |

## Revenue split per region




| EBITDA margin | Sept 2013 | Sept 2012 |
|---|---|---|
| **Cement** | **32%** | 33% |
| **Lime** | **20%** | 23% |
| **Aggregates** | **14%** | 19% |
| **Group** | **30%** | 32% |

**Revenue from outside of South Africa has risen steadily, now at 24%**

# F2013 – Summary balance sheet

| | 2013 R million | 2012 R million | |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **5 522** | 4 483 | 4 |
| Intangibles and goodwill | **333** | 139 | |
| Other non-current assets | **556** | 376 | 5 |
| **Current assets** | | | |
| Inventories | **923** | 841 | |
| Trade and other receivables | **1 050** | 820 | |
| Cash and cash equivalents | **492** | 248 | |
| **TOTAL ASSETS** | **8 876** | 6 907 | 6 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | **1 560** | 1 176 | |
| **Non-controlling interest** | **582** | - | 7 |
| **Non-current liabilities** | | | |
| Deferred taxation | **1 063** | 859 | |
| Long-term borrowings | **3 462** | 2 716 | 8 |
| Provisions and other non-current liabilities | **375** | 433 | |
| **Current liabilities** | | | |
| Short-term borrowings | **584** | 869 | 8 |
| Trade and other payables | **1 250** | 854 | |
| **TOTAL EQUITY AND LIABILITIES** | **8 876** | 6 907 | |

4 — CIMERWA plant expansion and translation impact of foreign subsidiaries

5 — Further investments in Pronto (R110m) and Habesha (R16m)

6 — Includes CIMERWA total assets of R1.1bn

7 — CIMERWA (R516m) and PPC Zimbabwe (R62m)

8 — Successful R650m bond issue, debt consolidated on CIMERWA acquisition and increased investment and working capital activity

# F2013 – Summary cash flow statement

| | 2013 R million | 2012 R million |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating cash flows before movement in working capital | **2 486** | 2 317 |
| Net movement in working capital | **399** | (33) |
| Net finance costs paid | **(247)** | (216) |
| Taxation paid | **(525)** | (417) |
| **Cash available from operations** | **2 113** | 1 651 |
| Capital investment in PPE and intangible assets | **(970)** | (640) |
| Acquisitions in terms of business combination | **(140)** | (42) |
| Other investing activities | **(109)** | (166) |
| Net funding raised/(repaid) | **94** | (73) |
| **Net cash flow before dividends paid** | **988** | 730 |
| Dividends paid | **(770)** | (706) |
| **Net cash inflow for the year** | **218** | 24 |

9 Good working capital management

10 Further investments in Pronto (R110m) and Habesha (R16m)

# F2013 – Capital expenditure

| | **2013 R million** | 2012 R million | Total for FY2014e R million |
|---|---|---|---|
| Western Cape modernisation (De Hoek) | **7** | 160 | - |
| Slurry modernisation | **73** | 17 | 100 |
| Zimbabwe | **141** | 43 | 120 |
| Operational capex | **348** | 389 | 500 – 600 |
| **Capital expenditure before expansions** | **569** | 609 | **700 – 800** |
| CIMERWA | **385** | - | 750# |
| DRC | **10** | - | 800# |
| Zimbabwe and Mozambique | **-** | - | 400# |
| **Total capital expenditure** | **964** | 609 | **2 700 – 2 800** |

# 60:40 debt: equity ratio applies

Slurry finishing mill bag filter

# F2013 – Effective taxation rate

- The effective taxation rate was 35.3% mainly due to the impact of IFRS 2 charges, Zimbabwe indigenisation expenses, non-deductibility of finance costs on BBBEE I transaction and combined with withholding taxes on dividends received

| | **2013 Rm** |
|---|---|
| Profit before taxation | 1 438 |
| Taxation | 507 |
| **Effective taxation rate** | **35.3%** |
| Add back Zimbabwe indigenisation costs | 93 |
| Add back BBBEE IFRS 2 charges | 48 |
| Adjusted profit before taxation | 1 579 |
| **Adjusted effective taxation rate** | **32.1%** |

- The taxation rate excluding withholding taxation would be 31.1%

# Capital structure

- F2013 net debt to EBITDA of 1.5x, committed to keeping this < 3x
- Restructuring of R1 billion BBBEE I debt
- PPC assigned SA national scale long-term and short-term credit ratings of zaA+ and zaA-2, respectively, by Standard & Poor's
- Successfully established a R6 billion domestic medium term note programme to optimise and diversify sources of funding
- R650 million raised in March 2013; three year bond, well priced and over subscribed
- Dividend policy cover range of 1.2 to 1.5 times remains

