SEPHAKU
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# AGANANG SITE VISIT PRESENTATION

## 14 April 2016

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# AGENDA

| | |
|---|---|
| **Dangote Cement SA (DangCemSA) overview** | Pieter Fourie |
| **South Africa cement market dynamics** | Pieter Fourie |
| **Aganang integrated plant performance** | Aganang management |
| **Sephaku Holdings overview** | Neil Crafford – Lazarus |

# DANGOTE CEMENT SOUTH AFRICA [DANGCEMSA] FORMERLY SEPHAKU CEMENT (PTY) LTD

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**Above: Aganang integrated plant**

**Below: Delmas milling plant**

# DANGCEMSA FY 2015 SALIENT POINTS

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- Revenue at approximately R2,3 billion for the 12 months ended December 2015
  - Q4 revenue at R640 million a 1,5% decline from Q3 mainly due to seasonality
    - The quarter with fewer trading days
  - [1]Overall industry sales volumes including imports at 3,6 million tonnes for Q4 and 13,8 million tonnes for the calendar year 2015
- EBITDA at 22% for the 12 month period ended December 2015 with Q4 at 20% (Q3: 26%).
  - Lower Q4 margins recorded for the quarter due to
    - Planned annual kiln maintenance shutdown
    - Increased downward pricing pressure
- Combined annualised capacity utilisation at over 80%
  - Delmas and Aganang at 90% and 70% respectively
- DangCemSA sales volumes increased by 162% year on year by end of December 2015

*Source: [1]Levitt Kirson – National Cementitious Sales Statistics for South Africa*

# OPTIMISATION PROGRAMME

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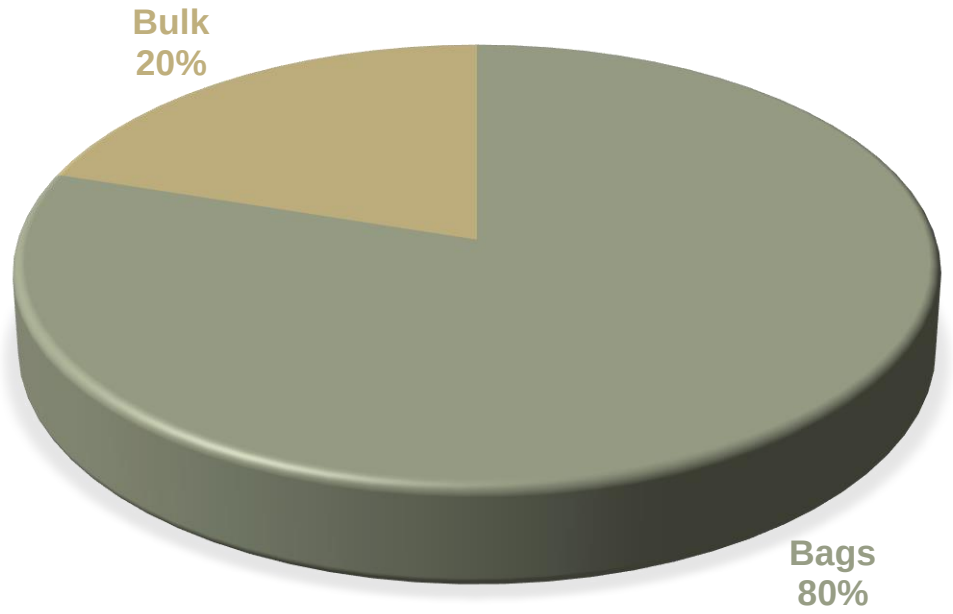
- To improve margins by enhancing efficiencies
  - During ramp-up focus was on maximising market share
- Programme targeting the following operational functions
  - Logistics - Rationalisation of volumes and re-negotiation of rates
  - Sales - Refining customer segmentation and providing cost effective customised service
  - Raw materials - Improvement in the sourcing and use of raw material additives
  - Production - Mastering of the production process and improving plant reliability
- The positive impact of optimisation targeted for the second half of CY 2016
- EBITDA margins targeted to improve by 5% - 7%

