SEPHAKU
HOLDINGS LTD

2019

# YEAR END FINANCIAL RESULTS FOR THE PERIOD ENDED 31 MARCH 2019

26 JUNE 2019


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# Agenda

1 PERFORMANCE OVERVIEW

2 FINANCIAL PERFORMANCE

3 OUTLOOK




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# 1 PERFORMANCE OVERVIEW

# Financial salient points



## GROUP

- Net profit after tax of R44,0 million
  - FY2018: R44,2 million
- Basic earnings per share at 21.21 cents
  - FY2018: 21.60 cents
- Headline earnings per share at 21.08 cents
  - FY2018: 20.92 cents
- SepCem equity accounted earnings of R46,3 million
  - FY2018: R20,8 million

## MÉTIER

- Sales revenue of R835,8 million
  - FY2018 :R830,7 million
- EBITDA margin of 6.2%
  - FY2018: 10.9%
- EBIT margin of 4.7%
  - FY2018: 9.6%
- Net profit after tax of R21,5 million
  - FY2018: R48,0 million
- Repayment of term loan by R39,7 million
  - Balance at R40,7 million

## SEPCEM

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

- Sales revenue of R2,3 billion
  - FY2017: R2,4 billion
- EBITDA margin of 20.2%
  - FY2017: 21.3%
- EBIT margin of 12.2%
  - FY2017: 14.1%
- Net profit after tax of R128,7 million
  - FY2017: R57,8 million
- Repayment of project loan capital by R182 million
  - Balance at R1,65 billion



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# **Métier** : Low demand due to construction sector turmoil

- Increased competition due to lower demand caused by the severe downturn in the construction sector
  - 1 February 2018 - NMC Group placed into provisional liquidation
  - 15 June 2018 – Basil Read placed into business rescue
  - 19 July 2018 – Liviero Group goes into voluntary business rescue
  - 13 August 2018 – Esor filed for business rescue
- Strategic increase in plant footprint within Gauteng through the thirteenth plant supported sales volumes YoY
  - Total annual sales volumes increased by 1%
    - Gauteng volumes increased by 15%
    - KZN volumes decreased by 11%
  - Like for like sales volume decrease of 2.6%
- The mobile plant provides ability to access new or expanding supply nodes
  - Métier can pro-actively commence supply whilst determining viability for a fixed plant
  - Métier can supply short–term construction projects

# **Métier's** response to the tough trading environment

## 1. Challenge : Low pricing and inflationary cost increases

- Continuous cost management initiatives focused on:
  - Competitively priced inputs – to negotiate for below inflationary increases for 72% of input costs
  - Reduction of expenses – targeting zero increase YoY in administration and management expenses by 31 March 2020
  - Distribution fleet rationalisation – reduced outsourced fleet by 16% in FY2019. Ongoing focus on optimal routing and enhanced efficiency per truck

## 2. Challenge : Declining volumes

- Retention of existing customers to defend current geographical positioning and identification of new customers across all market segments.
  - Métier to improve sales strategy implementation to increase repeat and new supply orders from current and new customers respectively
- Métier to actively seek value added concrete supply contracts that are not easily replicable by competitors

## 3. Challenge : Customer credit default risk

- Review credit limits for all customers and apply guidance from credit vetting institutions
- Subsidiary to increase the proportion of cash sales to minimise the incidence of default



