

20  
19

# INTERIM FINANCIAL RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

13 NOVEMBER 2018



# Disclaimer

The information contained in this presentation has not been subject to any independent audit or review and may contain forward-looking statements, estimates and projections. 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, events and generally may be identified by the use of forward-looking words or phrases such as "believe", "target", "aim", "expect", "anticipate", "intend", "project", "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.

Whilst all reasonable care has been taken to ensure that the facts stated herein are accurate and that the opinions and expectations contained herein are fair and reasonable, it has not been independently verified and no representation or warranty, expressed or implied, is made by Sephaku Holdings or any subsidiary or affiliate of Sephaku Holdings with respect to the fairness, completeness, correctness, reasonableness or accuracy of any information and opinions contained herein. In particular, certain of the financial information contained herein has been derived from sources such as accounts maintained by management of Sephaku Holdings in the ordinary course of business, which have not been independently verified or audited.

Neither Sephaku Holdings nor any of its respective affiliates, advisers or representatives shall have any liability whatsoever (in negligence or otherwise) for any loss or damage howsoever arising from any use of this presentation or its contents, or any action taken by you or any of your officers, employees, agents or associates on the basis of the this presentation or its contents or otherwise arising in connection therewith. Although Sephaku holdings believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially incorrect, and actual results may materially differ. As a result, you should not rely on these forward-looking statements. Sephaku Holdings undertakes no obligation to update or revise any forward-looking statements.

# Agenda

**1**

**PERFORMANCE OVERVIEW**

**2**

**FINANCIAL PERFORMANCE**

**3**

**OUTLOOK**





# 1

## PERFORMANCE OVERVIEW



# 79% increase in net profit year-on-year

## GROUP

- SepCem equity accounted profit of R16,20 million
  - FY2018: loss R5,79 million
- Operating profit of R22,7 million at a margin of 4.9%
  - FY2018: R39,70 million
- Net profit of R26,52 million
  - FY2018: R14,80 million
- Headline earnings per share of 12,59 cents
  - FY2018: 7,10 cents

## MÉTIER

- Sales revenue of R467,9 million
  - FY2018 : R447,8 million
- EBITDA margin of 8.3%
  - FY2018: 13.0%
- EBIT margin of 6.9%
  - FY2018: 11.3%
- Net profit of R20,3 million
  - FY2018: R31,7 million
- Debt repayment of R19 million
  - Balance at R141 million

## SEPCEM

SepCem has a December year-end as a subsidiary of Dangote Cement PLC.

- Sales revenue of R1,2 billion
  - FY2017: R1,1 billion
- EBITDA margin of 22.0%
  - FY2017: 18.0%
- EBIT margin of 14.6%
  - FY2017: 10.1%
- Net profit of R44,9 million
  - FY2017: loss R16,1 million
- Debt capital repayment of R150 million
  - Balance at R1,75 billion

# Increase in revenue by 5.4% at SepCem and 4.5% at Métier

## 1. Sephaku Cement (SepCem)

- Improved SepCem interim performance for the six months ended 30 June 2018 supported group profitability
- Revenue increased by 5.4% due to price increases in August 2017 and February 2018
- SepCem sales volumes flat year-on-year
  - Increased activity by blenders in selected markets
  - Increased imported volumes in coastal markets increasing price competition

## 2. Métier Mixed Concrete (Métier)

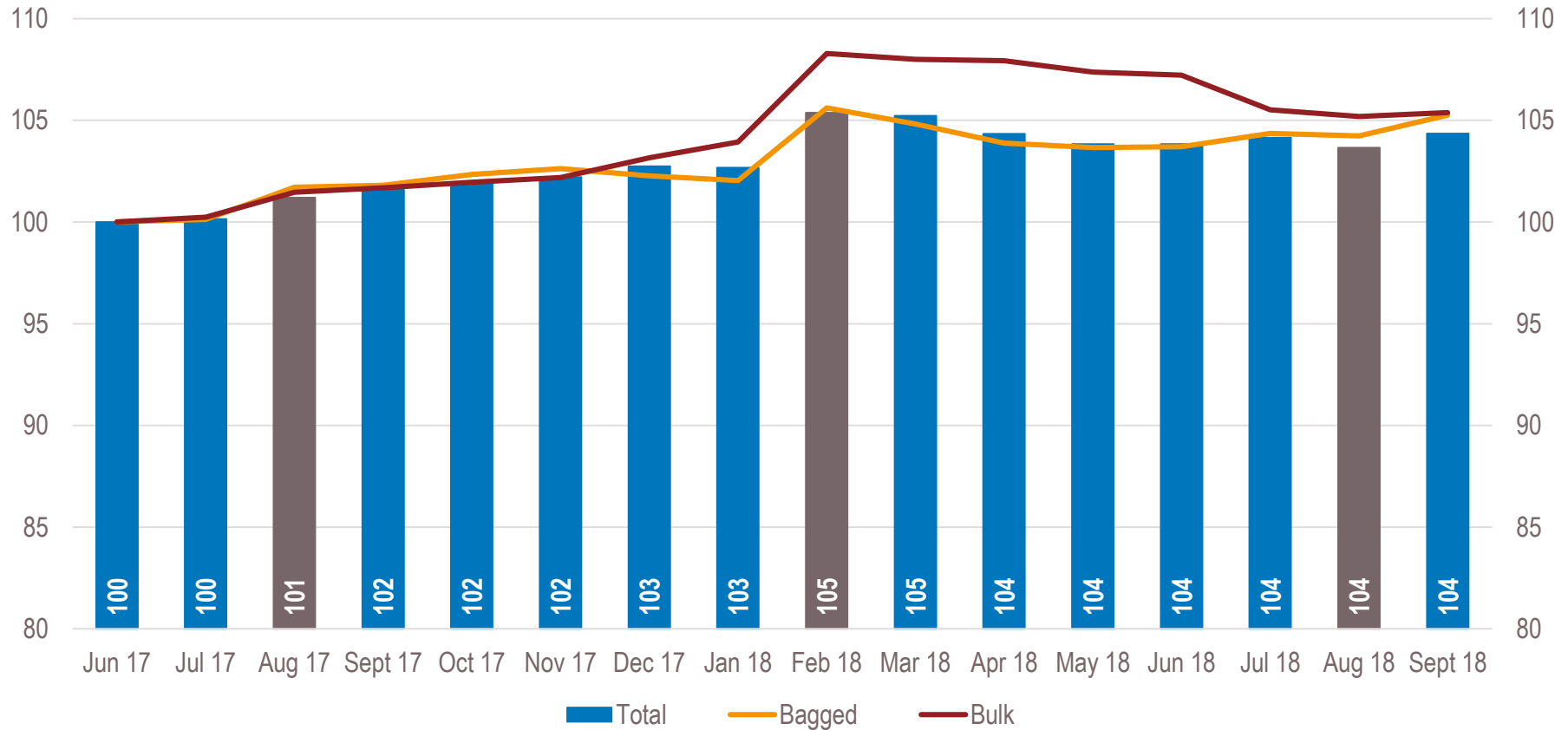
- The 13<sup>th</sup> plant commenced production in September 2018
- Revenue increased by 4.5% due to an increase in sales volume
- Increased competition due to lower demand
  - Construction industry severe downturn resulting in several business rescue cases
- Strict debtor management implemented to minimise credit default risk
- Commenced optimisation of the fleet to improve efficiencies