# DANGCEMSA PRODUCT MIX

- Approximately 75% - 80% of sales volumes in bagged cement
  - 70% in the inland markets
  - Increasing 42.5 strength class volumes up to 40% by end of December 2015
- 65% of sales volumes from the rural markets
- 20% of the sales volumes sold in the KZN market

## SALES VOLUME SPLIT %



# SEPCEM BRAND EQUITY

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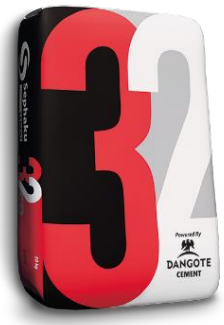
- All SepCem brand strength classes offer consistent quality
- Excellent delivery and after-sales service
  - Highly experienced sales and technical personnel to support customers
  - Development and maintenance of strategic relationships with the distribution channel
- Introduction of modern and efficient technologies has positioned DangCemSA at a significant advantage to other local producers
- DangCemSA commissioned a qualitative brand survey* to understand customer perception and awareness of the Sephaku cement brand.
  - The results confirmed the elements listed above



** Qualitative brand survey done by Helion Market Research in 2015*

# CUSTOMER PURCHASING DECISION PROCESS

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| | |
|---|---|
| **Trusted brand** | • Customer chooses brands from within the consideration set<br>• trusted brand means that the cement is good quality |
| **Affordability** | • Customer considers lower price than others in the competitor set - not necessarily the cheapest<br>• Contractors particularly consider their profit |
| **Strength** | • Customer depends on number displayed on the bag<br>• 'Is it strong enough for what I need to do?' |
| **Quality** | • Customer colour perception – 'the darker the colour of the cement, the better the quality'<br>• Customer texture perception – 'the finer the cement , the better the quality' |
| **Availability** | • If one brand in the consideration set is unavailable, the next available brand in the mental hierarchy set will be chosen |

Helion™ *Market Research*

# SEPHAKU CEMENT DISTINCTIVE ADVANTAGE

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## Quality

- Increased perceptions of Sephaku as a quality cement through in-store communication and sales assistant information

## Cost

- Increased perceptions of Sephaku as good value by cost/value equations on the bag such as :
  - Number of wheelbarrows of sand per bag of cement
  - Setting times - no wastage
  - Less paint needed because dries smoothly
- In-store promotions

## Brand

Provides consumers with compelling reasons to believe in Sephaku:

- The packaging is a defining attribute of the brand
- All relevant information is present on pack such as cost/value calculation
- Increased brand awareness across a wide consumer demographic

Helion™ Market Research

# SEPHAKU CEMENT BRAND PERCEPTIONS

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| Perception | Customer assertion |
| --- | --- |
| Sephaku can help one to build the buildings of your dreams | • Very positive message that re-inforces that Sephaku is a strong, appealing brand |
| Sephaku is a quality brand | • Strong and reliable cement |
| Sephaku is a (South) African brand | • The idea that people came together to create this new brand here in Africa is appealing |
| Sephaku is a new brand | • The first new entrant in over 100 years in SA<br>• Although Sephaku is a new brand, its management has been in the cement industry for a long time, so they know what they're talking about |
| Advanced technology | • Sephaku is a modern brand<br>• It uses advanced technology to produce its cement |

