

Sephaku Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/003306/06)
Share code: SEP
ISIN: ZAE000138459
("SepHold" or "the Company")



Sephaku Cement 2018 year - end financial results and Métier operational update

Sephaku Cement awarded R87,1 million tax credit for energy efficiency savings and Métier's additional plants support sales volume

Following Dangote Cement PLC's FY2018 results announcement for the year ended 31 December 2018 released on 27 February 2019, SepHold hereby reports on Dangote Cement SA (Pty) Ltd.'s ("Sephaku Cement", "SepCem" or "the associate") performance. The commentary includes an update on Métier Mixed Concrete (Pty) Ltd's ("Métier" or "the subsidiary") operational performance and progress on the reduction of head-office expenses. Thirty-six percent (36%) of SepCem's results will be equity accounted in the SepHold year-end financial results for the 12 months ending 31 March 2019.

Commentary

Any forward-looking information contained in this announcement has not been reviewed or reported on by the Company's external auditors. All Sephaku Cement figures included below are shown on a 100% basis and do not reflect SepHold's 36% attributable interest unless otherwise stated.

Sephaku Cement

Sales volume

The macroeconomic environment continued to be depressed with GDP growth estimates for the 12 months ended December 2018 at between 0.5% - 0.9%. This underwhelming economic context resulted in an estimated 5% – 10% decline in industry sales volumes. The low cement demand due to the weak economy was exacerbated by intense competition between the cement manufacturers, blenders and importers. Consequently, SepCem's sales volumes were comparatively 6.4% lower due to the factors mentioned above.

Revenue and profitability

Price increases were implemented during 2018 in February and August resulting in 3.5% average increase per tonne. The price increase achieved was lower than targeted because of a higher volume proportion of bulk cement and price competition in highly contested markets. SepCem's revenue decreased by 3.1% to R2,29 billion (2017: R2,37 billion) due to the volume decline and the EBITDA margin was 20.1% (R461,5 million) compared to 21.3% (R504,2 million) for FY 2017. The profit margins were further impacted by above inflation cost increases in inputs such as coal, electricity and fuel. Furthermore, due to the low quality of coal available to the local market, the associate had a higher than planned maintenance cost which contributed to the lower than targeted margins. SepCem has started various initiatives to eliminate and or mitigate against these challenges in FY 2019 ending 31 December 2019.

The recorded net profit was R 128,7 million mainly due to a R81,7 million tax credit that was granted in 2018 for the 2017 tax period. The 12L tax incentive provides for an energy efficiency tax allowance to be claimed at 98c/kWh for the energy savings achieved against a set baseline. SepCem achieved a total energy saving of 307 378 360 kWh against the set baseline based on the energy efficiency of a modern plant.

On like-for-like basis, the net profit figure is R46,9 million compared to R57,8 million achieved in 2017. The equity accounted income that will be consolidated into the Company income statement for the year ending 31 March 2019 is R46,3 million (2017: R20,8 million).

Métier

The subsidiary continues to experience intense competition in both the Gauteng and Kwa-Zulu Natal markets and pricing has been declining since the beginning of the year. The two plants added in Gauteng over the past 24 months, have supported revenue through increased sales volumes. The rationalisation of the fleet has improved cost savings but profit margins remain under pressure due to above inflation increases in production costs primarily due to the additional plants in an environment with declining pricing.

Head-office expenses reduction

In line with the constrained operating environment, SepHold executive management has concluded on how to reduce head office expenses. The reported head office segment expenses were R22,1 million, R23,6 million and R25,3 million for the financial years 2016, 2017 and 2018 respectively. The non-cash portion of the figure was between 21% and 22% mainly constituting depreciation and option vesting expenses. The Company's support functions to SepCem and Métier were considered in determining how to streamline the expenses without compromising any downstream benefits. SepHold explored the head office's contribution to achieving the requisite black economic empowerment accreditation in relation to accessing concrete supply contracts.

It is essential to highlight that the reported head office segment expenses do not account for services rendered by executive management to Métier and SepCem, which if were recovered, would result in expenses that reflect the inclusive figure. Furthermore, because of the equity accounting of SepCem, the total costs of operations are not apparent. To that effect, SepHold expenses are approximately 6% of the total operating expenses and 1% of total costs of Métier and SepCem.

SepHold began reducing expenses in October 2018 by not replacing the directors who resigned from the board and reducing executive management remuneration. Management was not remunerated the annual 13th cheque in December 2018 and for the second year running, since April 2016, has not increased the base salaries. An improvement of 8% is expected from these initial savings by 31 March 2019 relative to the 2018 financial year expenses. The full savings from these and additional reduction efforts are expected to result in expenses that are 25% lower relative to FY2018 by the end of FY2020.

Outlook

Building materials demand is expected to remain constrained because of the challenges for the government to stimulate the economy in the context of high sovereign debt and loss-making state-owned entities. The public sector has reduced infrastructure spending in an attempt to reign in debt and to enforce fiscal discipline.

Factors including lack of clarity on key policies, decreasing consumer discretionary income and demand for houses seem to have postponed private investment in infrastructure. In addition, the May national elections will potentially limit any momentum on current and planned infrastructure spend. Therefore, the outlook for the construction industry is negative with stagnant growth in the private sector and limited public building contracts.

SepCem and Métier will continue to focus on maintaining sustainable sales volumes and reducing debt. In January 2019 SepCem implemented 8% - 12% price increases per tonne.

Centurion

5 March 2019

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Sponsor: Questco Corporate Advisory (Pty) Ltd

About Sephaku Holdings Limited

Sephaku Holdings Limited ("SepHold") is a building and construction materials company with a portfolio of investments in the cement sector in South Africa. The strategy of SepHold is to generate growth and realise value for shareholders through the production of cement and ready mixed concrete in Southern Africa. The company's core investments are a 36% stake in Dangote Cement South Africa (Pty) Ltd [Sephaku Cement] and 100% in Métier Mixed Concrete (Pty) Ltd.

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