South Africa | Botswana | Zimbabwe | Mozambique

# Divisional Overview

# SA Cement

**Richard Tomes: MD Cement RSA**

- HND (Civil Eng),
- MBA (University of Stellenbosch)

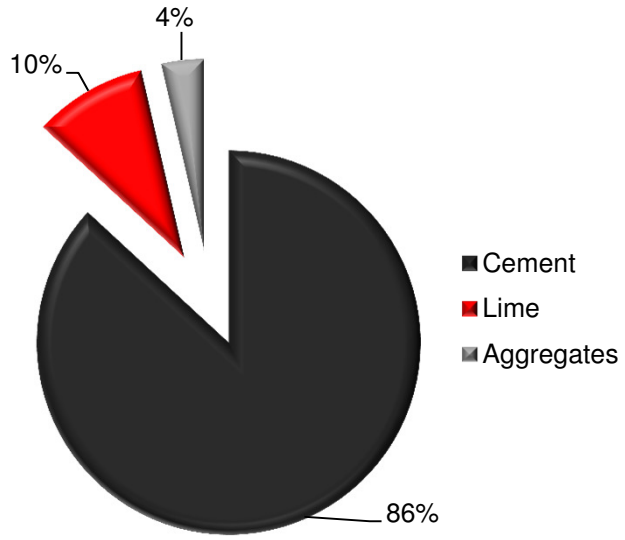
**Johan Claassen: MD Cement RSA**

- BEng (University of Stellenbosch),
- EDP (Wits Business School)

**Combined PPC experience of ~40 years**

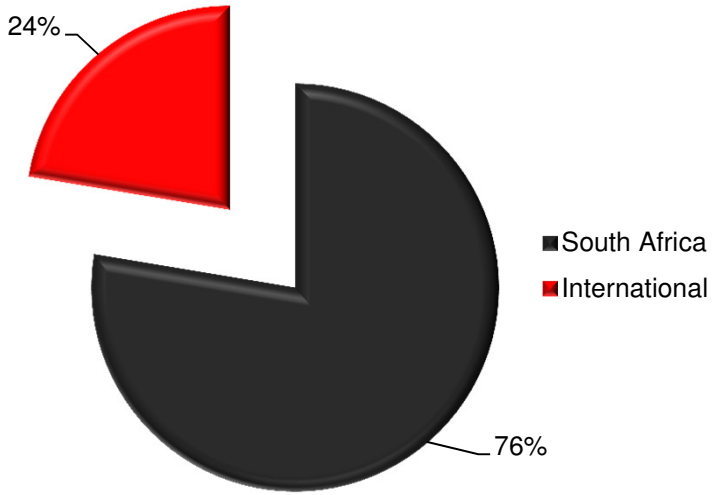
# F2013 – Segmental analysis

## Revenue split per division




| Revenue (R million) | Sept 2013 | Sept 2012 |
|---|---|---|
| **Cement** | **7 183** | 6 209 |
| **Lime** | **798** | 838 |
| **Aggregates** | **335** | 299 |
| **Group** | **8 316** | 7 346 |

## Revenue split per region




| EBITDA margin | Sept 2013 | Sept 2012 |
|---|---|---|
| **Cement** | **32%** | 33% |
| **Lime** | **20%** | 23% |
| **Aggregates** | **14%** | 19% |
| **Group** | **30%** | 32% |