Helion™ Market Research

# SOUTH AFRICA CEMENT MARKET DYNAMICS

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# INDUSTRY ANALYSIS

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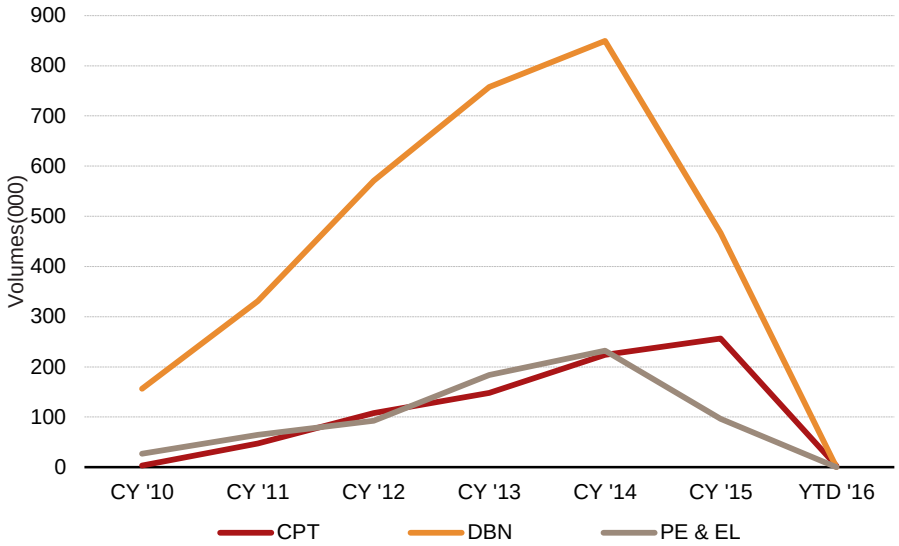
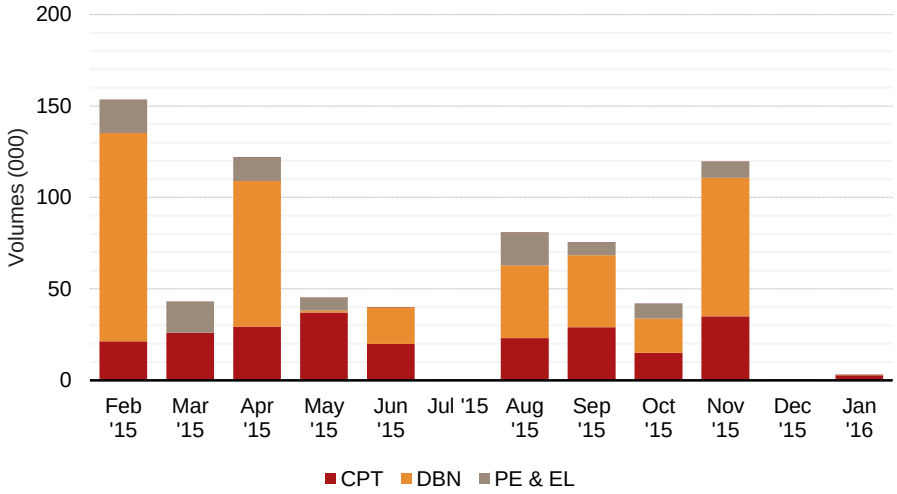
- RSA cement demand market at 13,8 million tonnes per annum (mtpa) with potential for growth
  - 3,2% year on year cement demand growth including imports in calendar year 2015[1]
- Market progressively skewed towards bagged cement with high demand in the rural areas
- Lower demand for bulk cement due to the lack of major infrastructure development
  - National development plan necessary to create impetus
  - Gauteng province currently the only robust bulk market
- Inland markets remain highly contested with Gauteng being the most competitive
  - YOY pricing largely flat due to increases not sticking in major markets
- New entrant with c1mtpa capacity started production of cement in January 2016
  - Impact of entry has largely been muted due to a large supply contract to a major retailer
  - Entrant's integrated plant with predominantly bulk cement production capacity likely to cause increased downward pricing pressure in the bulk market

*Sources: [1]Levitt Kirson – National Cementitious Sales Statistics for South Africa ; DangCemSA research*