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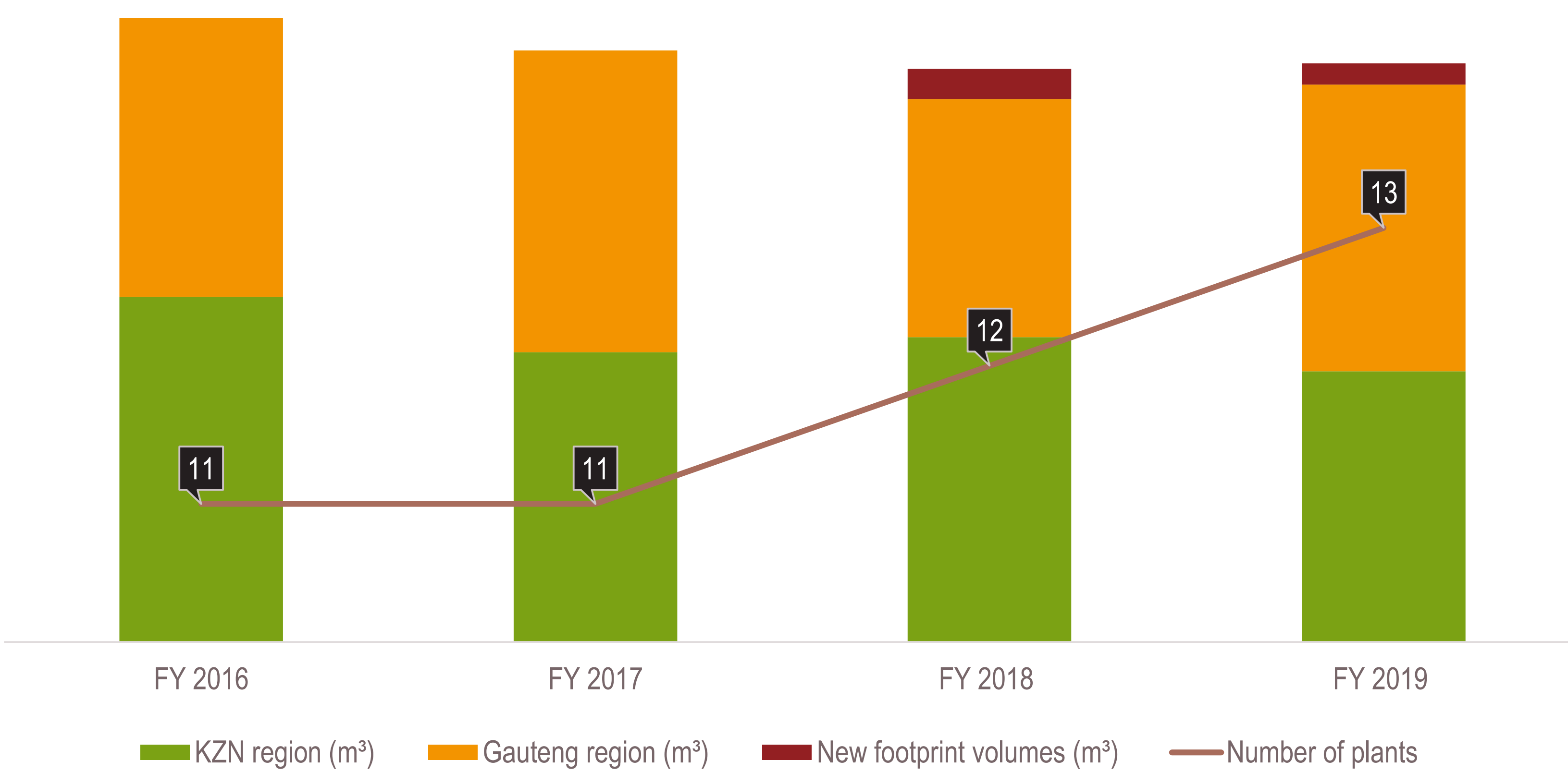
# **Métier** : Positive volume impact from strategic plant expansion