## 3. Sephaku Holdings (SepHold)

- Cost reduction programme to align with tough trading environment to reduce expenses

## SepCem: Higher interim revenue due to price increases

Indexed average pricing per tonne of cement

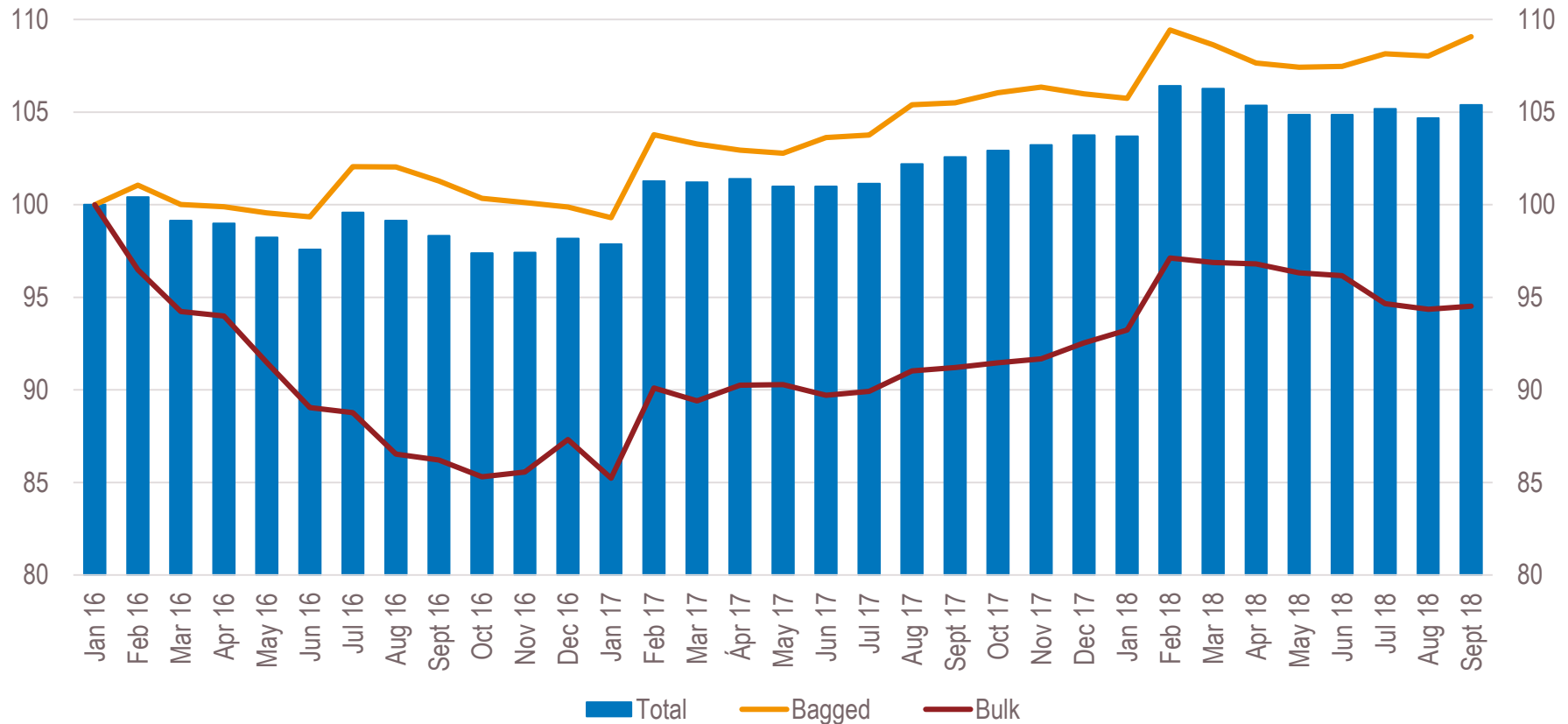


- Average price increase of 3% implemented in August 2017 and 5% in February 2018 that held in most markets
- Increased bulk sales volumes impacted realised average price increase