# IMPORTS

- Volume decline of 37% for the 12 – months ended December 2015 to 820 ktpa
  - Reduction mainly due to the tariffs imposed on the dumped cement from Pakistan
  - Approximately 500kt imported in the initial 6 months to the end of June 2015
- Final ITAC tariffs approved in December 2015:
  - 3,000 tonnes imported in January 2016 compared to 100,000 in January 2015
  - Zero imports via KZN in January 2016
- DangCemSA has secured approximately 60% of the KZN import volumes




*Source : DangCemSA , SARS*

# DANGCEMSA MARKET POSITIONING

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- Well positioned in the rural bag market with approximately 65% of the sales volumes
- Established and solid strategic relationships with the distribution channels
- Significant share of the Gauteng bulk market through the Métier relationship
- Strong sales and marketing acumen to appropriately segment the market
  - DangCemSA pioneered the prevailing market differentiation
- In February increased pricing by 4% – 9% in approximately 60% of its markets
- No overall price leader because of the highly segmented market

# MODERN PLANT TECHNOLOGY & EFFICIENCIES

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# INTEGRATED CEMENT PLANT CONFIGURATION

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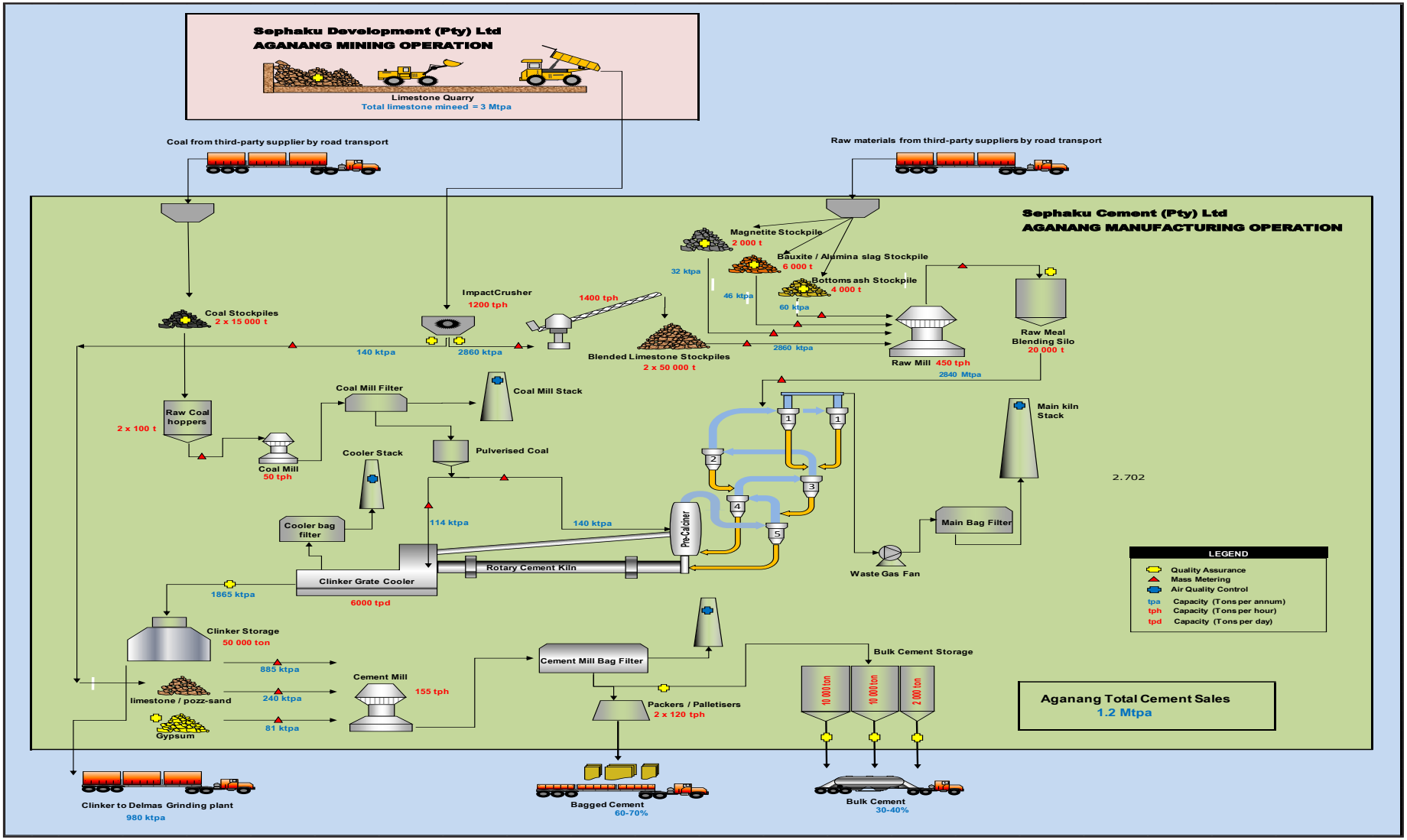

