



**BUILDING BLOCKS FOR GROWTH**

SEPHAKU
HOLDINGS LTD

# PROVISIONAL FINANCIAL RESULTS PRESENTATION

**FOR THE YEAR ENDED 31 MARCH 2016**

# Agenda

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|---|
| **1. OPERATIONAL PERFORMANCE OVERVIEW** – Dr Lelau Mohuba |
| • Dangote Cement SA (Pty) Ltd (CEMENT) |
| • Métier Mixed Concrete (Métier) |
| **2. FINANCIAL PERFORMANCE OVERVIEW** – Neil Crafford-Lazarus |
| • Statement of comprehensive income |
| • Statement of financial position |
| • Statement of cash flows |
| **3. OUTLOOK** – Neil Crafford-Lazarus |
| • Métier |
| • CEMENT |
| • Investment case |
| **QUESTIONS** |

1 OPERATIONAL PERFORMANCE

2 OVERVIEW

3

# CEMENT achieves R2,3 billion revenue



- CEMENT reached annualised steady state capacity utilisation of 80% in May 2015
  - Aganang plant operated uninterrupted since April 2015 and is at 70% utilisation
  - Delmas grinding plant is operating at 90% utilisation
- Sales volumes increased by 162% for the 12 months ended December 2015
  - Imports significantly reduced by tariffs into the second largest cement market of KwaZulu-Natal (KZN)
  - CEMENT supplied approximately 20% of its volumes into KZN for the period under review
- Revenue increased by 150% from R919 million to R2,3 billion in spite of intense competitive forces
- EBITDA at 22% for the 12-month period ended December 2015 compared to 14% for the comparative period

# CEMENT optimisation programme

- To date the improvement results include:
  - An increase in production capacity to 2,8 million tonnes per annum as a result of optimising raw materials composition
  - Further improvements expected during the second half of CY2016
- The programme is expected to improve the EBITDA margins by 5% - 7% in the foreseeable future as a result of enhanced efficiencies
- Optimisation programme is 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 output and reliability