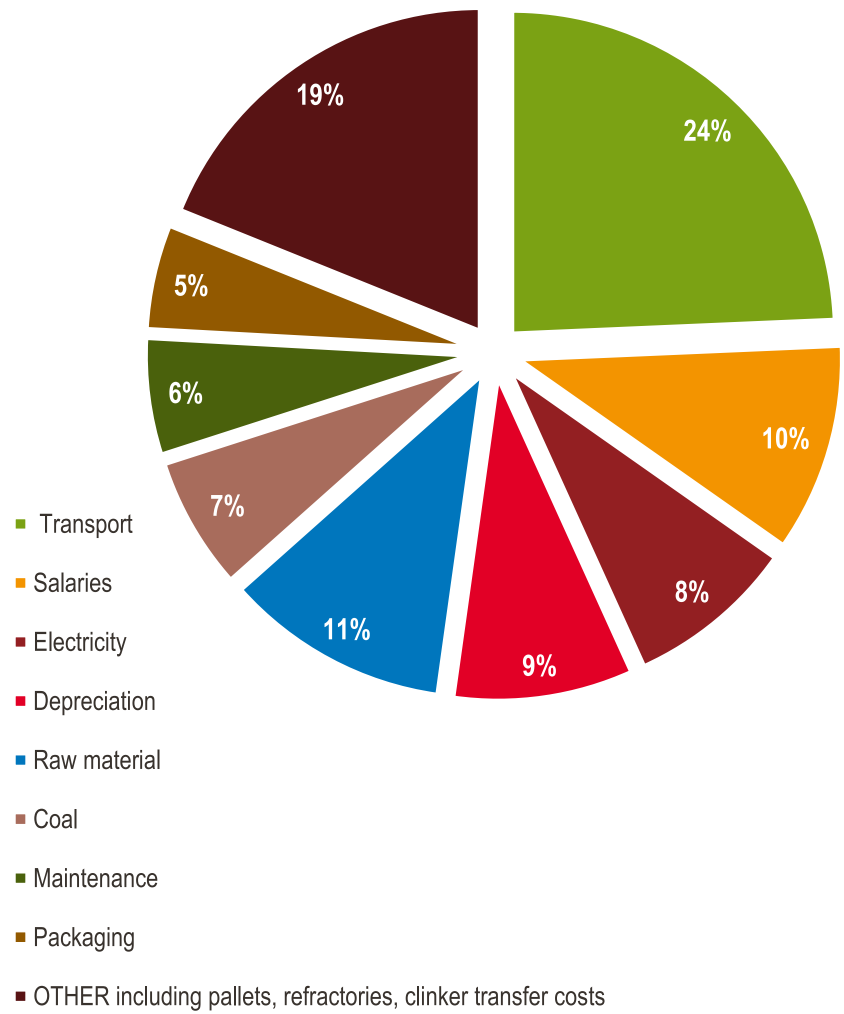

- The additional plant capacity in Gauteng improved total sales volumes by 3% in FY2019

# **SepCem** : Consumer demand impacted by lower discretionary income

1. **Discretionary consumer incomes impacted by VAT and fuel price increases**
   - Average price increase per tonne of 3.5% in the 12 months ended 31 December 2018
     - Higher proportion of bulk sales volumes at 25% - 28%
   - Revenue decreased by 3.1% due to 6.4% decrease in sales volumes YoY
     - Increased activity by blenders in selected inland markets
     - Increased imported volumes in coastal markets intensifying price competition

2. **Above inflation input costs impacted profitability**
   - Coal, electricity and fuel price increases
   - Poor coal quality resulted in higher maintenance and operational costs against budget due to;
     - Lower extension capability due to poor ash quality
     - Downtime
     - Reduced plant efficiencies

