

# MACQUARIE INFRASTRUCTURE CEO CONFERENCE

29 NOVEMBER 2017



  
**SEPHAKU**  
HOLDINGS LTD

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# Agenda

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**OPERATIONAL PERFORMANCE**

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**OUTLOOK**

**Presented by:**

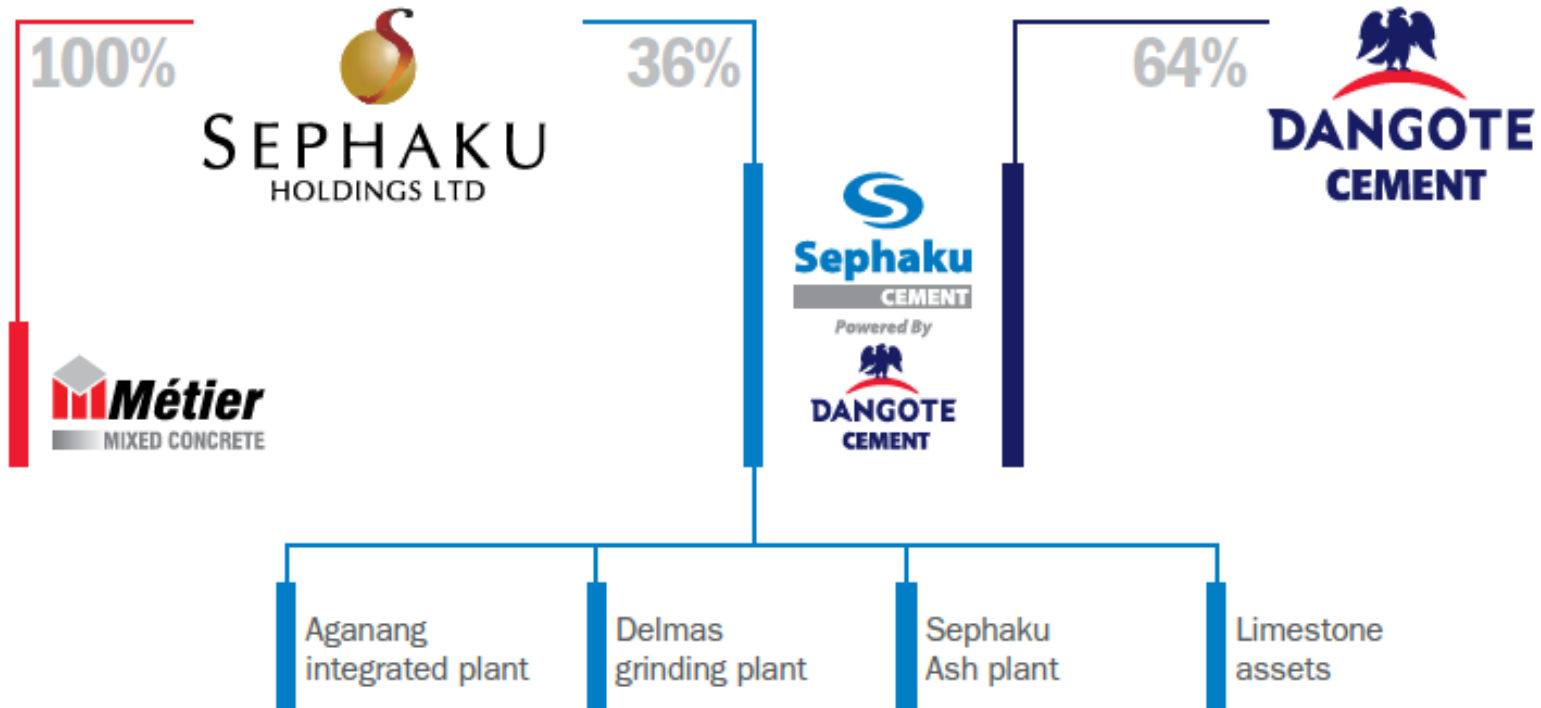
**PIETER FOURIE : Chief Executive Officer – Dangote Cement Africa [Sephaku Cement]**



# 1 INTRODUCTION



# The Sephaku Holdings structure



# Group value creation pillars

**Deep** technical, project management and marketing **skills**. Industry knowledge and experience in cement and concrete manufacturing

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Ability to produce consistent , high-quality cement and specialised concretes. Management able to bring targeted expansion targets to account.

**Leading technologies** that facilitate the production of high quality products and superior customer service.

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Modern, efficient cement plants with state-of-the-art equipment. Distribution logistics for concrete operations managed through integrated software to ensure timely deliveries.

**Customer focus** through service excellence

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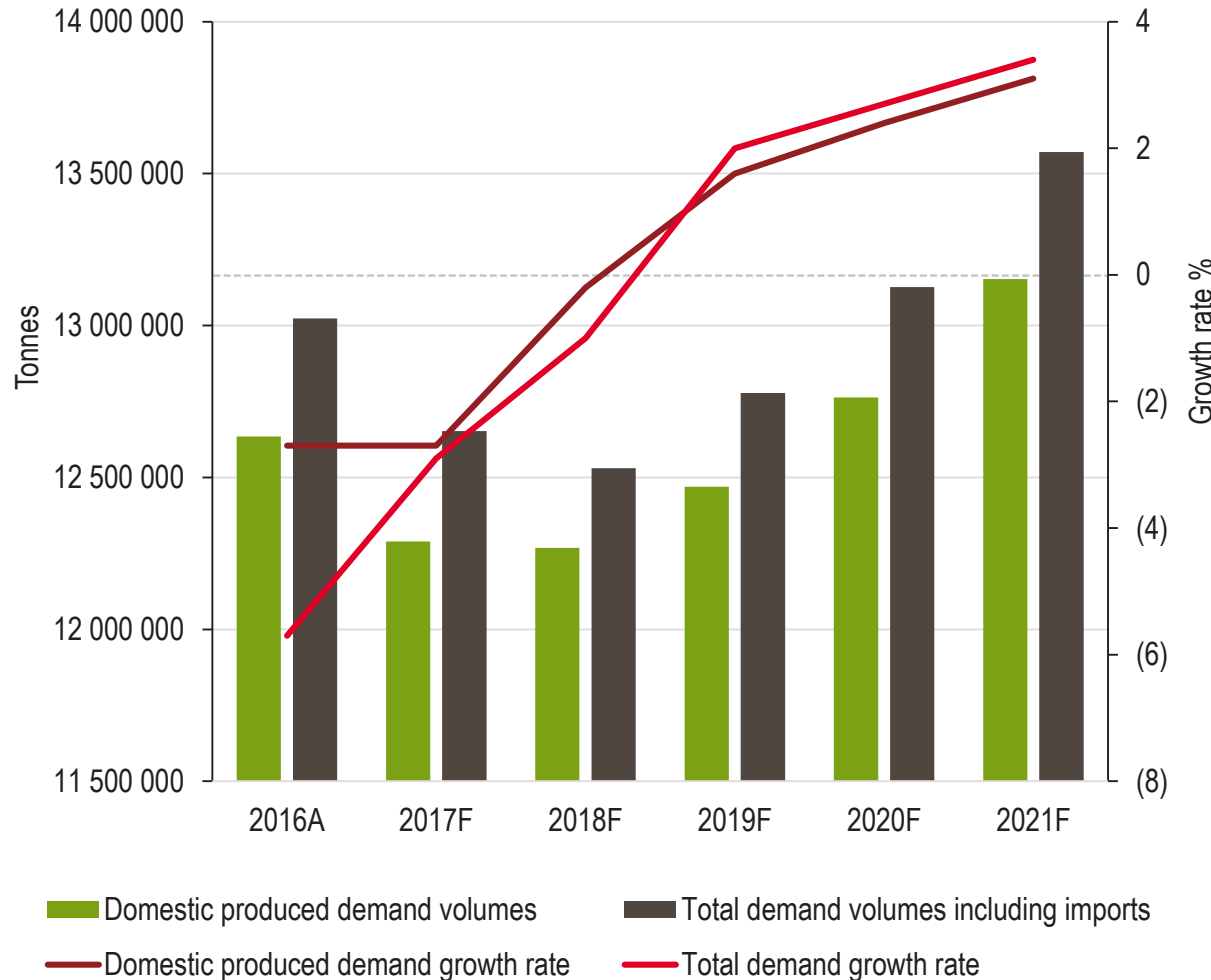
Métier has built brand equity through its innovative specialised concretes. CEMENT and Metier preferred suppliers renowned for their ability to meet customers' expectations.