# Low bulk pricing has enabled the expansion of blenders

Indexed average pricing per tonne of cement

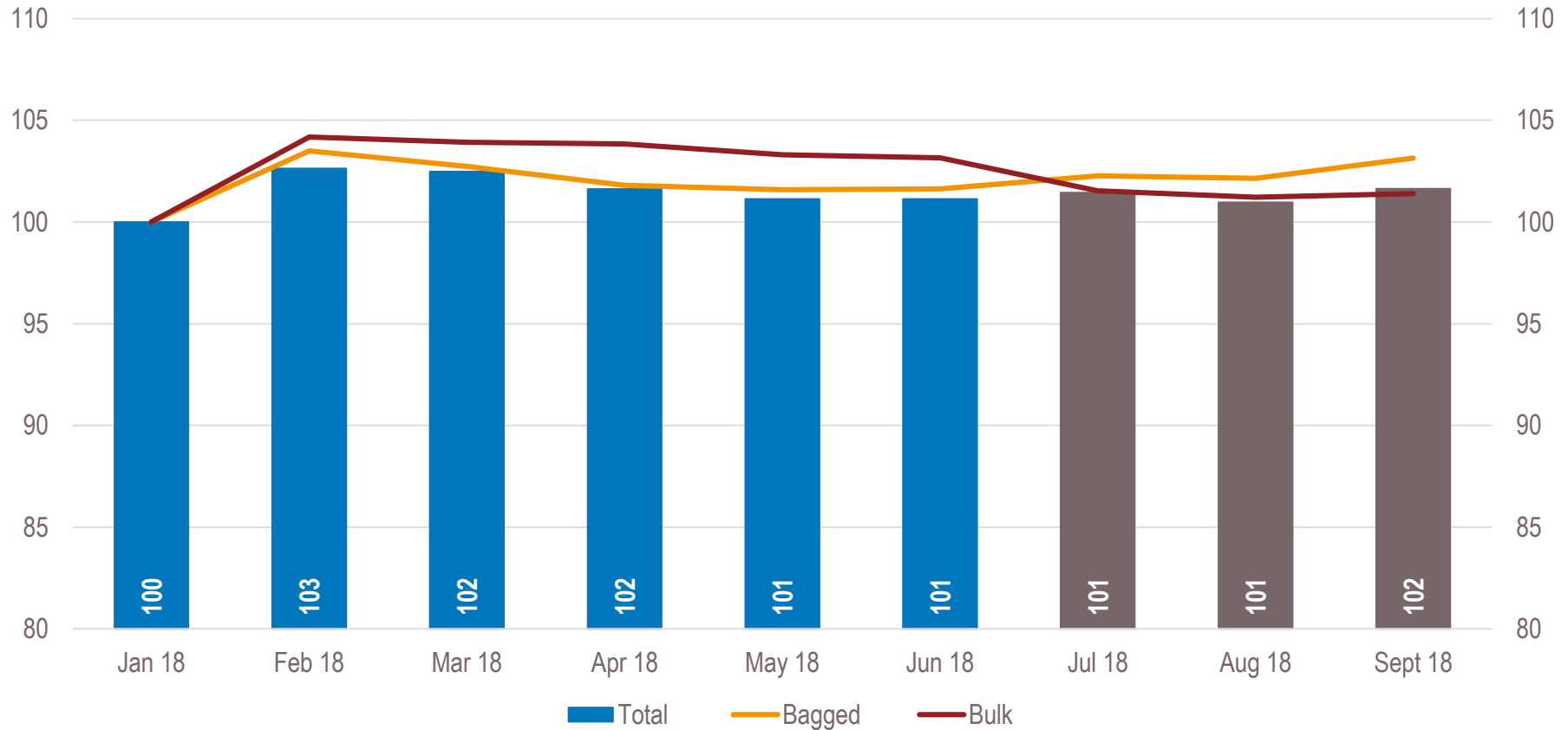


- Low bulk pricing since January 2016 due to new entrant has enabled the growth of the blenders market share
- SepCem bulk price increase higher than bagged cement since January 2017
- As at February 2018 bulk price increase in double digits relative to January 2017



## SepCem Q3 pricing impacted by competitive forces

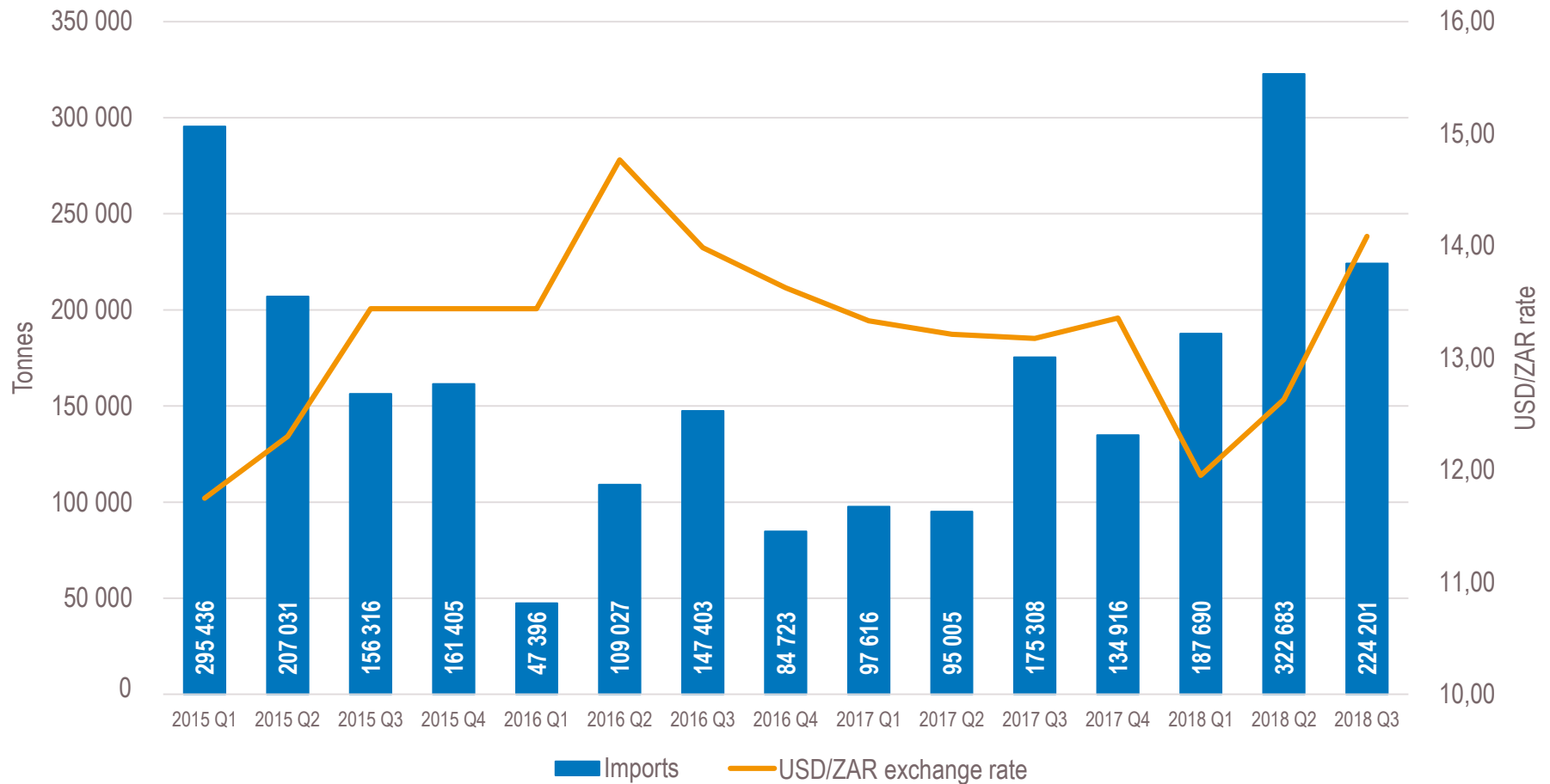
Indexed average pricing per tonne of cement