**Revenue from outside of South Africa has risen steadily, now at 24%**

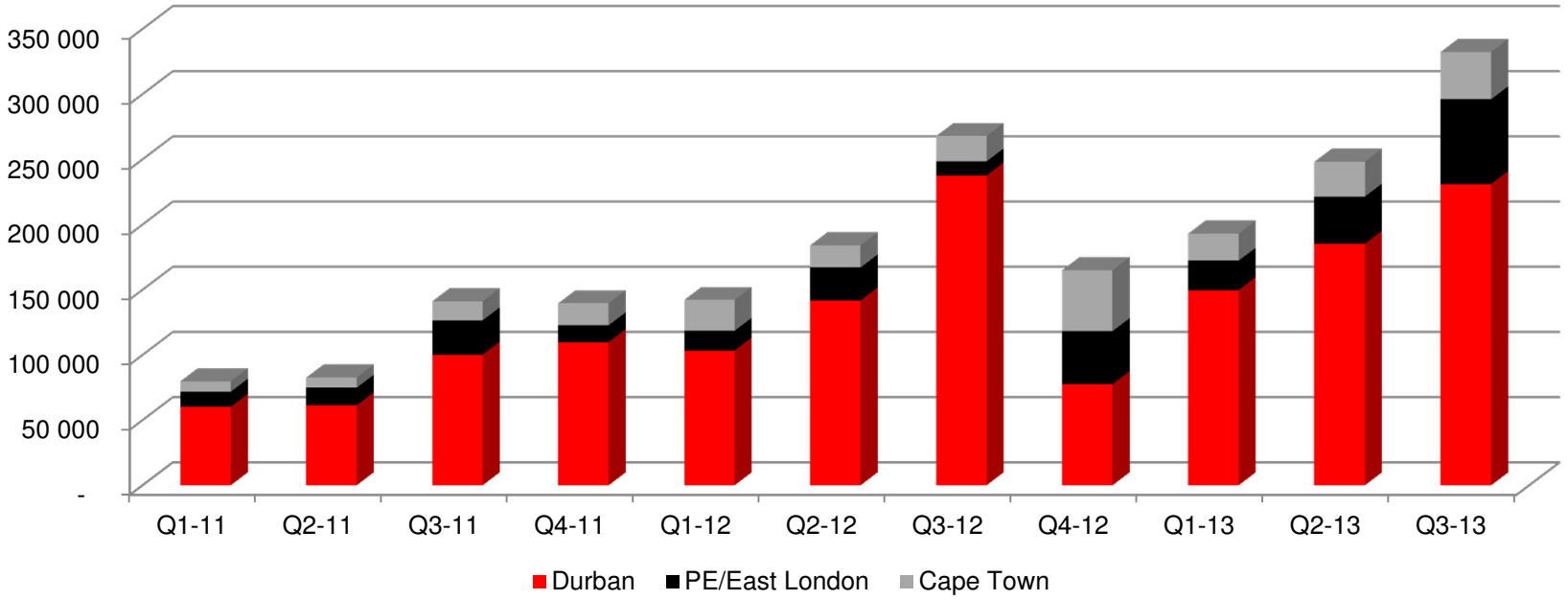
# PPC SA cement demand

- PPC's F2013, SA sales volumes up 7%
- Strong volume growth in Gauteng and inland region, despite increased industrial action
- A number of commercial property developments under way in Gauteng, including:
  - Cradlestone Mall (West Rand)
  - new office buildings in Sandton
  - phase one of Steyn City near Lanseria
  - Mall of Africa (Waterfall Estate)
- Volumes in coastal regions recorded growth, despite rising imports and a particularly wet winter season
- Sales in coastal regions were boosted by growing demand from various renewable energy projects
- PPC increased selling prices by 4% on average for the year

# SA cement demand – Imports

- Imported cement now accounts for an estimated 7.6% of national demand as at June 2013
- Bulk of imports continues to originate from Pakistan, majority enter through the port of Durban
- FOB price per bag ex-Pakistan remains ~R30/bag

**Cement Imports#**




#Data sourced from the South African Revenue Service

# PPC SA cement input costs

| Key cost components for F2013 | Proportion of cost of sales (R/t) | Cost Movement (R/t) |
|---|---|---|
| Distribution | 27% | +8% |
| Salaries (R) | 10% | +5% |
| Depreciation (R) | 9% | +8% |
| Electricity | 9% | +11% |
| Coal | 8% | -5% |
| Maintenance | 7% | -4% |
| Packaging | 4% | - |
| Other | 26% | +8% |

Input costs up 6% on a rand per ton basis

Energy related costs:
diesel + coal + electricity = 28% of all input costs

~35% of the distribution cost comprises of diesel costs

**Carbon Tax mooted to commence January 2015, with impact of ~R150m on PPC Group**

# PPC SA modernisation programmes

**De Hoek kiln 6 upgrade** – R280m (2012)

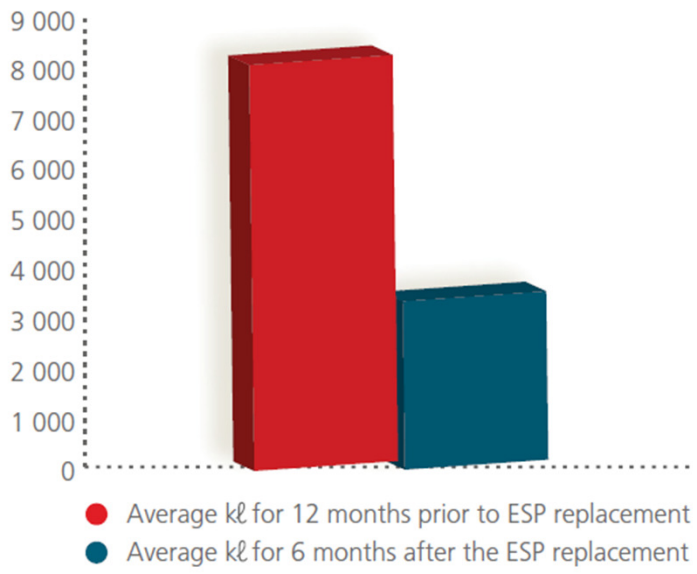
- Heat consumption and the clinker production rate improved by 5%
- Significantly improved stack emissions
- 60% water saving (see case study)