**Strategic relationships and deal making abilities**

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

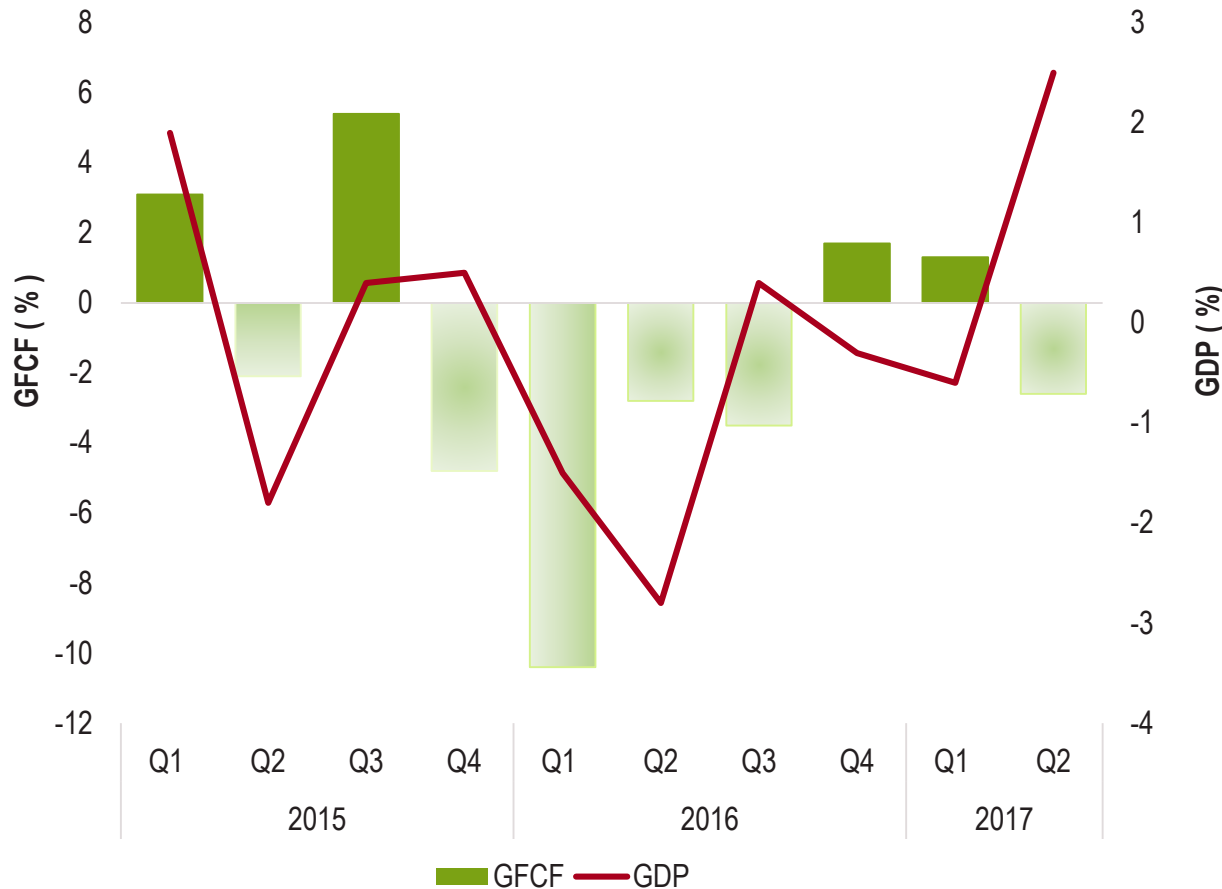
# National cement demand overview



- Econometrix cement demand estimated to have decreased by 2.4% for the six months to June 2017\*
- Year-on-year quarterly cement demand growth rate
  - Q1 : (3.1%)
  - Q2 : (4.4%)
  - Q3 : (2.9%)
- CEMENT sales volumes decreased by 4.9% for the 6 months ended June 2017
- Year on year sales volumes flat for the 9 months ended September 2017
- Total demand forecast at 12,7 tonnes for CY 2017
- Positive total demand growth expected from 2019 at 2%

Source: Econometrix (Pty) Ltd Quarterly Cement Outlook Q3 2017 report; \* Econometrix utilise the Stats SA non-metallic production index as proxy for cement demand