- August 2018 price increase adversely impacted by intense competition in highly contested markets
- Bulk pricing impacted by geographic spread from June 2018

# USD/ZAR exchange rate effect on cement imports

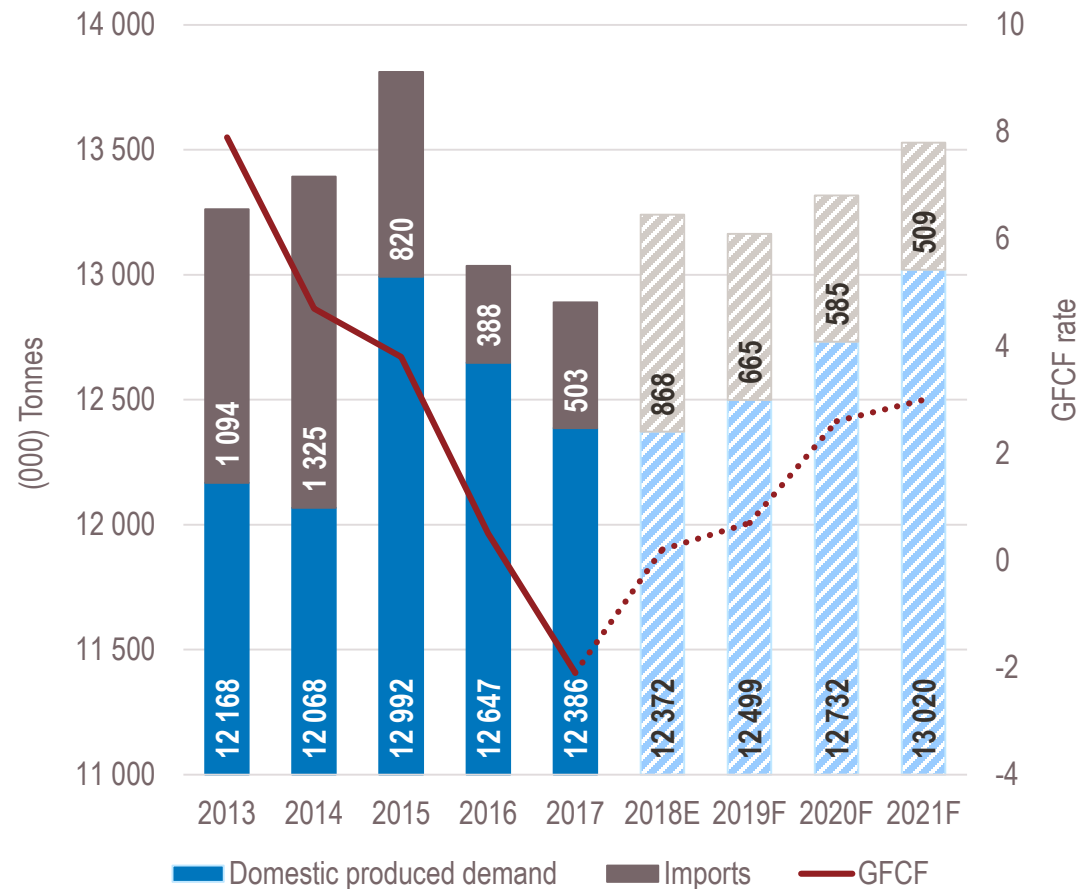
Quarterly imports against USD/ZAR exchange rate



Source: SARS

# Estimated cement demand expected to remain constrained

Cement demand profile based on the Econometrix model



Total cement demand estimated to grow by 2.7% to 13.3 million tonnes in CY2018<sup>1</sup>

- Econometrix cement demand model projects imports to increase by 73%
- Domestic manufactured demand expected to contract by 0.1% year-on-year
- Medium term demand expected to improve marginally subject to the implementation of public sector infrastructure investment into energy, water and sanitation, and logistics
  - R400 billion fund declared by government for key infrastructure projects to provide impetus for demand increase if implemented
- Implementation of the environmental legislation in 2025 expected to result in a reduction of 3mtpa in industry production capacity

Sources: 1. Econometrix (Pty) Ltd. Cement Model August 2018. Reference model uses non-metallic mineral production index from StatsSA as a proxy for the cement demand. 2. SARB

## Métier impacted by declining demand

- Métier performance has been impacted by the turmoil in the construction sector as a supplier of mixed concrete
- Price competition adversely impacting margins due to lower demand resulting in competitors using pricing to secure sales volumes
- A few of the large projects in KZN anticipated to resume before end of November 2018
  - Métier to operate two additional weeks during the December – January 2019 holiday to supply the projects

### Provisional liquidation of NMC puts spanner in wheel of KPMG Office building

Feb 01 2018 22:00 Carin Smith

The provisional liquidation of NMC Group has placed a question mark on when KPMG would be able to move into its new offices on the Foreshore in Cape Town.

Fin24 reported earlier that, if all went well, KPMG would have been able to move into its new offices in a few months' time. This timeframe is now not so certain anymore.

NMC, the main contractor on the building, was placed under provisional liquidation this week after an attempt at business rescue failed.

A decade ago, Basil Read was SA's top company.

#### It has just gone bust.

Helena Wasserman, Business Insider SA  
Jun 15, 2018, 05:18 PMI

Basil reported a net loss after tax of R1 billion for the 2017 financial year and announced a rights offer with the aim of raising R300 million in capital, dwarfing its market capitalisation of R46.6 million.

Another construction giant in business rescue

#### Government doesn't pay us, says Liviero.

Moneyweb / July 18 2018 00:37

The Liviero Group, which describes itself as "South Africa's largest privately black-owned multidisciplinary construction group", has been placed under voluntary business rescue.

It is well known that Basil Read's peers Group Five and Aveng are also in very difficult financial positions.

### Esor's share price plunges 63% as it files for business rescue

The loss-making construction group was forced to make the move as it failed in its numerous efforts to secure loans to pay back the R130 million owed to creditors

August 13 2018, 13:30 ROBERT LAING, BDLIVE

JSE-listed construction group Esor filed for business rescue on Monday, echoing a statement Basil Read issued in June when it also announced it was going into business rescue. Esor's share price fell 63% to 3c from 8c following the announcement. Listed companies are usually suspended shortly after they file for business rescue.

Esor listed nine steps it had taken to avoid business rescue. These included completing loss-making contracts, selling various subsidiaries and refinancing equipment loans.

"Despite the above, Esor Construction was advised on August 7 that a consortium of financiers with whom it had been negotiating with, were not prepared to make any funding available outside of a formal business rescue process," Monday's statement said.