# Industry analysis

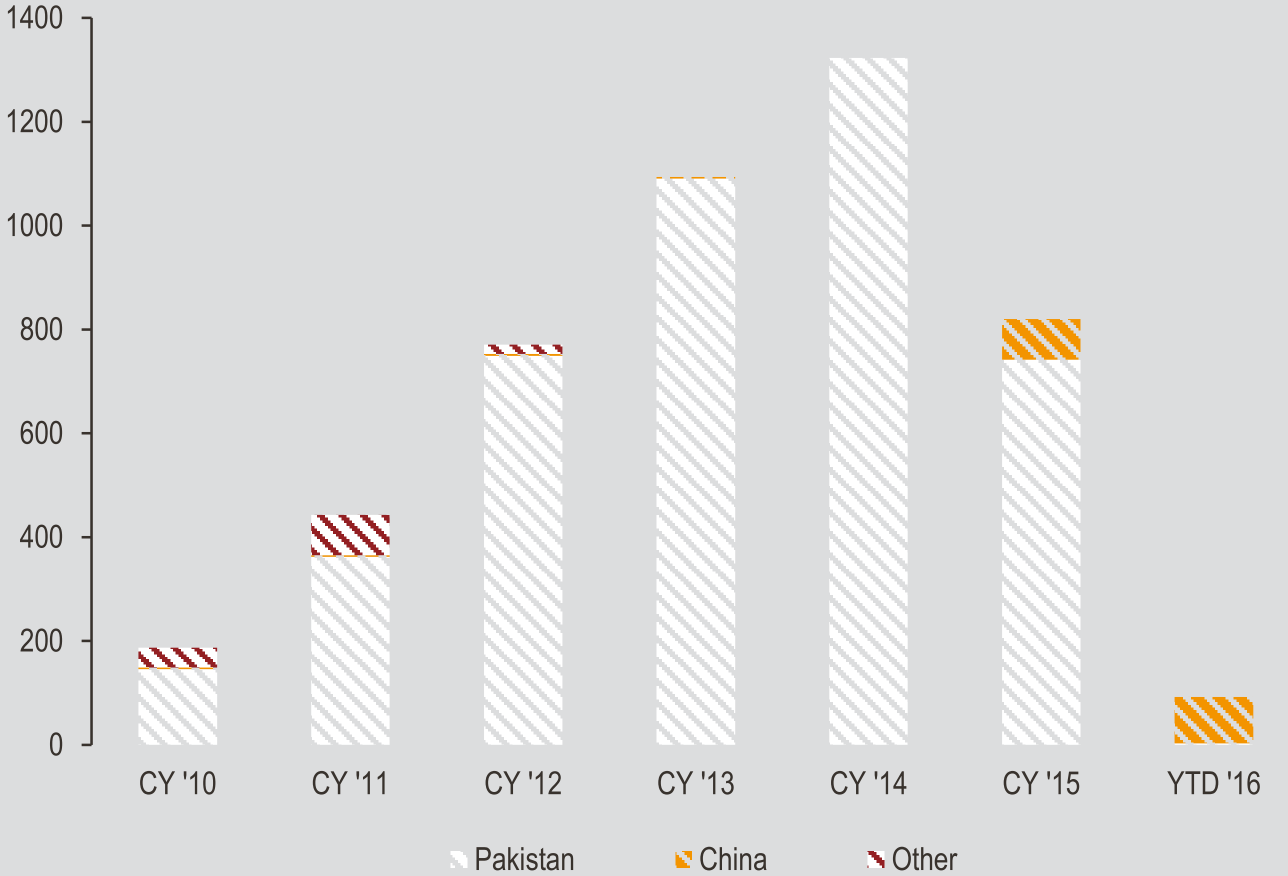
- RSA cement demand market at 13,8 million tonnes per annum (mtpa) with potential for growth
  - 3,2% year-on-year cement demand growth including imports in calendar year 2015[1]
- Market progressively skewed towards bagged cement with high demand in the rural areas
- Lower demand for bulk cement due to the lack of major infrastructure development
  - Gauteng province currently the only robust bulk market in the inland region
  - National development plan necessary to create impetus
- 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; CEMENT research