# Adjusted quarterly trend in GDP and GFCF

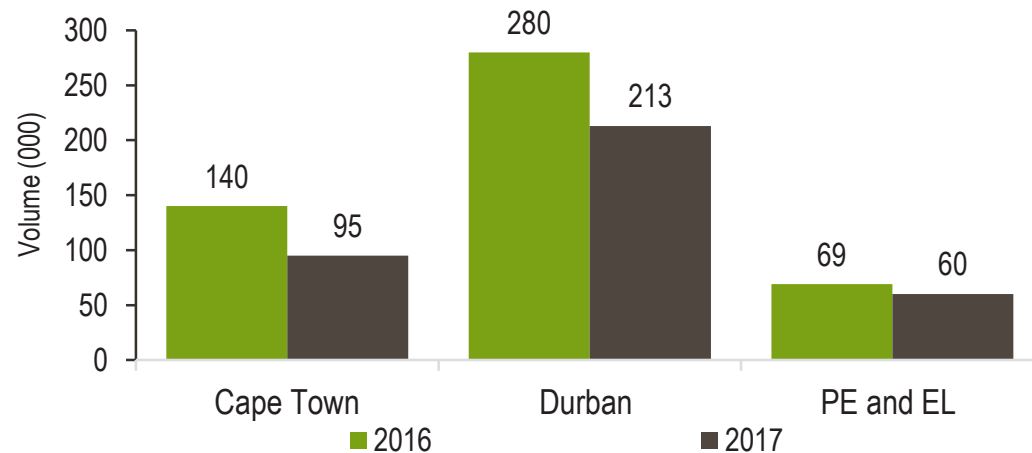
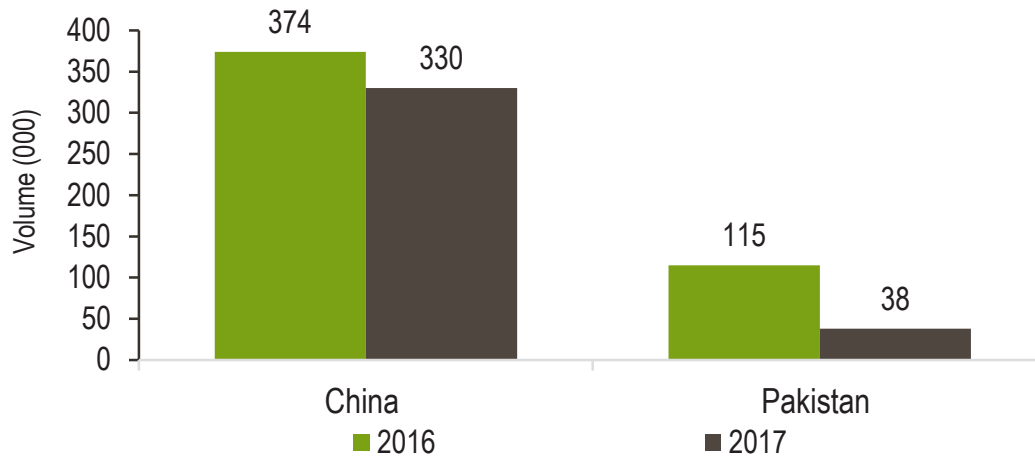


- Largest growth in Q2 2017 GDP were activities in;
  - Agriculture : 33,6%
  - Electricity : 8,8%
  - Mining : 3,9%
  - Finance : 2,5%
- The decline in gross fixed capital formation in Q2 2017 due to ;
  - (13,0%) decrease in investment spending in residential buildings
  - (5,5%) decrease in investment spending non-residential buildings

Source: Statistics South Africa report released 5 September 2017 . Figures seasonally adjusted and annualised .



# Import volumes continue to decline year-on-year



- Year-on-year volume decline of 25% to 368kt in cement imports by the end of September 2017
- Imported cement from China decreased by 12% to 330kt
- Imports through Durban have decreased by 24% to 213kt
- Exports decreased by 18% year-on-year from 730kt to 596kt for the nine month period ended September 2017

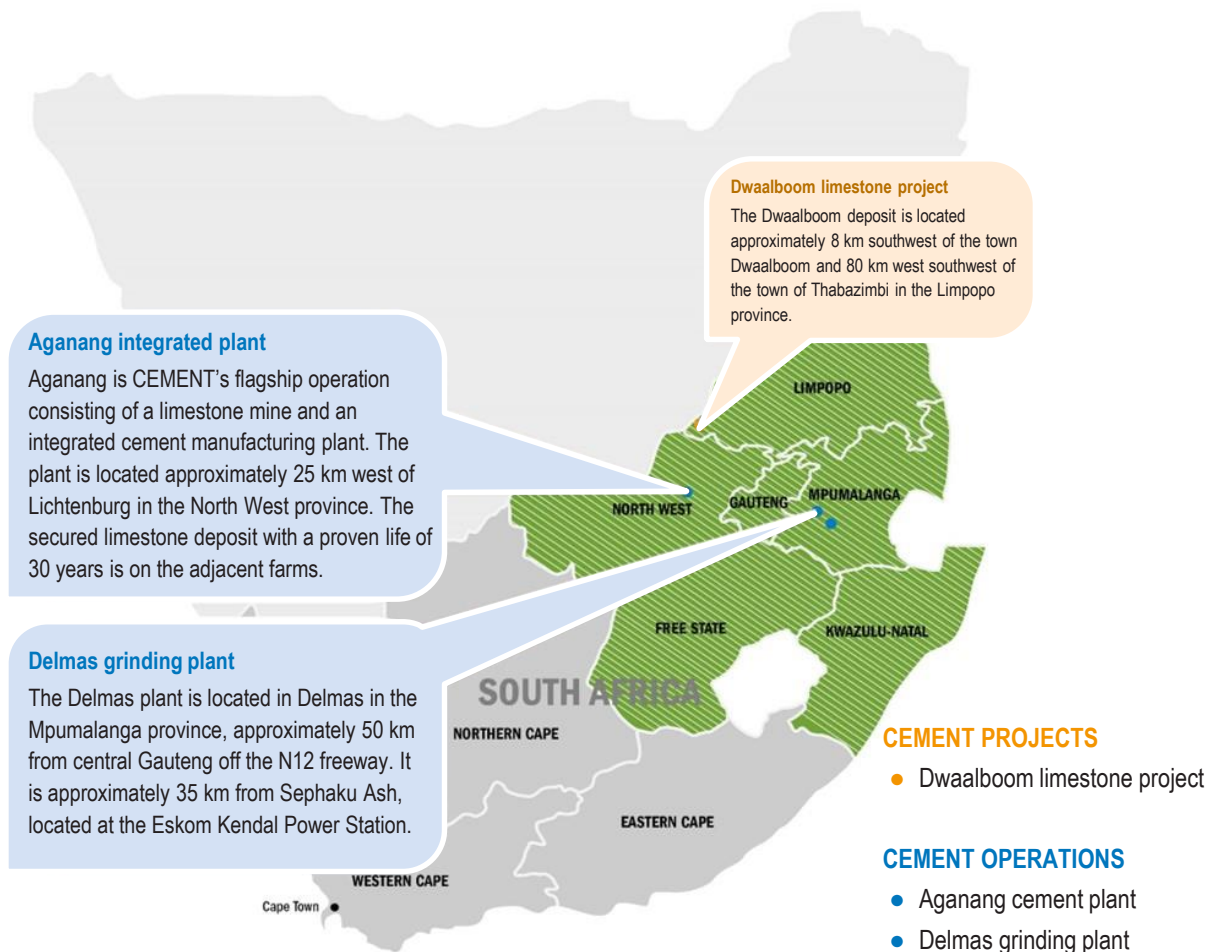
Source: SARS

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## OPERATIONAL PERFORMANCE



## Location of CEMENT assets



- Our operations are located in the Mpumalanga and North West provinces in South Africa
- Our target markets are the Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga and North West.