**Slurry finishing mill 4 upgrade** – R100m

- Improved mill reliability and production output, while reducing dust emissions
- 15% improvement in energy consumption

Case study: Water saving from De Hoek 6 upgrade

Prior to the upgrade at PPC De Hoek, average water consumption on the DK6 conditioning tower was 8 100kℓ per month. This more than halved after the electrostatic precipitator was replaced with a bag filter. The average monthly consumption of the kiln since the start-up (August 2012) is now 3 100kℓ, translating into a 60% water saving. The conditioning tower (with electrostatic precipitator) is the largest water-consuming process of all the mining and manufacturing processes; if maintained at this lower level, it will contribute to a saving of some 15% in total annual process water consumption.



# Lime, Aggregates and Readymix

## Lime

- Difficult year for PPC Lime; major customers encountered operational interruptions
- Led to a drop in burnt product sales of 8% with limestone sales reduced by 15%
- Revenues fell 5% to R798 million (2012: R838 million)
- Volumes recovered in the second half of the year, and are expected to improve in 2014

## Aggregates

- Revenues grew 12% to R335 million (2012: R299 million) as volume growth in Botswana partially offset marginally lower volumes in SA
- Increased sales mix of higher value products also contributed positively
- Key new projects for SA operations in 2014 include Steyn City and Mall of Africa as well as two road construction projects

## Readymix / Ash

- Pronto Holdings acquisition: second tranche of 25% paid, final payment due May 2014

# Outlook

- Trading conditions in South Africa remain challenging and a new competitor is set to enter the market

- PPC remains focused on:
  - Improving and optimising current capacity
  - Recently right-sized operations in the coastal regions
  - Continuing to focus on most efficient plants
  - Seeking out further channels for distribution
  - Technical innovations to reduce costs

- Cement demand in SA is likely to remain in low single digits for the remainder of 2013 and 2014 – SA infrastructure programme remains the swing factor

# Zimbabwe Cement

## Njombo Lekula: MD Zimbabwe

- Over 20 years PPC experience
- ND Chemical Engineering (Vaal University of Technology)
- MBA (University of Stellenbosch)

## Zimbabwe

- Celebrated 100 years of production in Zimbabwe
- Portland Holdings Limited has been an integral part of Zimbabwe's infrastructure development
- Our cement is found in virtually every key structure in the region including:
  - Harare International Airport and
  - The mighty walls of the Kariba Dam

# Zimbabwe Cement

- Robust sales environment in F2013 - double digit volume growth
- Cement price increases were marginal due to increased competitor activity

- Retail sector remains the key driver of local demand
- Operations performed well:
  - Improving both output and quality of product
  - Increased output had a positive impact on the unit cost of production

- Voluntary separation process underway
  - Aligned to our modernisation initiative and continued focus on efficiency and cost
  - 120 people applied, US$5m restructuring costs

- Commissioning of palletiser project on target
- Optimistic that large government infrastructure projects will materialise
  - Discussions primarily in the energy, water and transport sectors

# Botswana and Mozambique

## Botswana

- Botswana economy remains heavily dependent on the diamond mining industry
- Government has scaled back on infrastructure projects, focus on maintenance
- Privately funded developments in the new central business centre of Gaborone continue, with increased tender activity and the release of small- to medium-scale road projects
- Cement sales contracted for the year, with reduced construction and industrial demand partly offset by increased demand in the highly competitive retail segment

## Mozambique

- The southern region remains heavily contested, with new capacity commissioned and aggressive pricing from imported product
- Our export volumes reduced due to logistical challenges after flood damage to the rail line between SA and Maputo
- Supply of product into the Tete region from Zimbabwe has improved from previous year
- The imminent completion of the bulk handling facility will further enhance efficiency

South Africa | Botswana | Zimbabwe | Mozambique

# Strategy & Outlook

# PPC International

## Pepe Meijer: MD International

- BEng (Mech), BB&A (Hons), MBA (University of Stellenbosch)

## Happy-Girl Buthelezi: Exec Head: Business Development

- BCom, MBA (UCT Graduate School of Business), Diploma in tax (ICIE), Postgraduate in management accounting (University of Natal)