# Imports



## Annual imports by origin



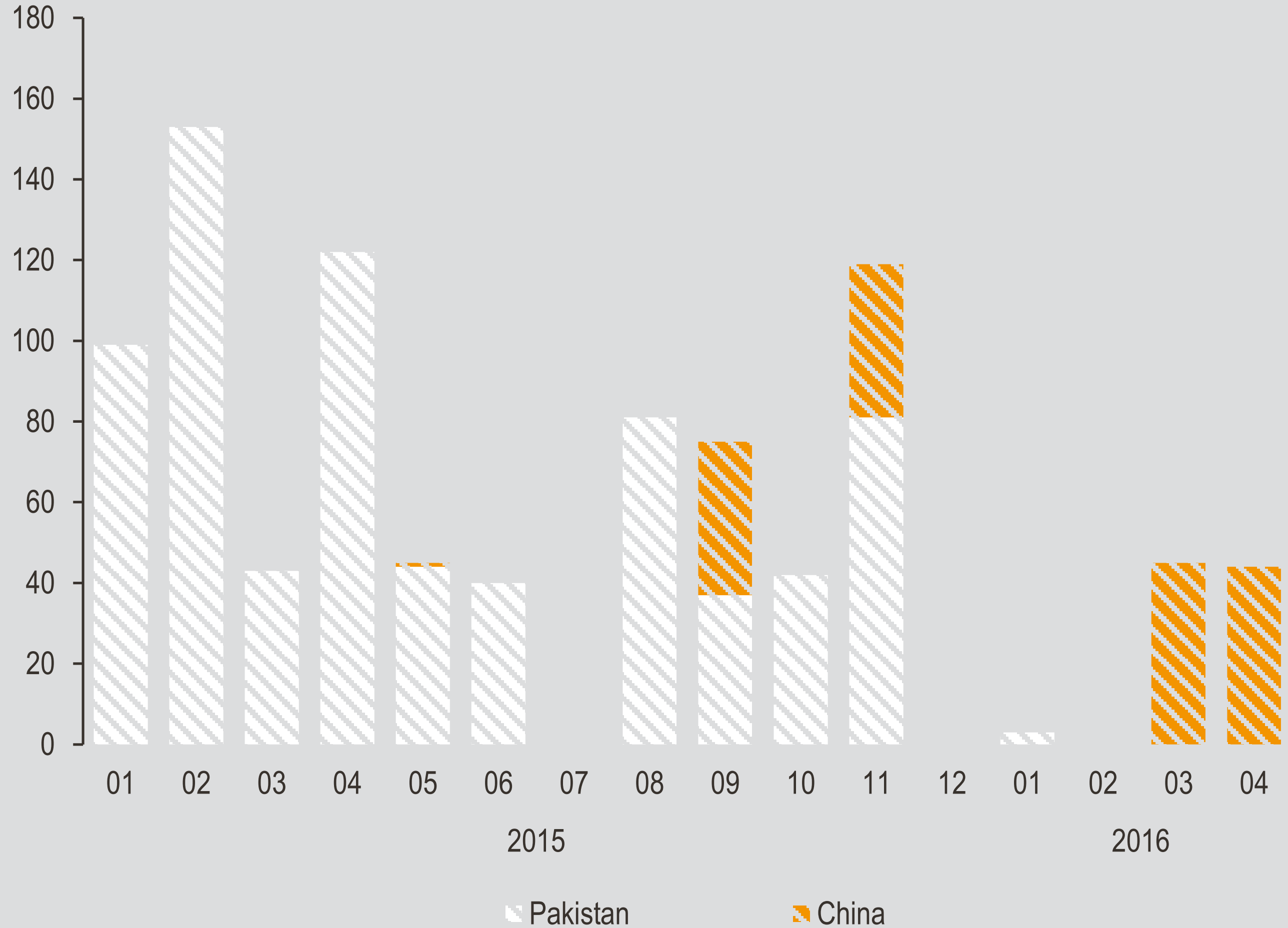

- Volume decline of 37% for the 12-month period ended December 2015 to 820 ktpa
- Reduction mainly due to the provisional tariffs imposed on the dumped cement from Pakistan
- Re-introduction of imported cement from China at ±10% of total volume in CY2015

Source: CEMENT, SARS

# Imports



## Monthly imports by origin – January 2015 to April 2016




Source: CEMENT, SARS

- Final ITAC tariffs approved in December 2015:
  - ±91 000 tonnes imported in Q1 CY2016 – a decline of 70% from 295 000 tonnes imported in Q1 CY2015
  - ±98% imported from China with 37% into Durban
    - Tariffs imposed specifically on Pakistan cement



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# CEMENT's market positioning

- Well positioned in the rural bag market 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 differentiate the market
- Price increases of 4% - 9% implemented in February to 60% of the market

# Métier increases revenue by 13%

- Recorded 13% revenue increase to R874 million
  - Growth in sales mainly due to the 11th plant output and the pumping services division
  - Métier started the year with a strong order book and positive signals from the increase in the number of building plans passed
- Intense competition in all its markets impacted the margins reducing the operating margin to 12%
- Métier completed its main operational premises fully equipped with a laboratory
  - The laboratory will reduce testing costs by 10% as the subsidiary eliminates the outsourced option
  - Increases the research and development capabilities
- Métier strengthened its management team by appointing Jürgens Du Toit who has over 24 years' experience in the mining and building materials industries
  - Kenneth Capes was appointed the chief executive officer of Métier and also increased his area of responsibility in the Group to assist SepHold with its growth strategy as the business development director
- Métier is exploring various expansion opportunities to expand its footprint by taking full advantage of its production processes and technical skills