Note: Location of assets not actual but indicative for illustrative purposes

# CEMENT's key enablers



## New quarry , easier mining

- Quarry approximately 1 km from the Aganang plant
- Single bench quarry with reserves at shallow depths
- Cost saving due to low stripping ratio



## Efficient plants

- Latest production technology with an average of 0,3 man hours per tonne
- Modern rotary kiln equipped with a 5-stage pre-heater that reduces production costs and minimises carbon emissions



## Efficient grinding , better cement

- Latest vertical roller mill technology enabling production of consistent quality in all strength classes
- Vertical mills generally 20% - 35% more efficient
- Three vertical mills ;raw, coal and cement



## Strong focus on quality

- Equipped with latest quality control systems
- Quality control commences at limestone drilling
- Product samples automatically collected at different production points and analysed at on-site robot-controlled laboratories



## Good emissions control

- Plants designed to have higher standards than Europe on dust , noise and other forms of pollution
- Aganang and Delmas emissions of between 3mg/Nm<sup>3</sup> and 16mg/Nm<sup>3</sup> compared to guaranteed 30mg/Nm<sup>3</sup>



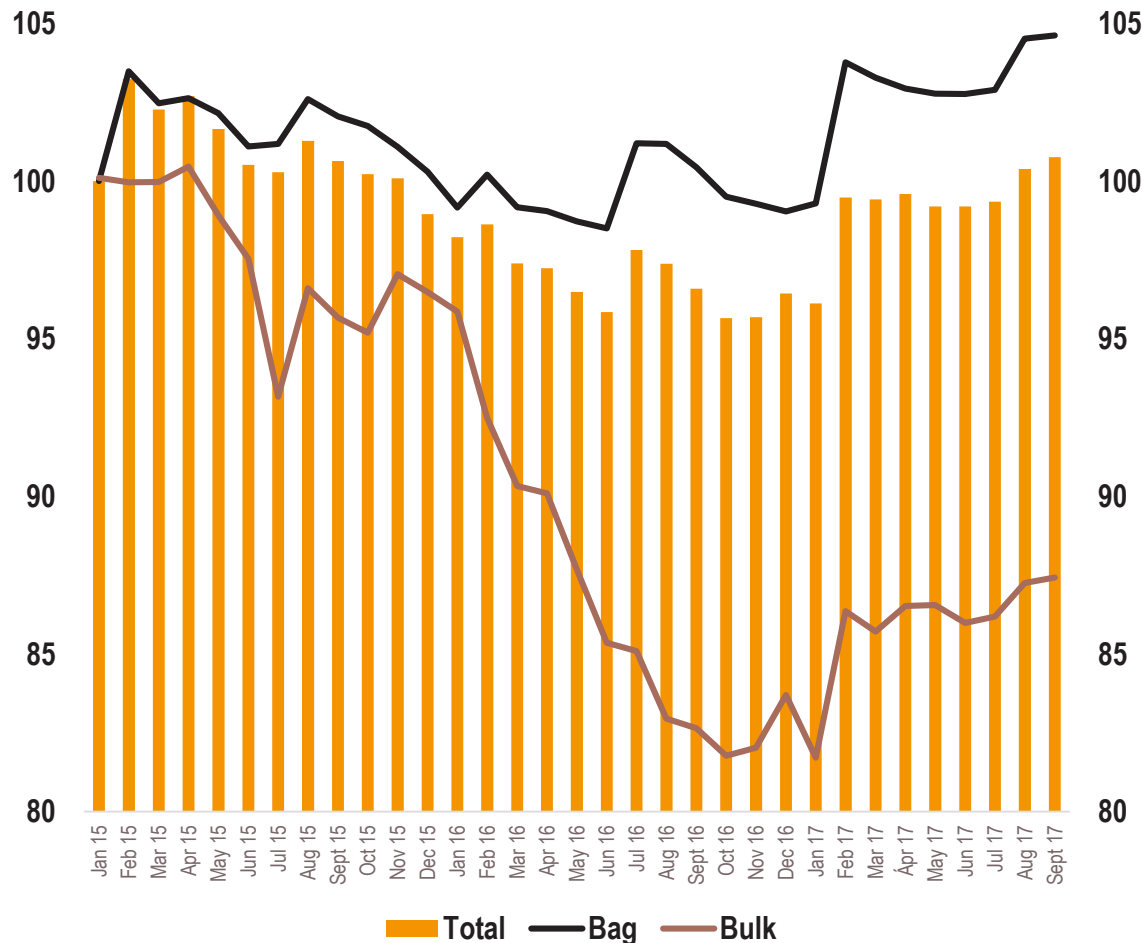
## Careful selection of markets

- Company has achieved 75% - 80% sales volume in bagged cement – well aligned to the estimated national demand mix
- Astute segmentation of markets to maximise margins

Enablers anchored by **skilled** operational management team with **over 250 years** combined experience