## Métier: Higher interim revenue due to higher sales volumes

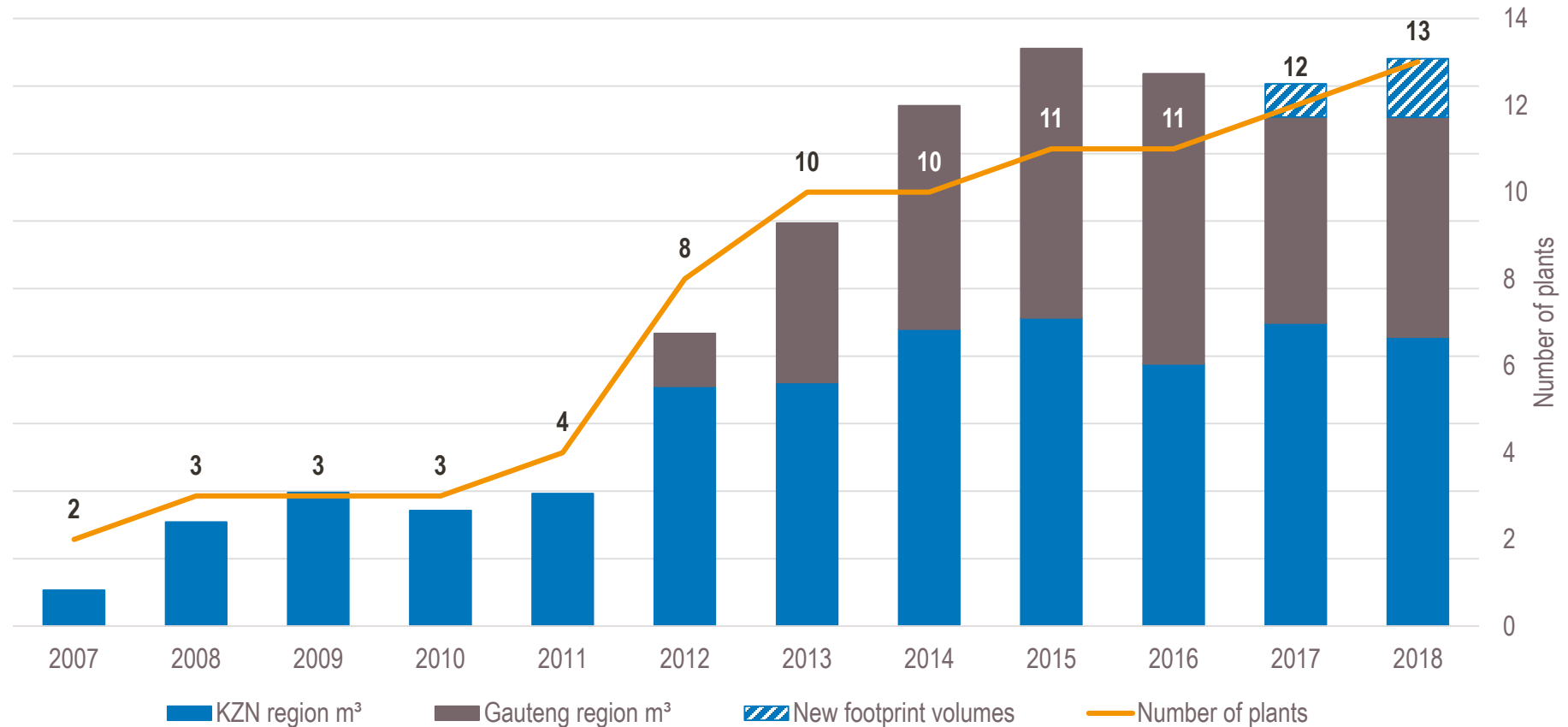
Interim sales volumes increased by 4.5% year-on-year due to strategic plant expansion in Gauteng

- The 12<sup>th</sup> and 13<sup>th</sup> plants located in Gauteng commenced production in March 2017 and September 2018 respectively
- The mobile plant provides agility in accessing projects in areas where it's not economically viable to supply from the Métier fixed plant footprint
  - Has been operational since April 2018



## Métier: Positive volume impact of the strategic plant expansion

Plants 12 and 13 impact on concrete sales volumes



- The additional plants improved total sales volumes by 12% during the interim period ended 30 September 2018
  - they increased total sales volumes by 6% for the 6 months ended September 2017

## SepHold cost reduction programme

- SepHold commenced a cost reduction programme targeting to decrease head office costs
- The board has been reduced from 10 to 7 members following the resignation of Mpho, Shibe and Kenneth
- Company accepted the resignations of Shibe and Kenneth from the board on 12 November 2018
  - Kenneth will consult to the group on business development matters as and when required
- Will focus on high expense items such as travel
  - Trimming of non-critical operational activities including printing