1

2 FINANCIAL PERFORMANCE

3 OVERVIEW

# Salient points for the period

- Group increases in earnings
  - Operating profit increased by 42,1% from R59,3 million to R84,2 million
  - Basic earnings per share increased by 22,8% from 24,43 cents to 30 cents
  - Headline earnings per share increased by 22,1% from 24,43 cents to 29,84 cents
  - Net earnings increased by 28,1% from R47,2 million to R60,4 million
- Métier continues to perform satisfactorily
  - Revenue increased from R775,4 million to R874,3 million
  - EBIT margin lower at 12% as compared to 14% in comparative period
    - Highly competitive pricing
- CEMENT[1] continued the impressive sales volume growth trajectory
  - Revenue of R2,3 billion at an EBITDA of 22%
  - EBITDA increased from R129,7 million (14%) to R505,5 million (22%)
  - EBIT increased from R59,5 million (6%) to R336,9 million (15%)

[1] CEMENT has a December year-end as a subsidiary of Dangote Cement Plc



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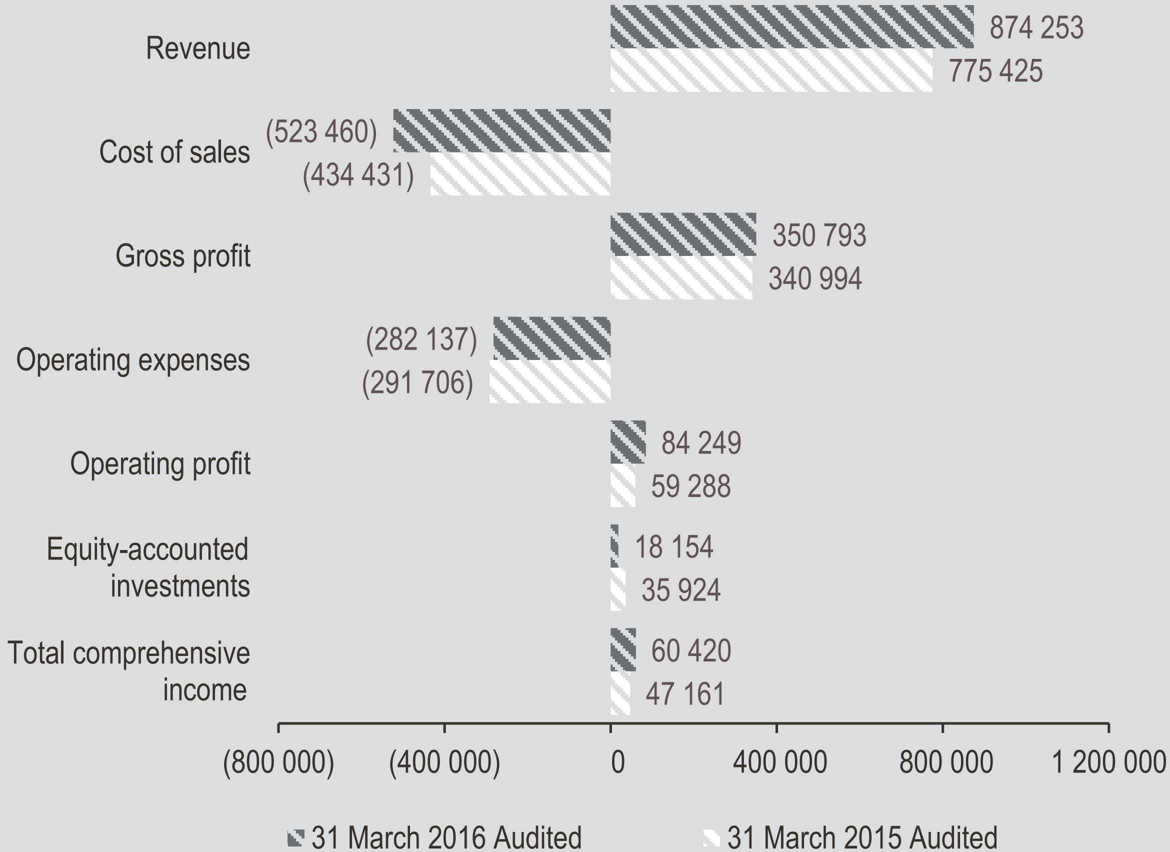
# Statement of comprehensive Income (R'000)