# CEMENT's average pricing profile per tonne from January 2015 to September 2017

## Indexed average price per tonne

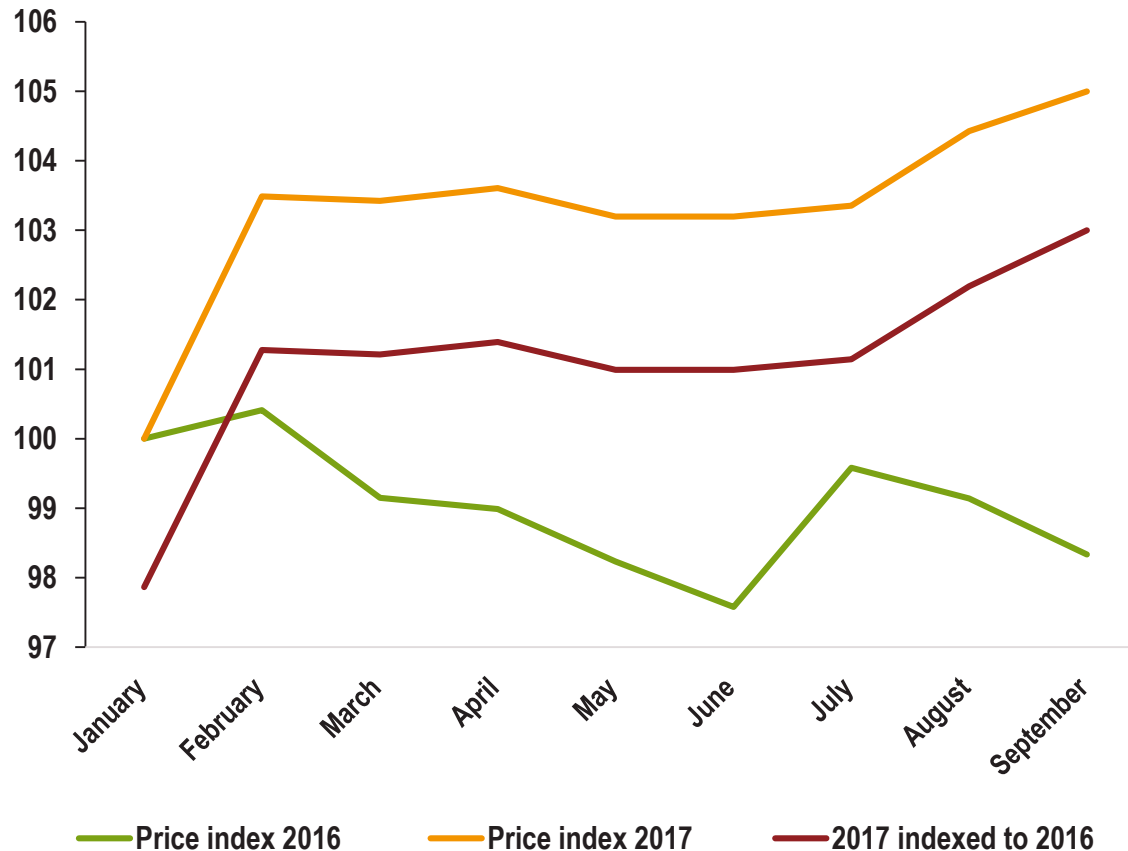


- Total pricing in September 2017 at 1% above January 2015 pricing
- Bagged cement pricing highest from August 2017 at 5%
- Bulk cement on recovery at 87% of January 2015 prices
- Lowest total pricing at 96% during the period
- Lowest bulk pricing at 82%
- Lowest bag pricing at 99%



# CEMENT's average pricing profile per tonne from January to September 2017

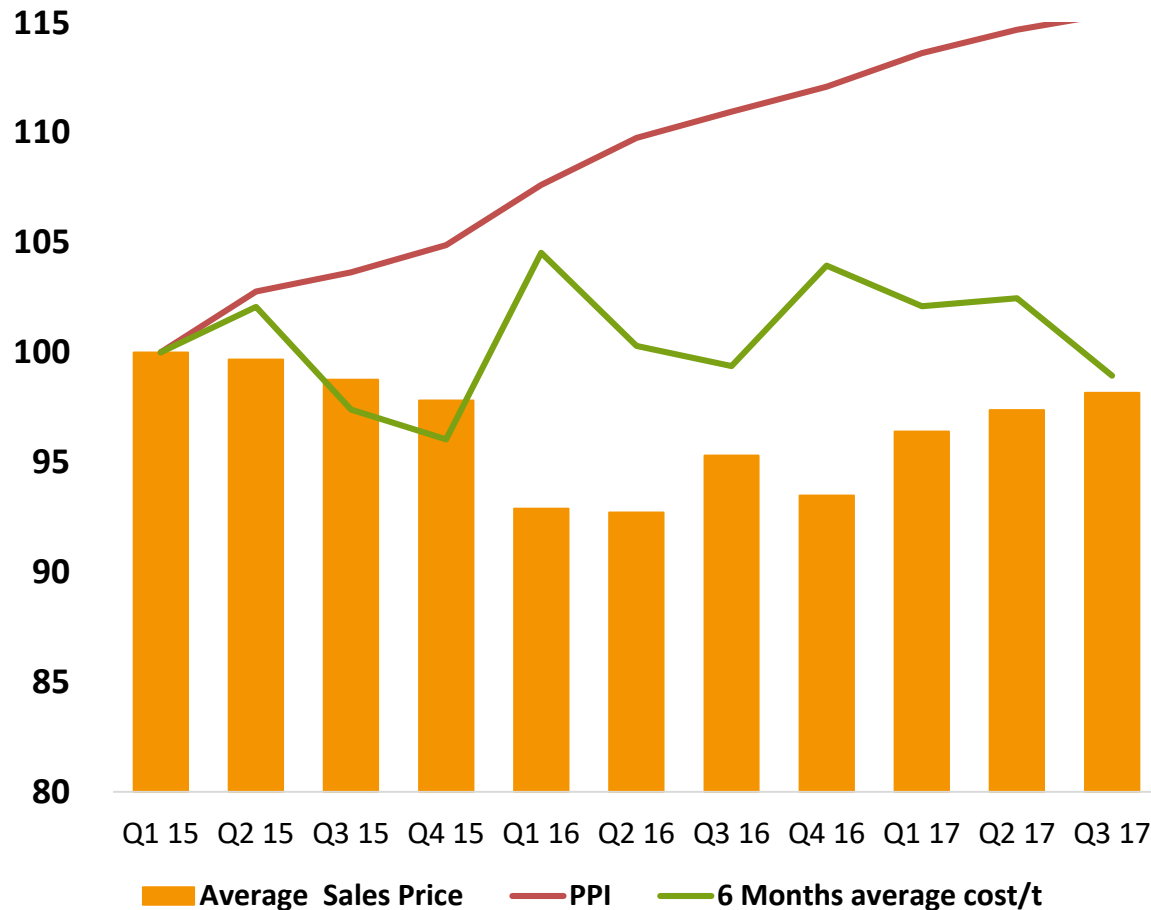
## Indexed average cement price per tonne



- CEMENT has achieved an effective 5% price increase to date
- 2% to 3% price increase implemented in August that has sustained in most markets
- Improved trend on pricing in 2017 compared to CY 2016
- Average increase of 3% by end of September indexed to January 2016



# CEMENT optimisation programme



- Programme commenced in November 2015 to improve the EBITDA margin in the foreseeable future by enhancing efficiencies
- The targeted cost saving of R115
  - Cost saving by end of December 2016 was 50% achieved at R57 million
  - Programme expected to be completed by end of December 2017
- Optimisation programme has resulted in reduced average costs per tonne