2

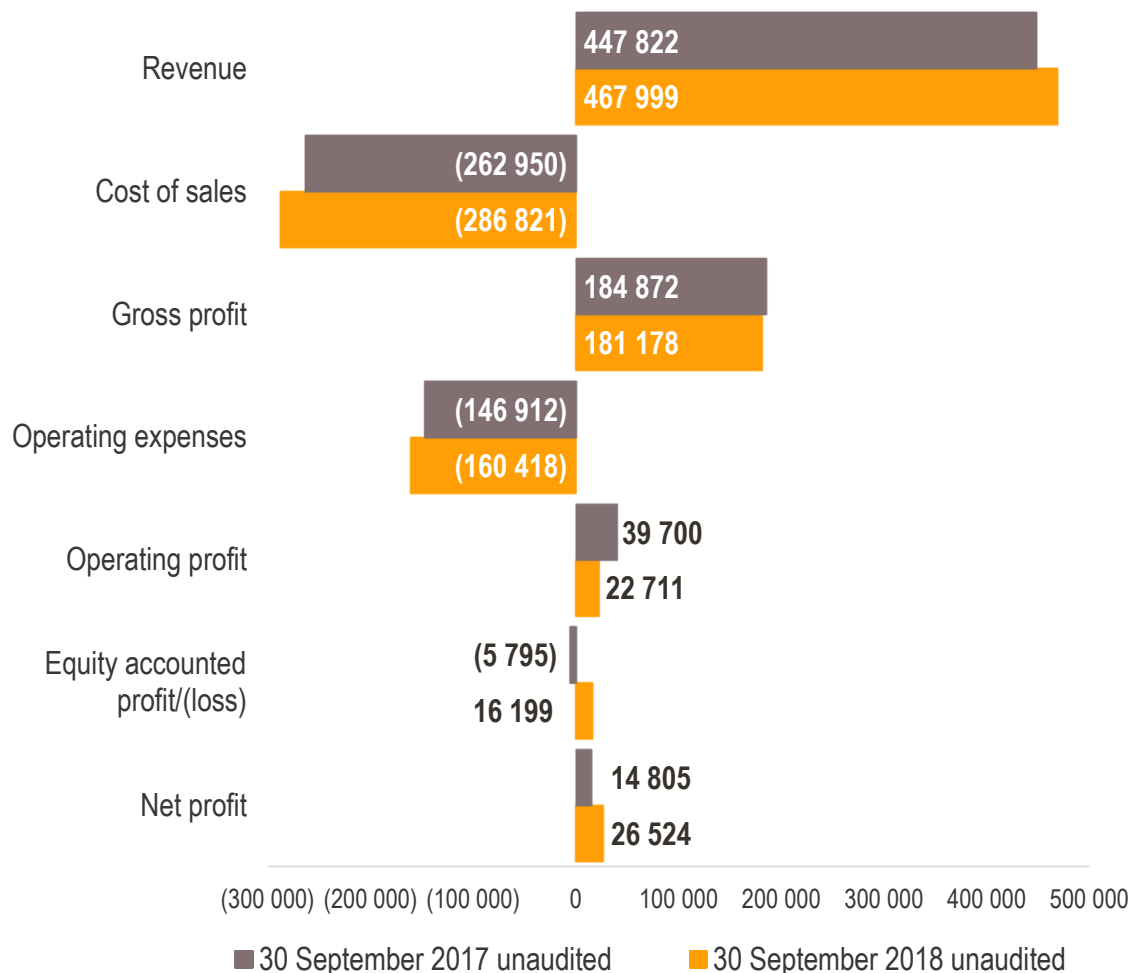
## FINANCIAL PERFORMANCE





# SepCem's optimisation supports group profitability

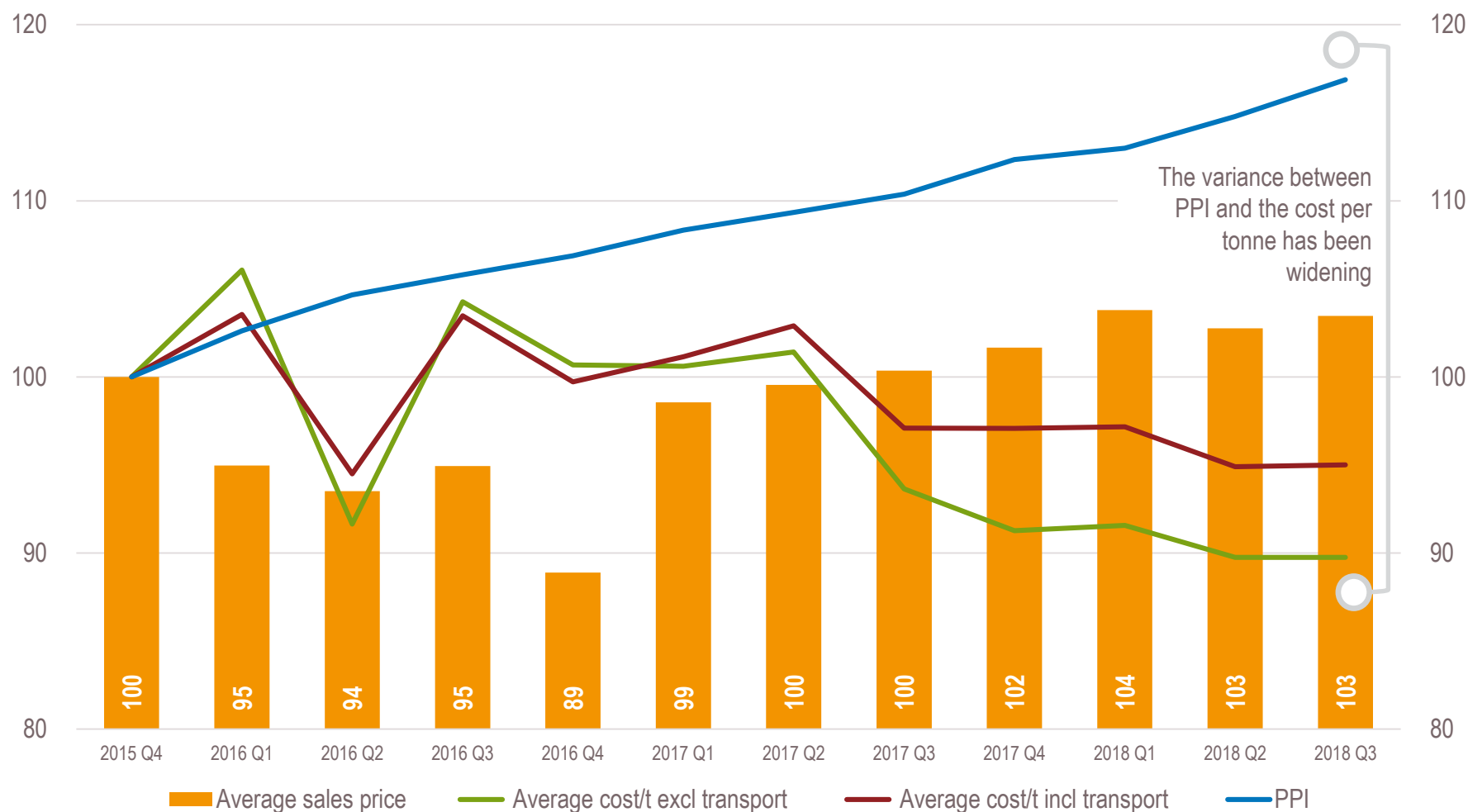
Group statement of comprehensive income (R'000)



- Increase in SepCem equity accounted earnings by R22 million to R16,2 million supported group net profit
- SepCem EBITDA margin at 22% compared to 18% in 2017
  - EBITDA increased by 30% from R197 million to R256 million
  - Optimisation programme's positive impact through cost saving
- Métier's average concrete price increase below cost inflation at 0.5%
  - 4.5% increase in concrete sales volumes
  - Cost of sales increased by 9.1% mainly due to the 13<sup>th</sup> plant's costs and the sales mix
    - Raw material costs increased by 3.1%