# THE AGANANG VALUE DRIVERS

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## GOOD QUALITY RESOURCE

- ~1 km from Aganang integrated plant
- Shallow 7 – 9 metre single bench open-cast mine
- Life of mine > 30yrs
- Mining of 1.64 million tonnes for every 1 million tonnes of clinker
- Limestone analysed for consistency from blast holes to mining
- Outsourced mining managed through a service level agreement

## EFFICIENT PLANT

- Only plant in SA with vertical mills across the board
- 3 vertical roller mills
  - Raw mill
  - Coal mill
  - Cement mill
- Vertical mills generally 20% – 30% more efficient than the standard ball mills
- Energy efficiency of core operations at 97.5 kWh/t cement
- Low emissions that are well below the guaranteed 30 mg/Nm³ due to modern plant technology

## EFFICIENT LOGISTICS

- Several transport suppliers to enhance negotiation power and competitive rates
- Sophisticated SAP despatch process to ensure maintenance of superior product delivery promise to customers
- Return load benefits on raw materials due to clinker transfers to Delmas grinding plant

## STRATEGIC MARKET RELATIONSHIPS

- SepCem brand in all the major retail distribution chains
- Both 32.5 & 42.5 well represented in all key inland markets

**Drivers anchored by skilled operational management team with over 150 years experience**

# THE WINNING OPERATIONAL TEAM

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***Mark Hechter***

***Plant Manager***

**Mark has over 25 years experience in cement manufacture at various factories**

**Engineering Manager**
***Chris van Aswegen***

15 years in the cement industry
5 years in other heavy industry

**Production Manager**
***Quinton Newton***

16 years in the cement industry

**Packing & Despatch Manager**
***Essie Esterhuizen***
21 years in the cement industry

**Mining Manager**
***Danie Jacobs***

27 years in the cement industry

**Quality Manager**
***Elias Legoabe***

20 years in the cement industry

**Organisational Performance Manager**
***Erick Mnisi***
6 years experience in the cement industry
6 years in other heavy industry

**Administration Manager**
***Constant Weyer***

12 years in the cement industry

**Risk Manager**
***Jerome Louw***

8 years in the cement industry
7 years in other heavy industry

# OVER 150 YEARS COMBINED EXPERIENCE

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- The plant operates effectively on a lean employee complement of 192
  - Significantly lower headcount than all competitors
  - High productivity rate per person per tonne
- The team has successfully improved plant availability through being astute
  - Plant management have an acute attention to detail.
- The operation reached design capacity in 2015, with the crusher, raw mill and cement mill producing consistently above design.
- The packing plant performance has continued to improve output as the demand for bagged cement increases
  - Consistently produces requisite volumes as dictated by market demand
- Robust affirmative action plans - 22% female employees and 3% people with disability
- Low employee turnover rate with 3% recorded for 2015.