Source: PPI index from statistics South Africa – final manufactured goods

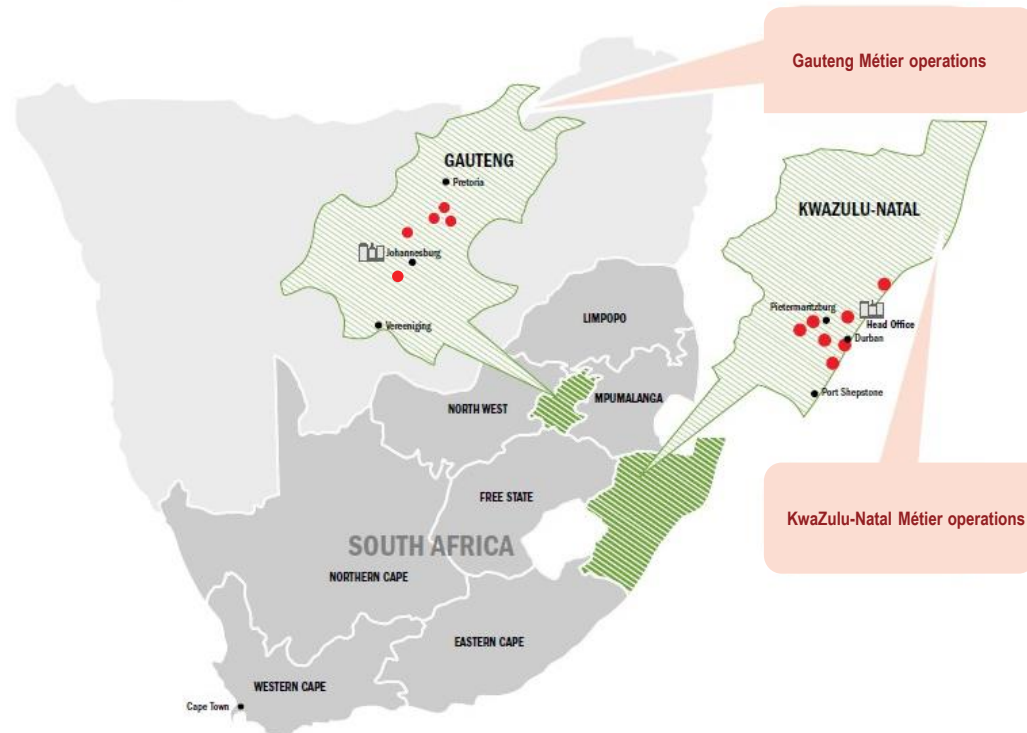
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# Métier Mixed Concrete

## Location of assets Métier



- Operations located in the KwaZulu-Natal and Gauteng provinces. Métier offers full service to its customers
- 12 concrete batch plants
- Own central laboratory in Gauteng and KwaZulu-Natal

### MÉTIER MIXED CONCRETE OPERATIONS

#### GAUTENG

Johannesburg Office

- OR Tambo plant
- Sandton plant
- Chloorkop plant
- Midrand plant
- Denver plant

#### KWAZULU-NATAL

Head Office

- Phoenix plant
- Canelands plant
- Mkondeni plant
- Umhlali plant
- Taylors Halt plant
- Mobeni plant
- Cato Ridge plant

Note: Location of assets not actual but indicative for illustrative purposes

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# Increased competition as demand contracts for concrete

- Intense price competition for supply contracts
  - Limited capacity to increase prices
- Métier 12<sup>th</sup> plant operating fully in a future growth node in Gauteng
- Geographical diversification has reduced the impact of downward pressure on pricing



# Aggregates

- SepHold investment into aggregates is through 100% owned Sephaku Investment Holdings (Pty) Ltd
- Currently owns 50% of an aggregates greenfield project with the aim to supply Métier operations with aggregates in the foreseeable future
- The project is in the process of engaging with key stakeholders for its mining permit application
- SepHold continues to assess other aggregates opportunities