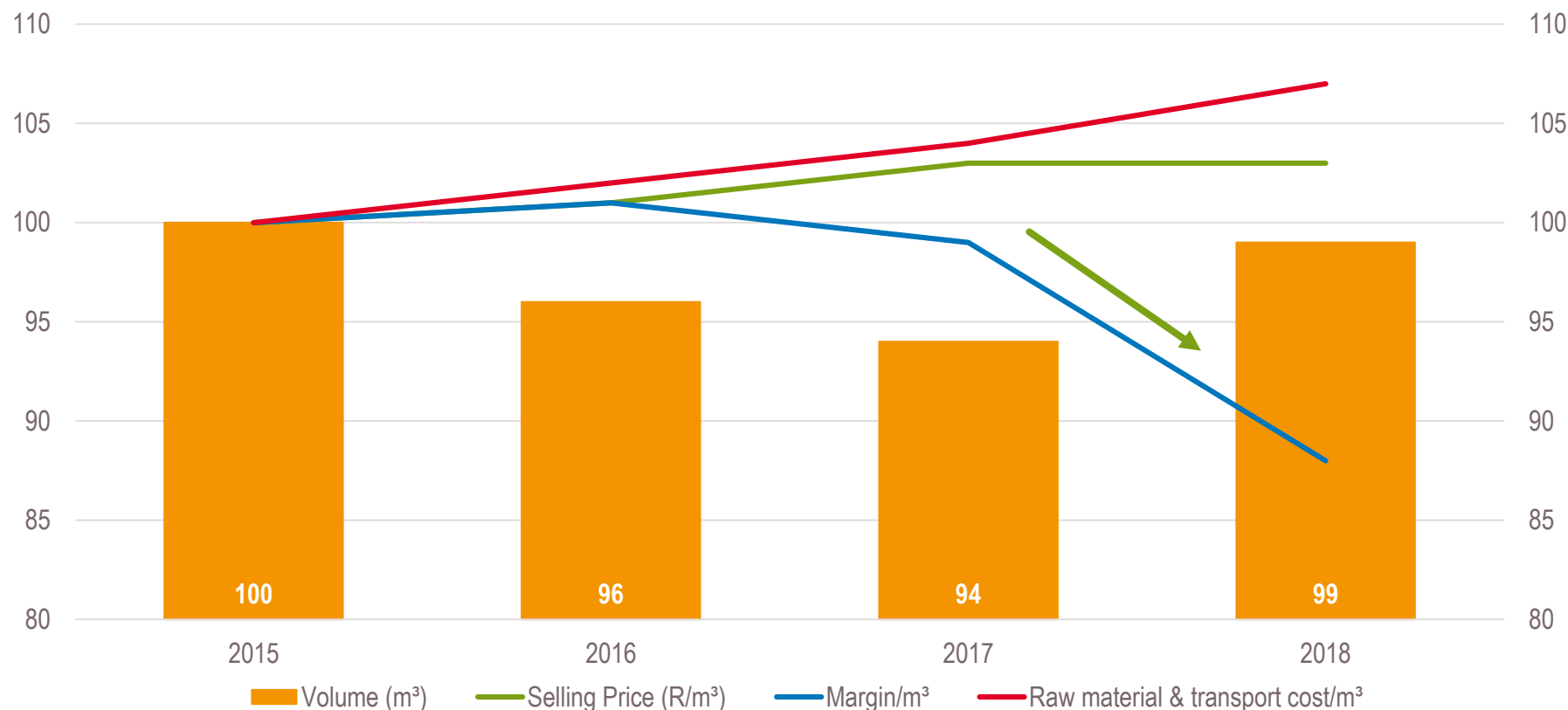
# Improved SepCem EBITDA due to cost saving

Positive impact of optimisation on average cost per tonne



## Métier: Margins impacted by depressed pricing

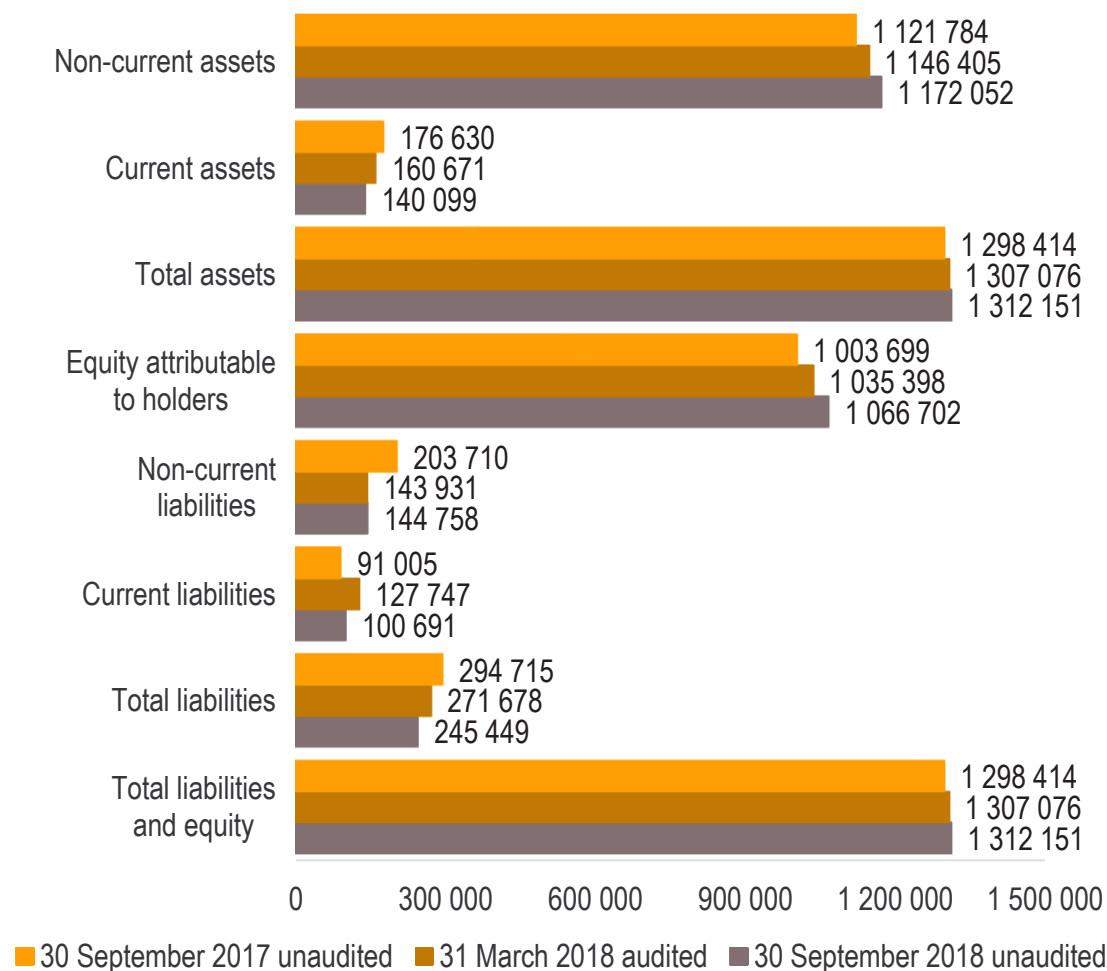
Comparison of indexed average pricing to cost per m<sup>3</sup>