# AGANANG EMPLOYEES CORE TO SUCCESS

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- Regular *sepcoms* – daily, weekly and monthly communication system
- Highly inclusive *Leaders Connect* communication system reaching all employees
- Performance management through a scorecard system and regular feedback
  - An intensive training done to ensure young personnel are equipped to work in the cement industry – over 10 000 man days of training done to date
  - Regular supervisory training to enhance the skills of current management team and to mentor next generation of managers
  - Interactive, on the job training and coaching

# COMMENDABLE SAFETY PERFORMANCE

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- Aganang plant has had no fatalities since inception
- Plant has had 2 Lost Time Injuries since production commenced
  - 1 * twisted knee – lost 3 days (April 2015)
  - 1 * twisted ankle – lost 1 day (Jan 2016)
- Extremely low Lost Time Injury Frequency Rate (LTIFR) of
  - 2014: 0,00
  - 2015: 0,19
  - Current 12 month rolling average at 0,36

***Above : Aganang employee packing cement***

# SOCIAL RELEVANCE

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- Job creation and supporting the development of SMME's identified as important factors in the sustainability of the local economy and community development strategy.
- DangCemSA has an Enterprise and Supplier Development programme aimed at mentoring emerging enterprises
  - Has provided business opportunities and training to **7 SMMEs** in Aganang through the provision of financial and logistical management support.
  - Programme has enabled the effective creation of **59 direct jobs**, thereby contributing to the provincial empowerment goals and the alleviation of poverty.

***CASE STUDY - Bodibeng Trading Proprietary Limited***

*Founded by Mr Gaopalelwe Olebogeng from the Verdwaal Village in the North West province who is the sole managing member of Bodibeng Trading Proprietary Limited. Mr Gaopalelwe has previous experience in plant cleaning that he acquired during his tenure as a plant cleaner at another cement company in Lichtenburg. Bodibeng Trading Proprietary Limited employs 38 employees from the local community and currently has a short-term contract with DangCemSA which includes mentorship to ensure that it effectively provides the plant cleaning services at Aganang.*

# SEPHAKU HOLDINGS OVERVIEW

SEPHAKU HOLDINGS LTD

# QUICK FACTS

| | |
|---|---|
| Sector | Construction and Materials |
| JSE Listing (SEP) | 2009 |
| Issued shares | 201 224 508 |
| Closing price as at 11 April 2016 | 420 cents |
| Market capitalisation as at 11 April 2016 | R848 million |
| Highest 12 month market capitalisation (April 2015) | cR2 billion |
| Group interim revenue as at 30 September 2015 | R461 million |
| Group annual revenue as at 31 March 2015 | R775 million |

*Source : Sharedata online ,JSE Limited, SepHold*

# DRIVERS FOR SUCCESS

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## The group is anchored by the following cornerstones

**Deep** technical, project management and marketing **skills**

Experienced key management with comprehensive industry knowledge and experience in cement and concrete manufacturing

**Leading technologies** that facilitate the production of high quality cement and mixed concrete

Modern, highly efficient cement plants with state-of-the-art equipment and infrastructure

Compact mixed concrete production plants

**Customer focus** through service excellence

Métier has built brand equity through its innovative specialised concretes and superior service offering

**Strategic relationships** and **deal-making abilities**

The group has developed robust relationships with the key stakeholders including the retail distribution channel, communities, funders and suppliers

# OUR INVESTMENT PROPOSITION

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New **technologically advanced** production **plants** with **higher cost efficiencies** that enhance competitiveness.