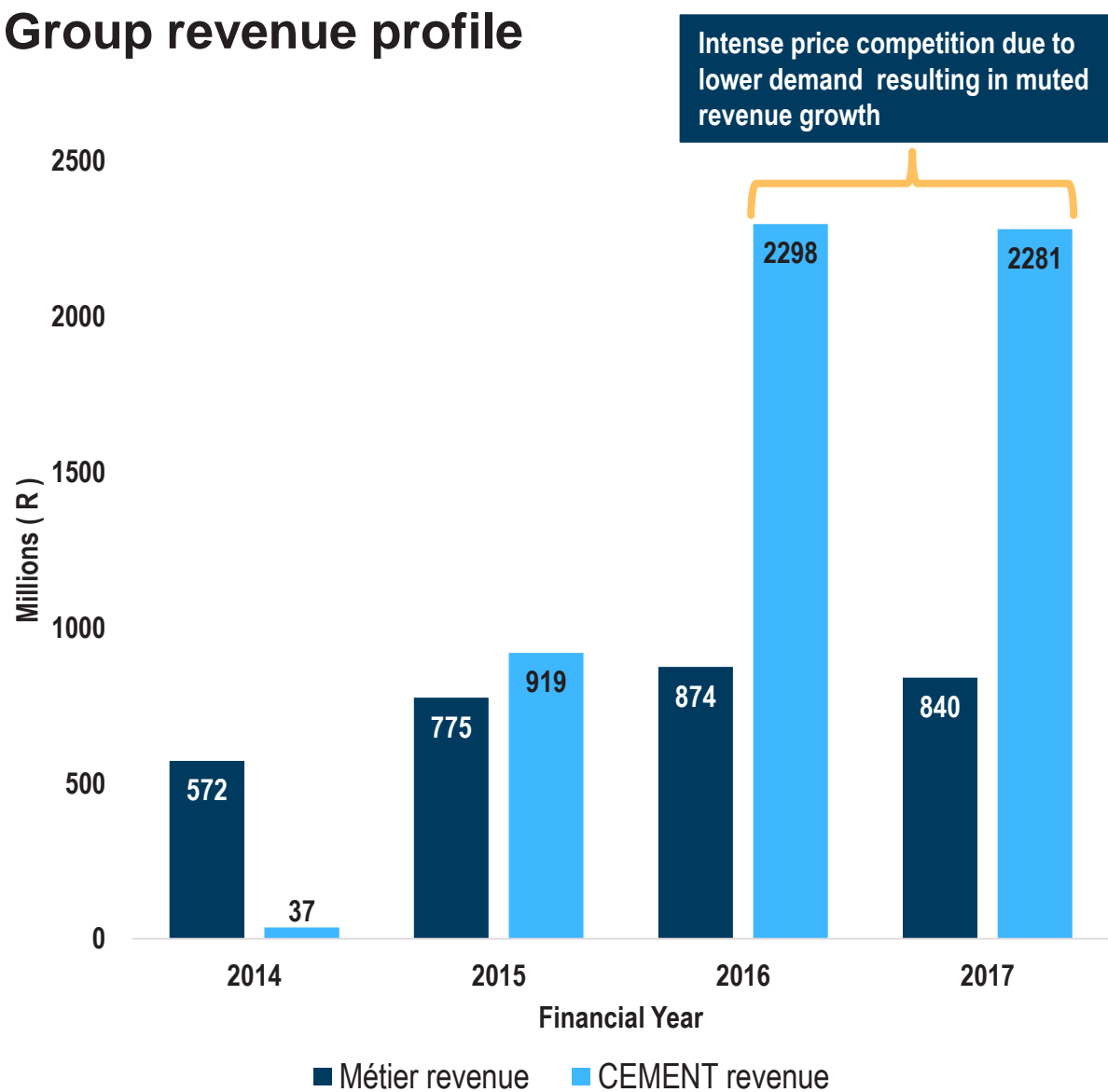


## FINANCIAL PERFORMANCE

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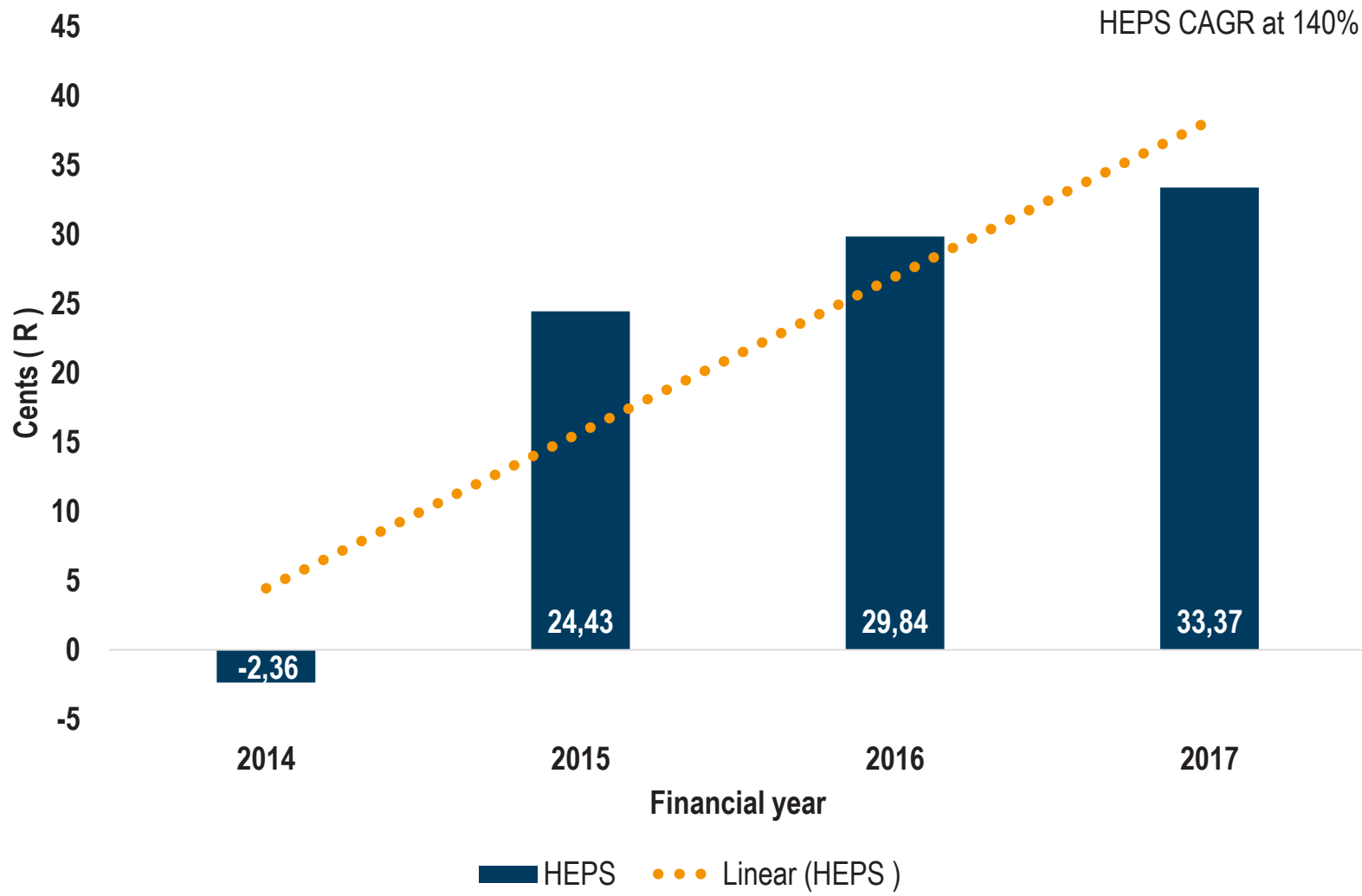


## Group revenue profile



- Revenue CAGR 2014 – 2017
  - Métier at 10%
  - CEMENT at 180%
- CEMENT revenue not reflected in the group revenue because it is an associate and equity accounted.
- CEMENT started manufacturing in January 2014 and reached steady state capacity utilisation in 2015

# Group headline earnings per share





# Group FY 2018 interim<sup>1</sup> performance

## Challenging trading environment

### GROUP

- Net profit decreased from R25,3 million to R14,8 million
- Basic earnings per share decreased from 12,5 cents to 7,3 cents
- Net asset value per share increased from 463,0 cents to 488,5 cents

### MÉTIER

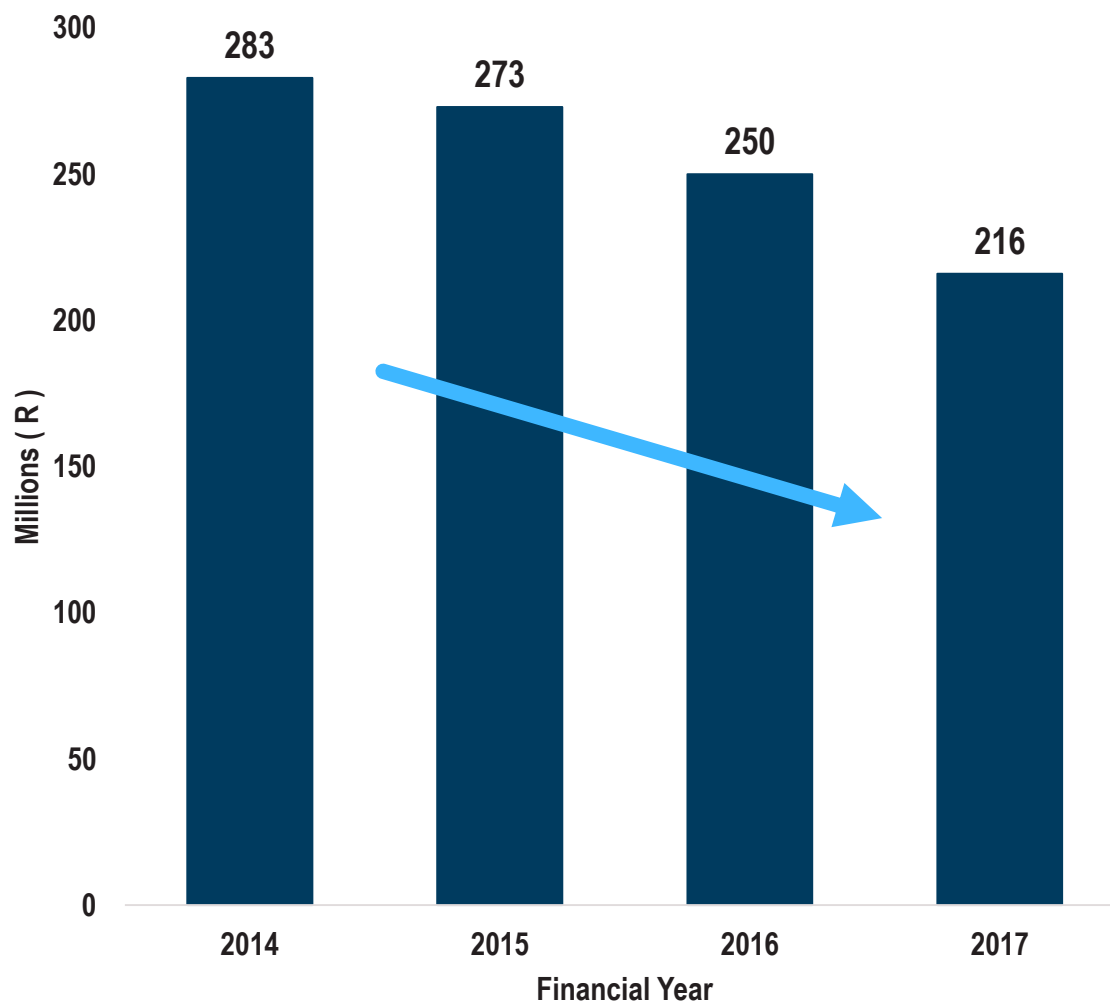
- Revenue flat at R447,8 million due to pressure on volumes
- Increased price per unit of concrete by 1.9% year-on-year
- Métier net profit decreased from R37,6 million to R31,7 million
- 12th plant marginally increased overhead costs however has provided access to new markets in Gauteng and growth opportunity