- Cost inflation increases since 2015 have exceeded selling price thereby decreasing margins
- The decreased demand due to the construction downturn has resulted in price competition
- Strategic plant expansion has supported sales volumes since 2017

# Focus on strengthening the balance sheet

Group statement of financial position (R'000)

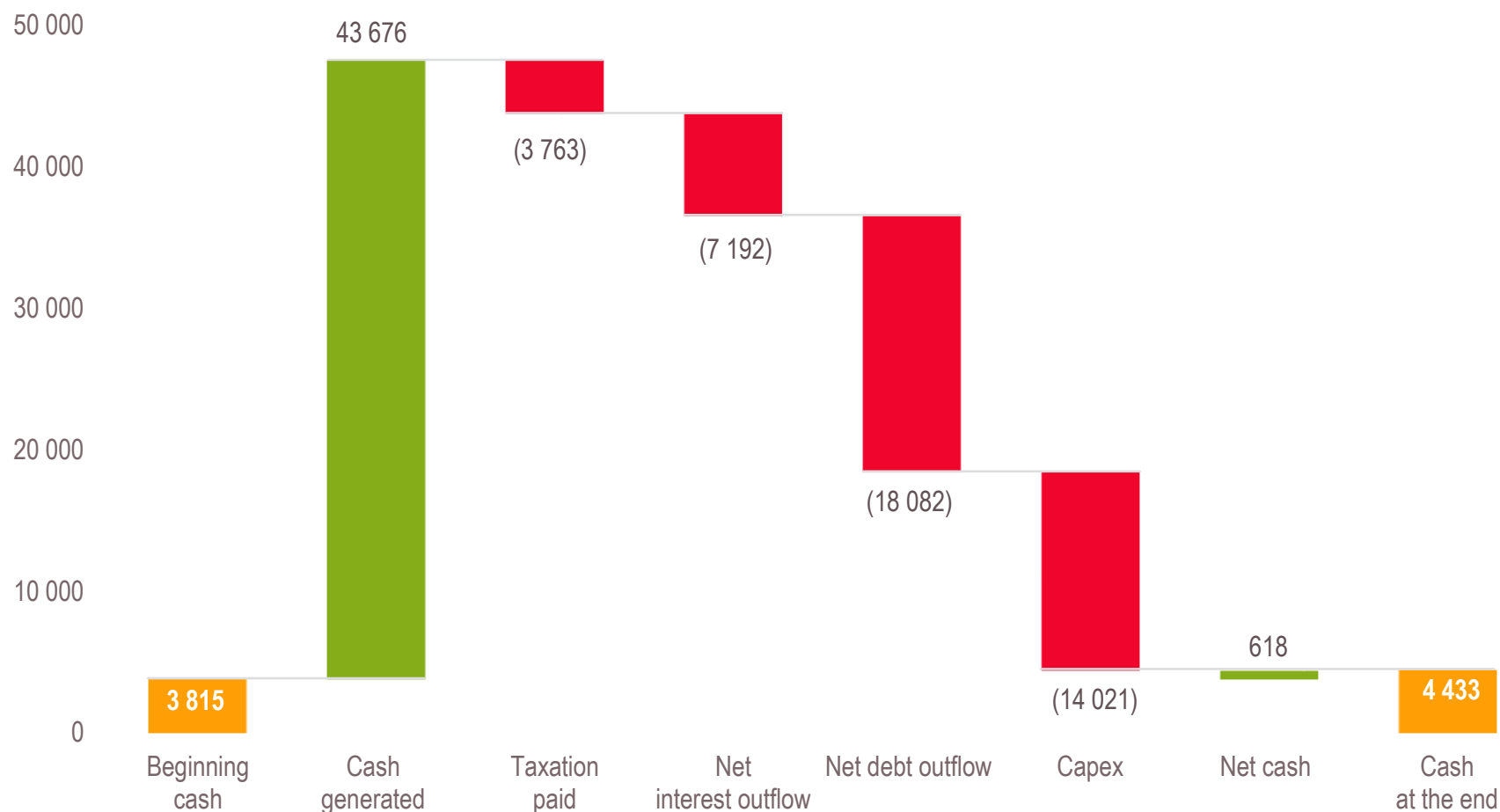


- Métier repaid R19 million towards the debt resulting in a R141 million balance by 30 September
- Métier interim earnings include R4,3 million write off in bad debts
  - No write off in the comparative interim period
  - R6 million provision accounted for at year end 31 March 2018
  - Expecting to write off similar amount for the current financial year ending 31 March 2019
- Strict debtor management continues to be implemented at Métier to minimise customer credit default risk



# Métier cash generative in a challenging environment

Group statement of cash flows (R'000)



## Challenging Q3 performance for SepCem

Nine months performance for the period ended September 2018;

- Revenue flat at R1,77 billion (2017: R1,76 billion) for the nine months ended 30 September 2018
- SepCem increased prices by 2% - 3% per tonne in August 2018
- Sales volumes decreased by 3.5% year-on-year
- Total sales volumes expected to decrease by 5% - 10% for the year ending 31 December 2018
- Net profit increases to R30,6 million (2017: R16,4 million)



3

## OUTLOOK





## Constrained trading environment for the next 24 months

- Building materials cyclicality impacted by the economic downturn
  - GDP growth forecasts revised downward implying a tough operating environment
- Mixed concrete expected to be adversely impacted by the turmoil in the construction industry
- Group focus will be to:
  - Reduce debt at both Métier and SepCem
  - Reduce head office (SepHold) expenses
  - Complete the fleet rationalisation programme at Métier
  - Evaluate potential opportunities to enhance shareholder value





# 2019

Sakhile Ndlovu

Investor relations officer

Tel: +27 12 612 0210

Email: [sakhile@sepman.co.za](mailto:sakhile@sepman.co.za)

Website: [www.sephakuholdings.com](http://www.sephakuholdings.com)