# OUR INVESTMENT PROPOSITION

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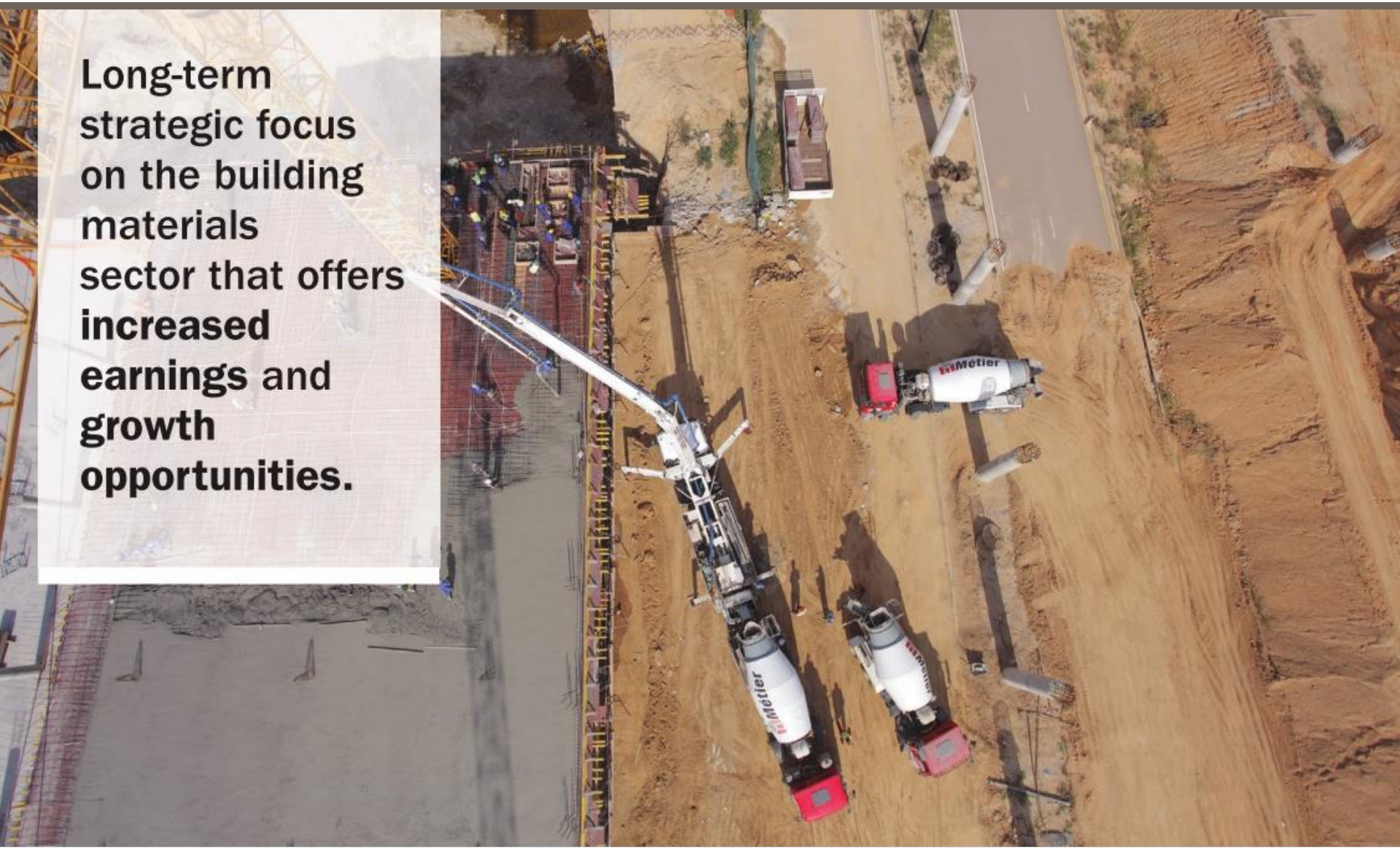
**Profitable concrete operations** with distinctive technical skills providing **solid earnings** and **positive net operating cash flows.**

# OUR INVESTMENT PROPOSITION

SEPHAKU HOLDINGS LTD




Long-term strategic focus on the building materials sector that offers **increased earnings** and **growth opportunities.**

# OUR INVESTMENT PROPOSITION

SEPHAKU HOLDINGS LTD

Key operational management with **deep industry skills.**

# CONTACT

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