FY 2018 cost of sales breakdown



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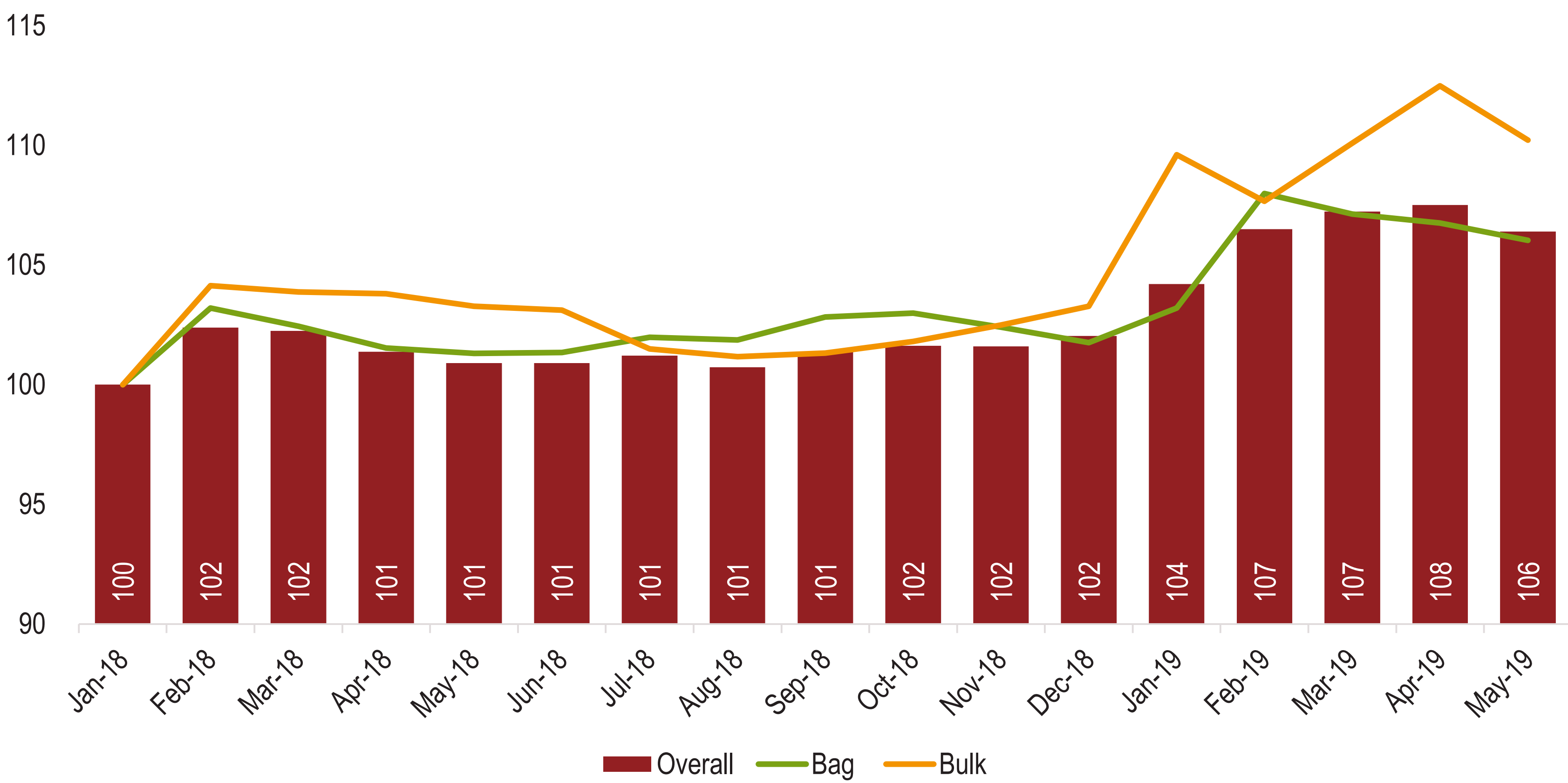