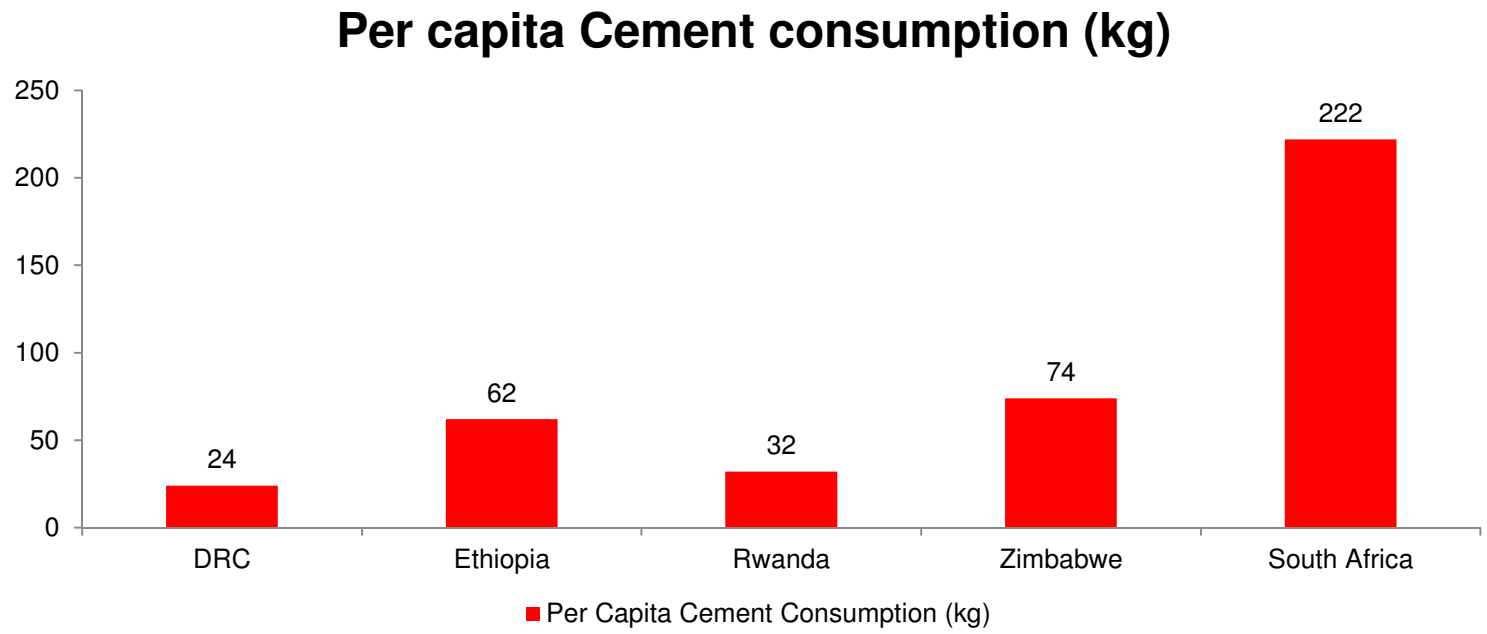
## Koos Taljaard: Exec Head: Business Development

- BEng (Mech) (University of Stellenbosch), GDE (Minerals Economy) (University of the Witwatersrand), MDP (Unisa)

**Combined PPC experience of >30 years**

# Rest of Africa strategy

- Great opportunity exists in many African countries
- South Africa's annual per capita cement consumption is 222kg
- The countries we have invested in, have levels well below 75kg per capita
- Growth trajectory in these countries remains very positive

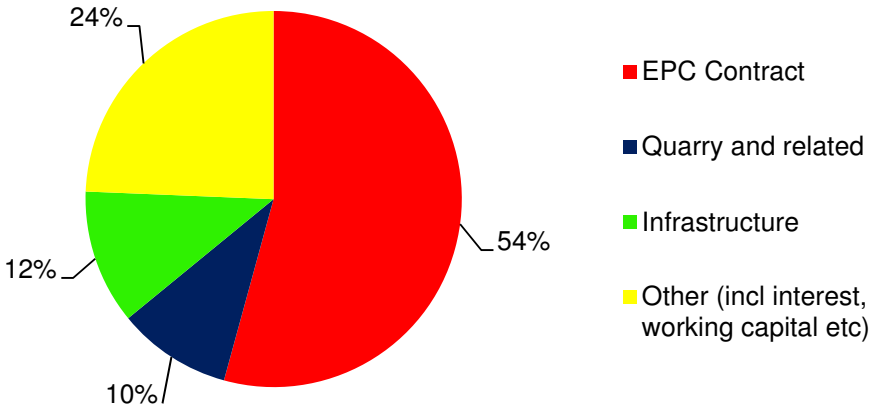



Source: Cemnet, 2013

# Democratic Republic of the Congo

- PPC to construct a 1 mtpa plant 20km from Kimpese in western DRC for ~$260m
- Construction to commence in Q1 2014 and commissioning anticipated in 2016
- In-country production of ~500 000 tpa with demand 4-6 times in excess
- Cement trades at price range of ~US$400 per ton