### CEMENT

- Revenue decreased by 3.6% from R1,145 billion to R1,104 billion
- Sales volumes decreased by 4.9%
- Average price increase of 1.4% year-on-year
- Improved post-period performance
  - Q3 volumes increased by 9.6% year-on-year
  - Q3 revenue increased by 14.2% to R656,6 million

<sup>1</sup> Interim period refers to the 6 months ended September 2017 for Group and Métier ;CEMENT interim period refers to the 6 months ended June 2017

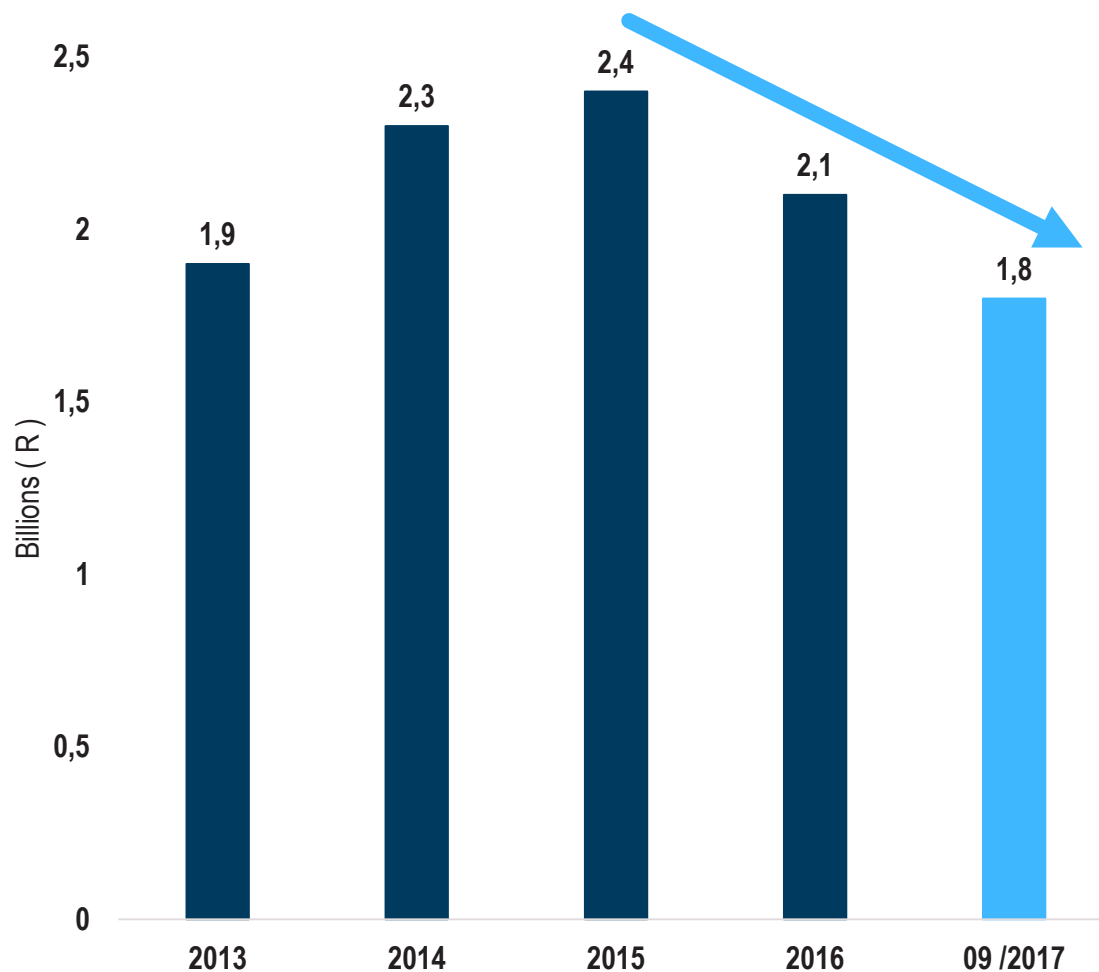
## Group gross debt excluding CEMENT



- 24% decrease in gross debt over the four years in line with the group strategic priority to strengthen the balance sheet
- R112 million of the gross debt in 2014 was vendor loan for the acquisition of Métier



# CEMENT project loan overview



- Lenders agreed to review the project loan in principle in September 2017
- Debt covenants and tenure were maintained but interest increased by 50 basis points to JIBAR plus 450
- CEMENT had made a total capital payment of R600 million (25%) by September 2017
- R1,8 billion capital balance of the project loan to be paid in increasing annual instalments as follows:
  - 2018 – 10%
  - 2019 – 15%
  - 2020 to 2022 – 75%

# 4 OUTLOOK



# Outlook

- The group expects the trading environment for building materials to remain challenging in the short to medium term. Although the competitive landscape has stabilised with price recovery expected to continue for cement, demand is anticipated to remain flat in the medium term due to political uncertainty.
- CEMENT will focus on achieving sustainable increase in pricing and operational efficiencies to ensure robust results in this uncertain environment. Métier will continue to evaluate ring-fenced opportunities on specific projects in which value can be created and focus on optimizing current plant and equipment.
- Following the reshaping of the CEMENT project loan and Métier's drive to reduce debt, the companies will pay particular attention to working capital management and on improving balance sheet strength to remain compliant to their debt covenants.



# THANK YOU



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# 2017

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