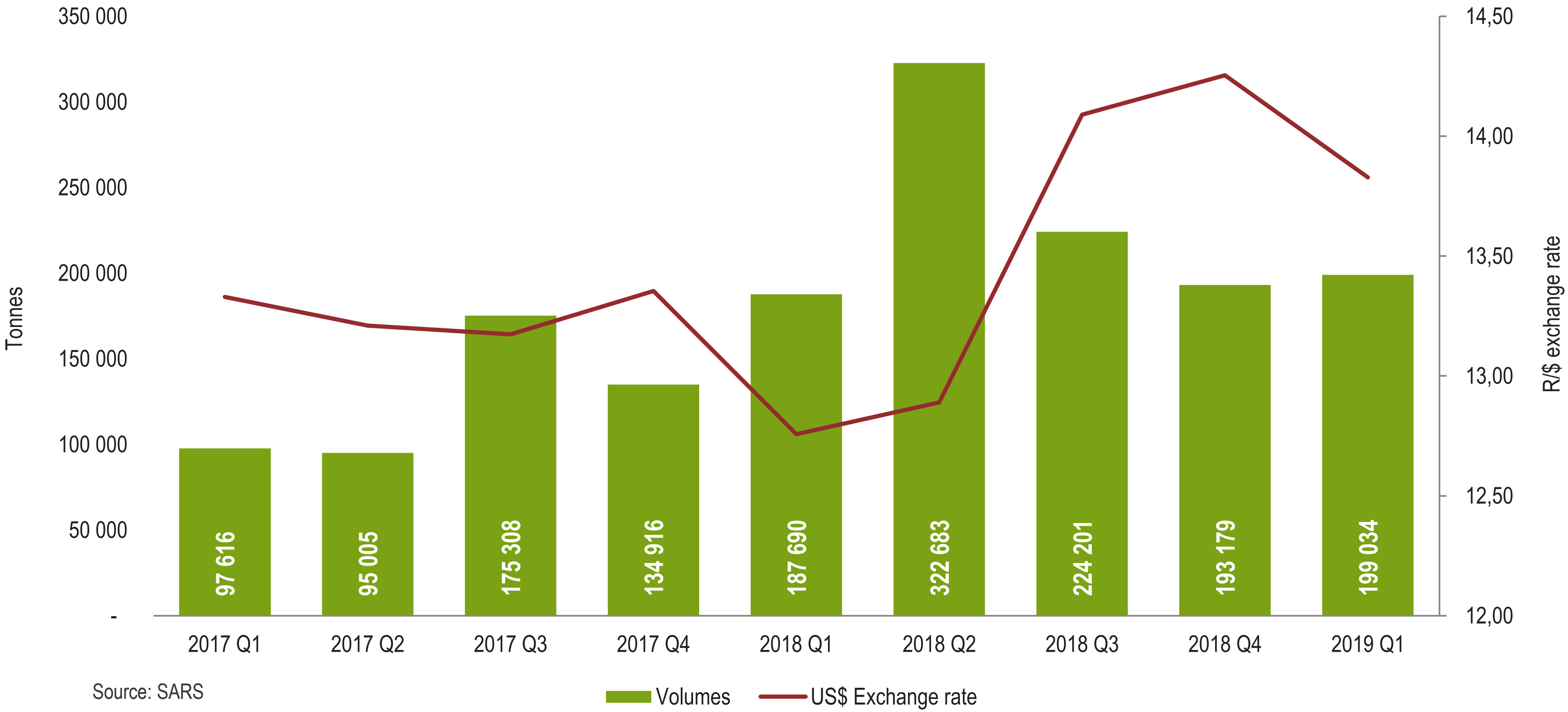
# Increase in average cement pricing expected to sustain