**Project Costs**



# Zimbabwe/Mozambique

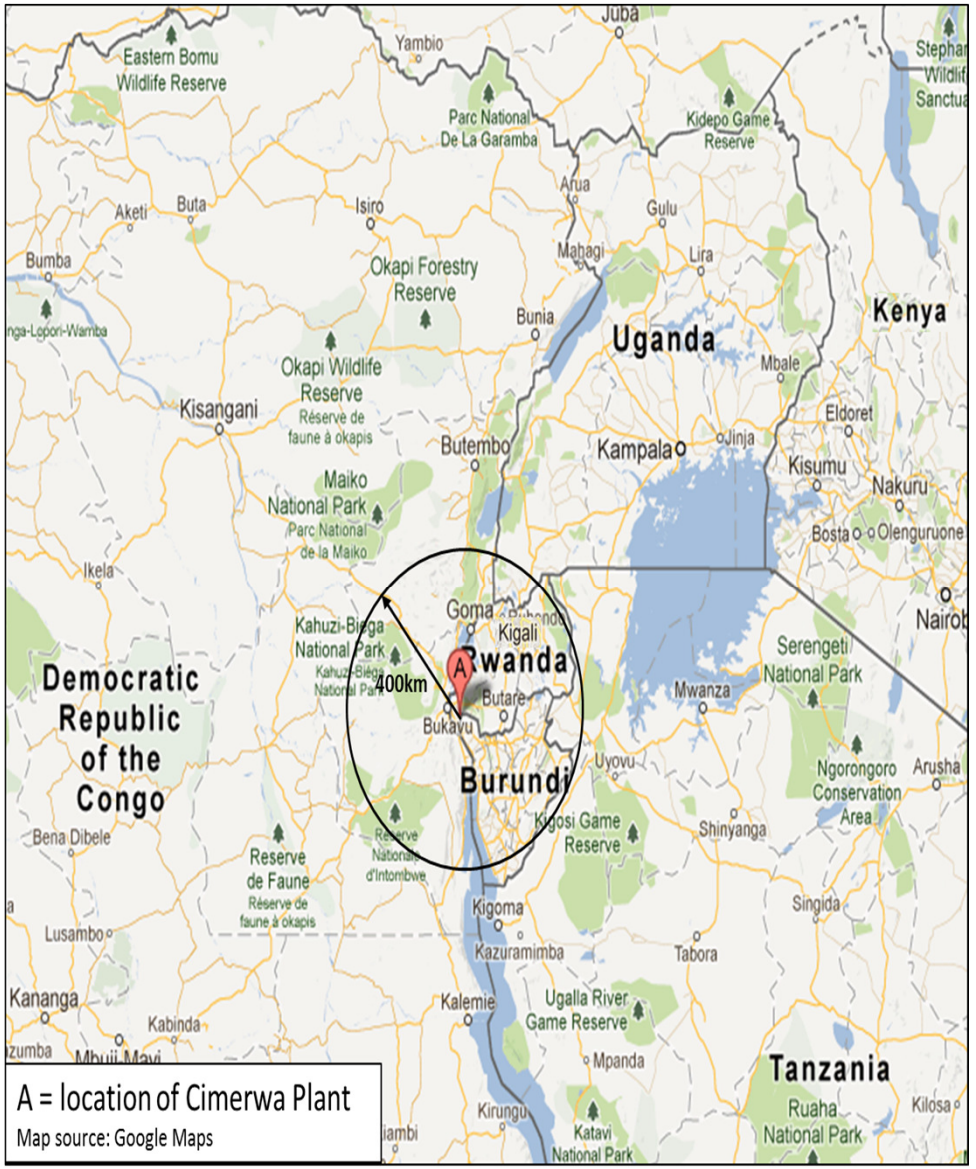
- Final bankable feasibility underway, busy with the EIA study
- Intend to construct a clinker production facility towards the Zimbabwean border
- Intend to construct two cement grinding facilities; Harare (800 000) and Tete (400 000)
- Construction likely to commence in late 2014
- Current Zimbabwean operations in the south of Zimbabwe
- Successfully concluded indigenisation transaction