## Group




Focus on earnings growth and quality

**Métier**

- Cost of sales increased from 56% (R434,4 million) to 60% (R523,5 million)
- Slight improvement in expenses from 31,2% to 30,3% reducing the impact of pricing competition
- Management actively managing costs to remain profitable by
  - Reducing quality testing costs and recycling costs

**SepHold**

- Overhead expenses decreased by 34% representing a normal year with the elimination of the settlement adjustment



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# CEMENT[1] – a year of two halves

- First half associate reached steady state utilisation rate of 80%
  - Focus on earnings growth and achieving steady rate
- Second half introduced the optimisation programme and a focus on earnings quality
- Cost of sales improved from 79,5% to 77,6% on a comparative basis relative to revenue resulting in an improvement of 9,2% in the gross profit margin to 22,4%
- Operating margin increased from 6,5% to 14,7% year-on-year
- Finance costs increased by 135% to R265,5 million (2014: R112,9 million) mainly as the result of associate's payment of interest on the R2,4 billion plant construction debt

[1] CEMENT has a December year-end as a subsidiary of Dangote Cement Plc



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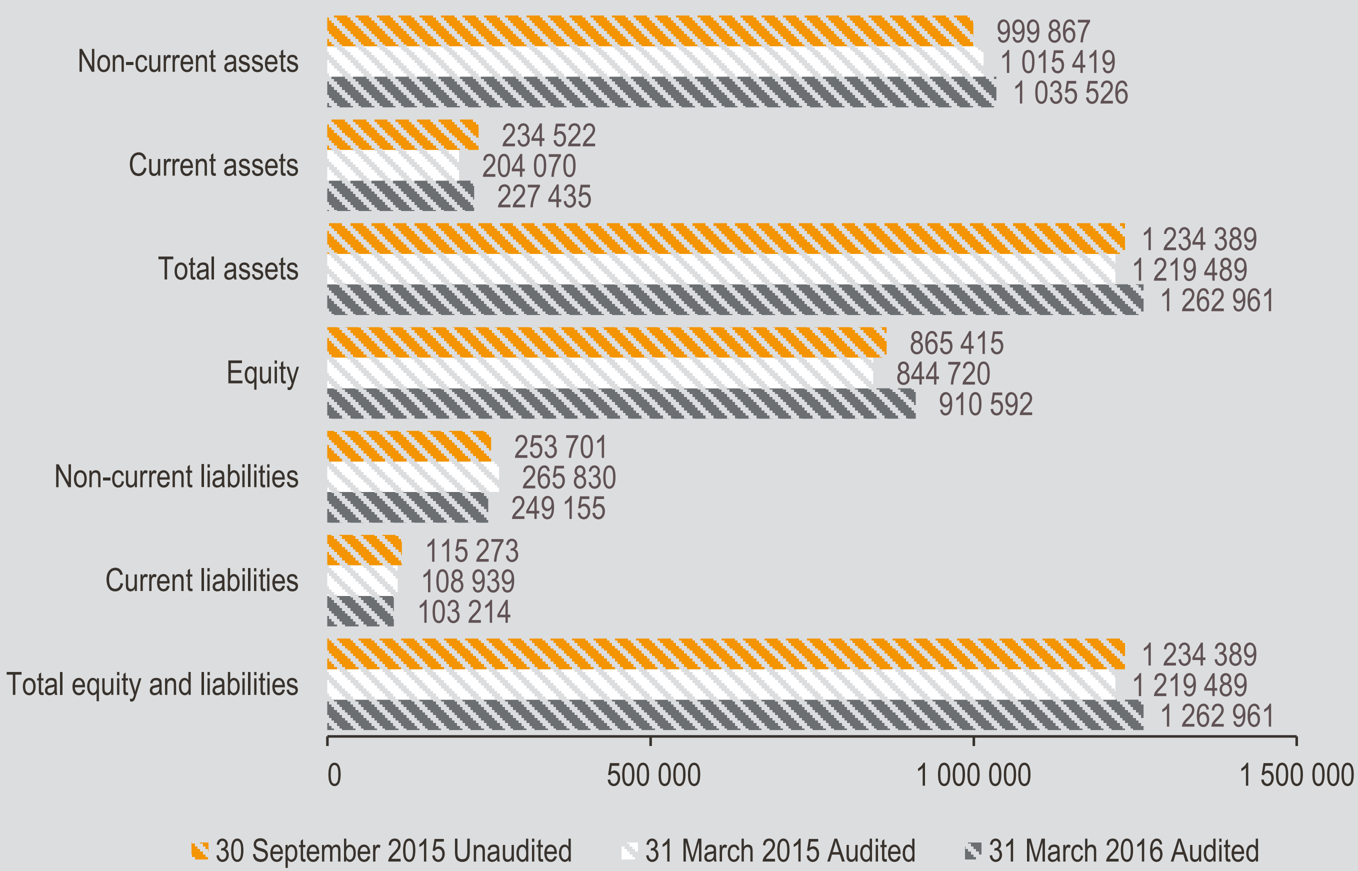
# Statement of financial position (R'000)



## Group




- Net asset value increased by 7,4% for the comparative period from 419,79 cents to 450,99 cents
- 8,7% decrease in financial liabilities in the reporting period as the group continues to reduce Métier acquisition debt
- Increase in assets reflected by equity contribution from CEMENT and cash generated from Métier



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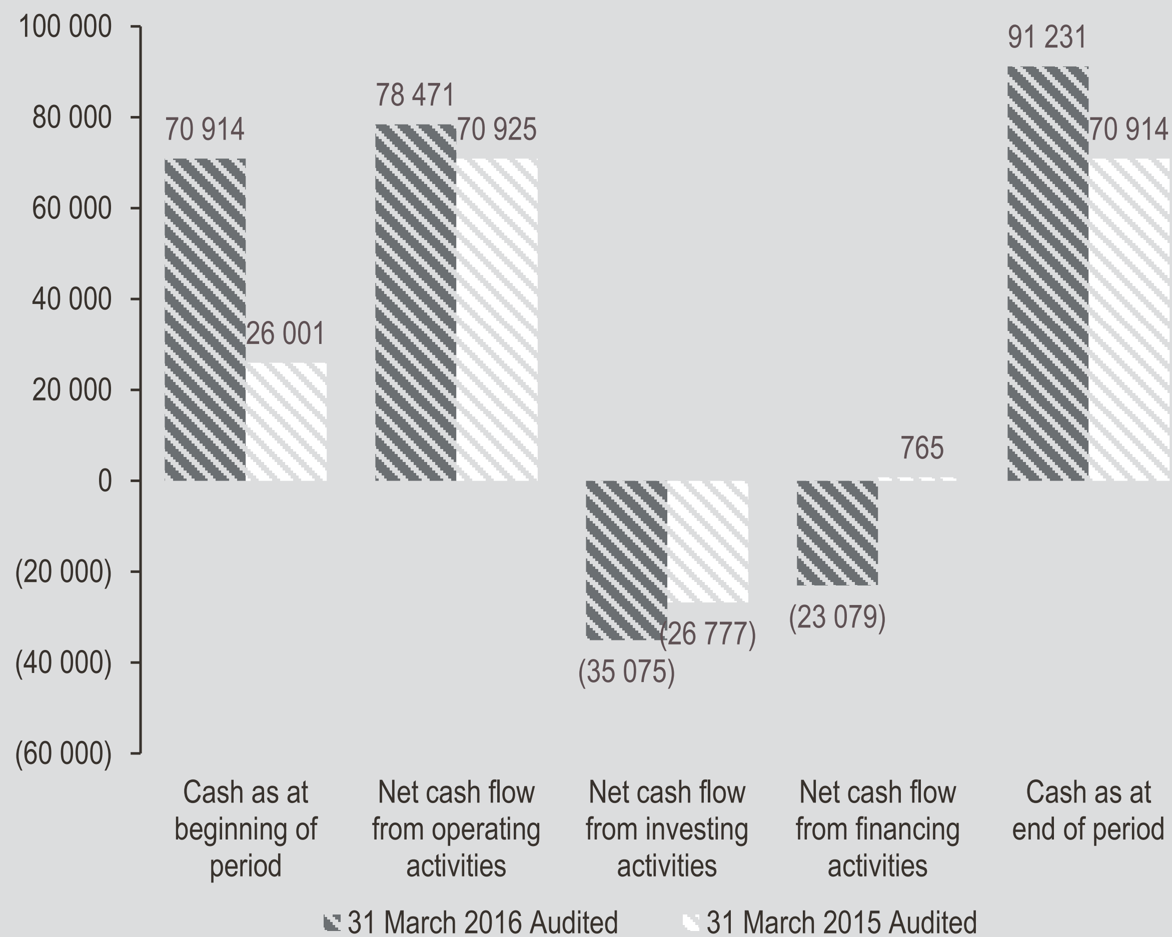
# Statement of cash flows (R'000)