# Habesha Cement, Ethiopia

- PPC has increased shareholding from 27% to 30% for R16 million
- Construction of the 1.4 mtpa facility has just begun
- Commissioning to occur 24 months later
- Project cost remains favourable at US$130 million
- Factory site well located, 35km north-west from Addis Ababa
- The plant's future development plan includes an option to double the capacity to 2.8 mtpa

# CIMERWA Limited, Rwanda

- PPC acquired a 51% equity stake in CIMERWA at the end of 2012
- Only cement producer in Rwanda, with 100 000 ton per annum plant
- New 600 000 ton per annum plant under construction, to be commissioned in 2015
- Will have 5 stage pre-calciner kiln and use peat as an energy source
- Cement demand of 350 000 tpa in Rwanda at selling prices of US$250 to US$300/t
- Well positioned to meet growing demand in eastern DRC and Burundi where prices reach US$400 per ton



# CIMERWA Limited, Rwanda

Progress on the new 600 000tpa plant

# CIMERWA Limited, Rwanda

Progress on the new 600 000tpa plant

# Outlook

## Three years ahead

- **2014:**
  - expect significant progress on the four projects under way;
  - limited volume growth in SA and limited impact from new entrant
- **2015:**
  - tough year due to significant capex drawdowns and full year impact of new entrant;
  - some optimism for volume growth in SA
- **2016:**
  - upswing as SA begins recovery and cash flows from expansion projects start flowing

- **The team that will lead PPC in 2014 and beyond**

# Questions?

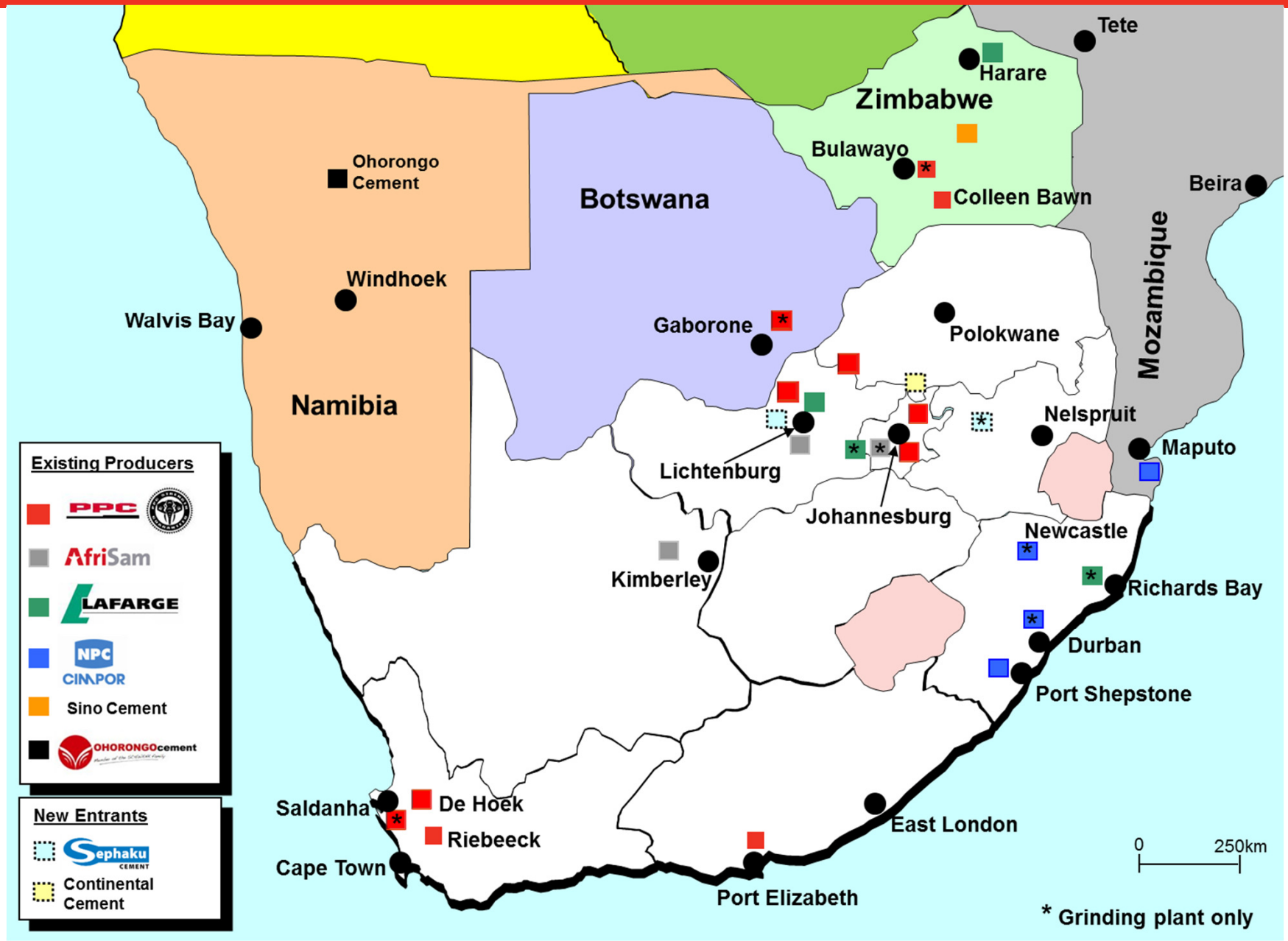
BUILDING THE NATION FOR GENERATIONS
BOTCEM 32,5
SUREBUILD 42,5 N
OPC 52,5 N
PPC CEMENT
For more information, call our toll-free line on +267 390 1553 or visit www.ppc.co.bw
OUR STRENGTH, YOUR VISION.

# Investor contacts


| | |
|---|---|
| Ketso Gordhan | Chief Executive Officer |
| Tryphosa Ramano | Chief Financial Officer |
| Azola Lowan | Investor Relations |

Tel. +27 11 386 9000
www.ppc.co.za

# Addendum: Southern African cement industry map



# Strategy Overview

PPC's strategies are:

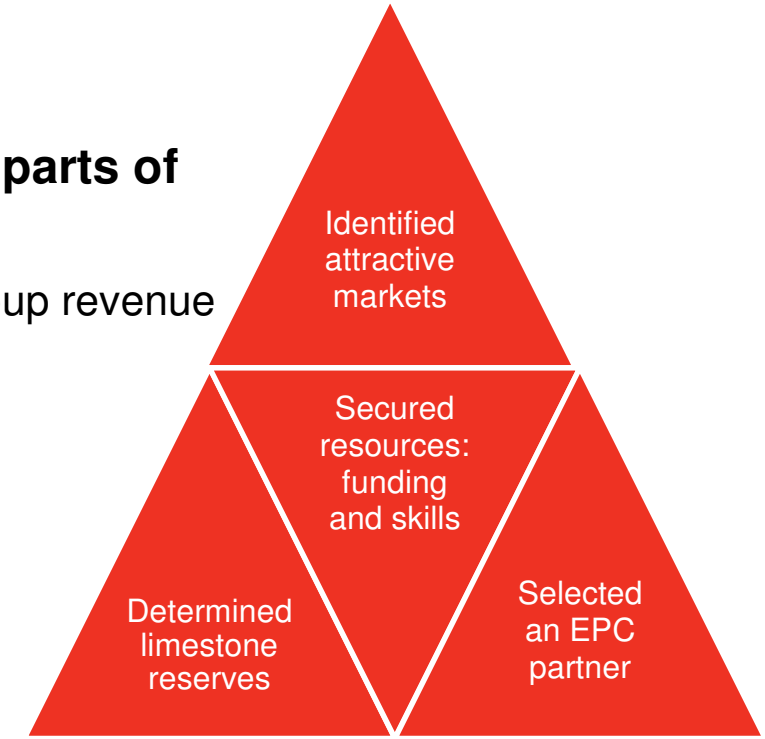
1. **Enhance our industry leader position in southern Africa**

   *("Keeping the home fires burning" strategy)*

   - Excel in sales, marketing, customer focus and overall value offering
   - Efficient operations and optimised logistics
   - Renew/upgrade equipment, especially relating to customers or efficiency
   - Acquire businesses with good strategic fit

2. **Expand our operational footprint into other parts of Africa** *("Rest of Africa" strategy)*

   - Grow revenue outside South Africa to >40% of group revenue by 2016
   - Invest where:
     - High potential for infrastructure development
     - Low per capita cement consumption
     - Current cement shortages
     - Within 250km of major population centres
     - Avoid proximity to ports (threat of imports)



# Disclaimer

This document including, without limitation, those statements concerning the demand outlook, PPC's expansion projects and its capital resources and expenditure, contain certain forward-looking statements and views. By their nature, forward-looking statements involve risk and uncertainty and although PPC believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment, other government action and business and operational risk management.

Whilst PPC takes reasonable care to ensure the accuracy of the information presented, PPC accepts no responsibility for any damages be they consequential, indirect, special or incidental, whether foreseeable or unforeseeable, based on claims arising out of misrepresentation or negligence arising in connection with a forward-looking statement. This document is not intended to contain any profit forecasts or profit estimates, and the information published in this document is unaudited.