## Group




- Net operating cash flow increased by 10,6% to R78,5 million (2015: R70,9 million) due to increased earnings
- Higher (31%) investing cash outflow year on year mainly due to:
  - ±35% (2015: 1,6%) of the expenditure on land and buildings
  - ±55% invested into Métier operational vehicles
- Net financing cash outflow representing repayment of debt



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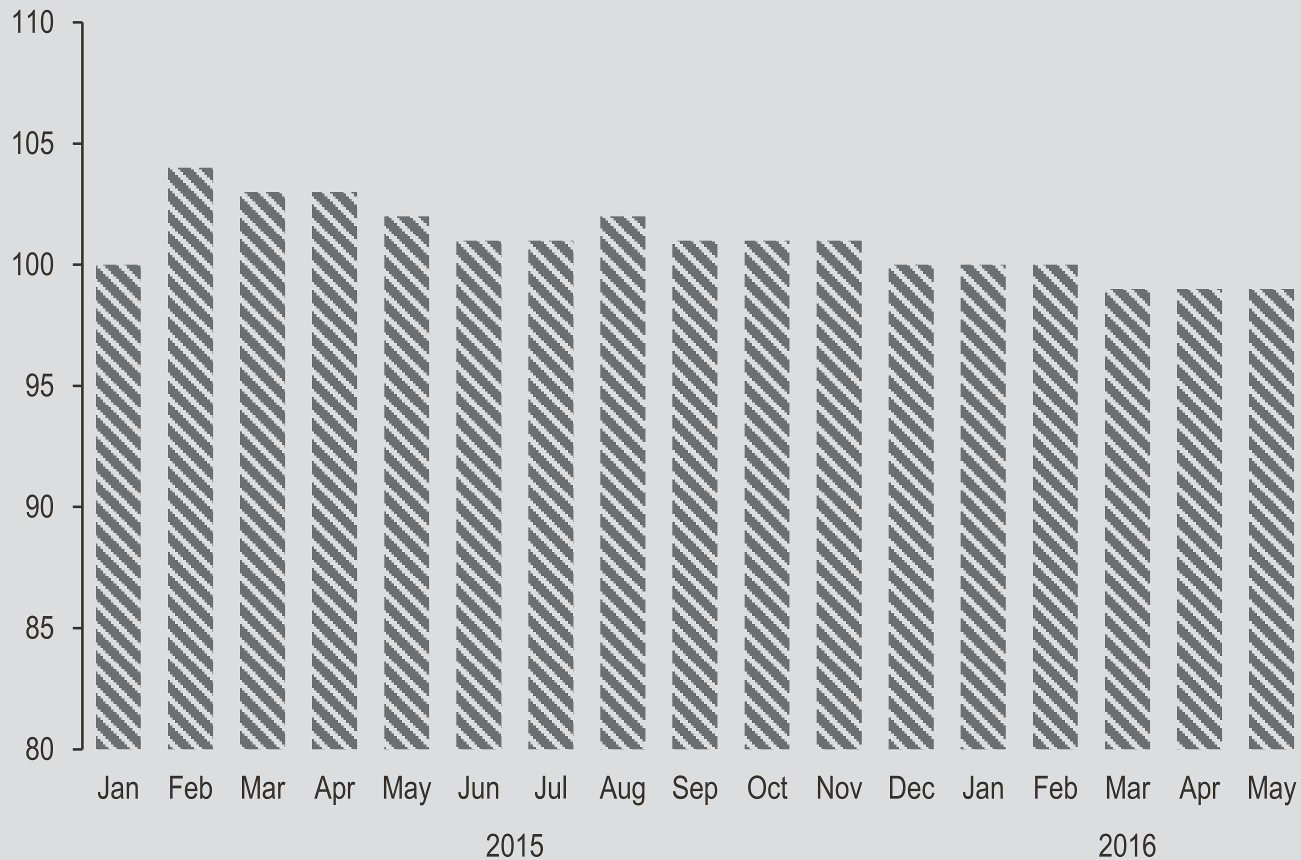
# CEMENT's 18 month pricing profile based to 100



## CEMENT's average weighted bag sales (based) prices




- Year-on-year pricing largely flat in most markets except for the highly contested Gauteng market that had a 5% decline
- Regional effective pricing currently in the range of 92 - 111 relative to January 2015
- Price competition eroded the price increases however CEMENT to implement price increases in July 2016

# Management of CEMENT's debt covenants

- Pricing competition and inability to increase pricing has resulted in pressure on the CEMENT debt covenants
- Shareholders (Dangote Cement PLC & SepHold) agreed to inject R130 million to relieve the pressure
- SepHold's commitment is R47 million representing a 36% equity portion of the total contribution
- Contribution will be from available cash



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# 3 OUTLOOK

# Medium term focus



**SepHold**

- Continue to evaluate growth opportunities through
  - Expansion of current operations
  - Complementing current operations with backward integrated acquisitions
  - Exploring downstream opportunities


**CEMENT**

- Pursue the optimisation programme in all focus areas
  - Increase sales focus
  - Ensure sufficient and optimised logistics between plants and market
  - Further increase production efficiency to optimise operating costs
  - Improve raw material sourcing
- To maintain and or gain market share
- To achieve higher prices in all markets


**Métier**

- Expand operations by a 12th plant in Gauteng
- Short-term strategy to:
  - Control all costs
  - Focus on service excellence


THANK YOU FOR PARTICIPATING

QUESTIONS?

# Disclaimer

This presentation includes certain forward-looking information. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements, including, without limitation, those concerning: Sephaku Holdings' strategy; the economic outlook for the industry; production; cash costs and other operating results; growth prospects and outlook for Sephaku Holdings' operations, individually or in the aggregate; liquidity and capital resources and expenditure; and the outcome and consequences of any pending litigation proceedings. These forward-looking statements are not based on historical facts, but rather reflect Sephaku Holdings' current expectations concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as “believe”, “aim”, “expect”, “anticipate”, “intend”, “foresee”, “forecast”, “likely”, “should”, “planned”, “may”, “estimated”, “potential” or similar words and phrases. Similarly, statements concerning Sephaku Holdings' objectives, plans or goals are or may be forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may affect Sephaku Holdings' actual results, performance or achievements expressed or implied by these forward-looking statements. Although Sephaku Holdings believes that the expectations reflected in these forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

# 2016

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