## 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

# Profile of quarterly import volumes



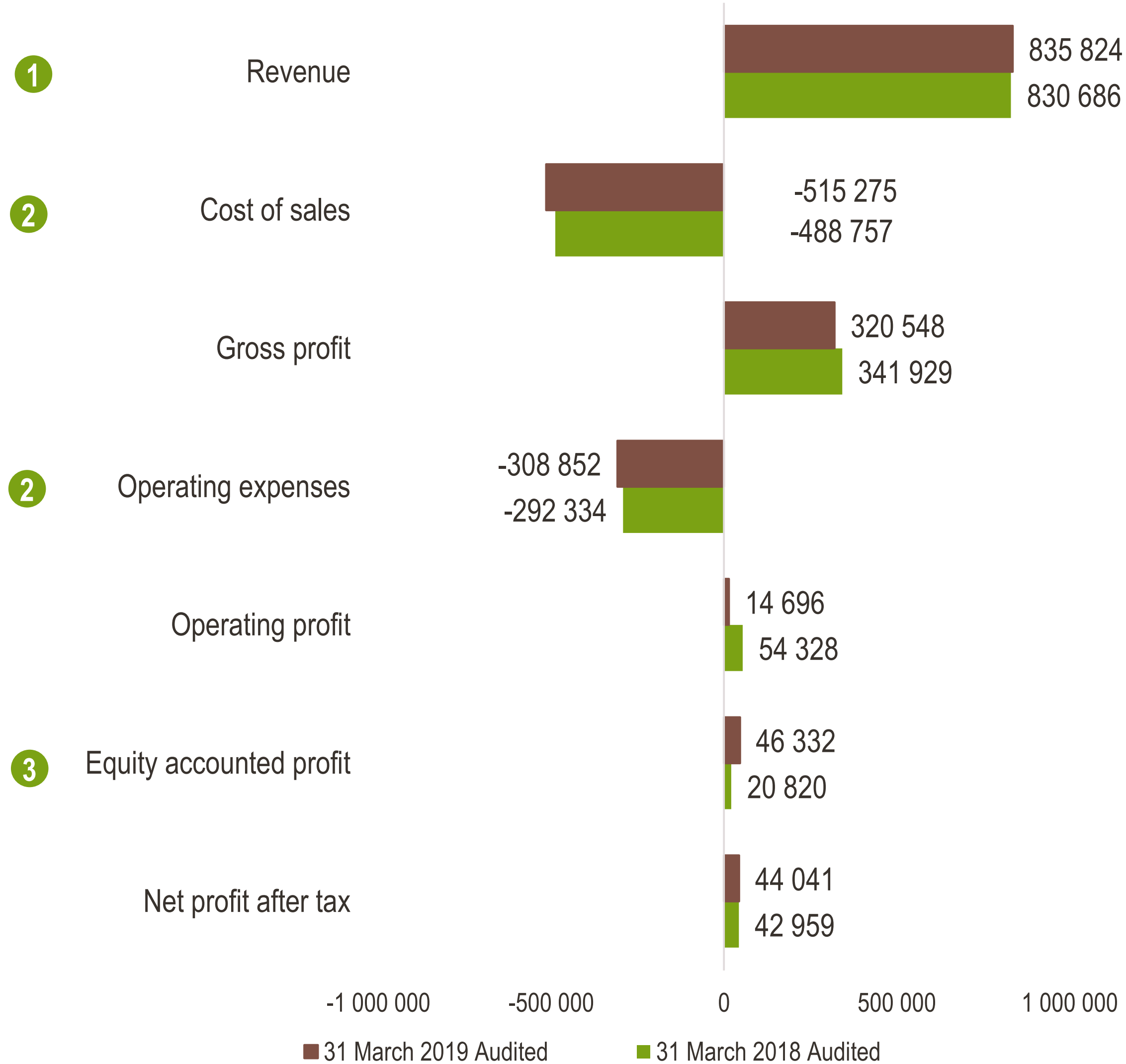

Source: SARS

- Total tonnage of 928 kt for the 12 months ended 31 December 2018
  - 606 kt imported through Durban port
- Highest volume imported from Vietnam at 551kt
- Approximately 330 kt imported to April 2019 an increase of 19% YoY

# 2 FINANCIAL PERFORMANCE

# Métier Gauteng sales volumes increase by 15% YoY

## Group statement of comprehensive income (R'000)




1
- Métier's revenue relatively flat at R835,8 million
  - 1% increase in concrete sales volumes and flat pricing YoY

2
- Cost of sales increased by 5.4% mainly due to the sales mix
- Inflationary increase of 7.1% in expenses
  - 13th plant expenses

3
- Increase in SepCem equity accounted profit by R26 million to R46,3 million due to tax credit for energy efficiency
  - SepCem tax credit of R81,7 million for FY2017.
  - Achieved 307 GWh in energy savings
- Like for like net profit after tax at R46,9 million (2017:R57,8 million)



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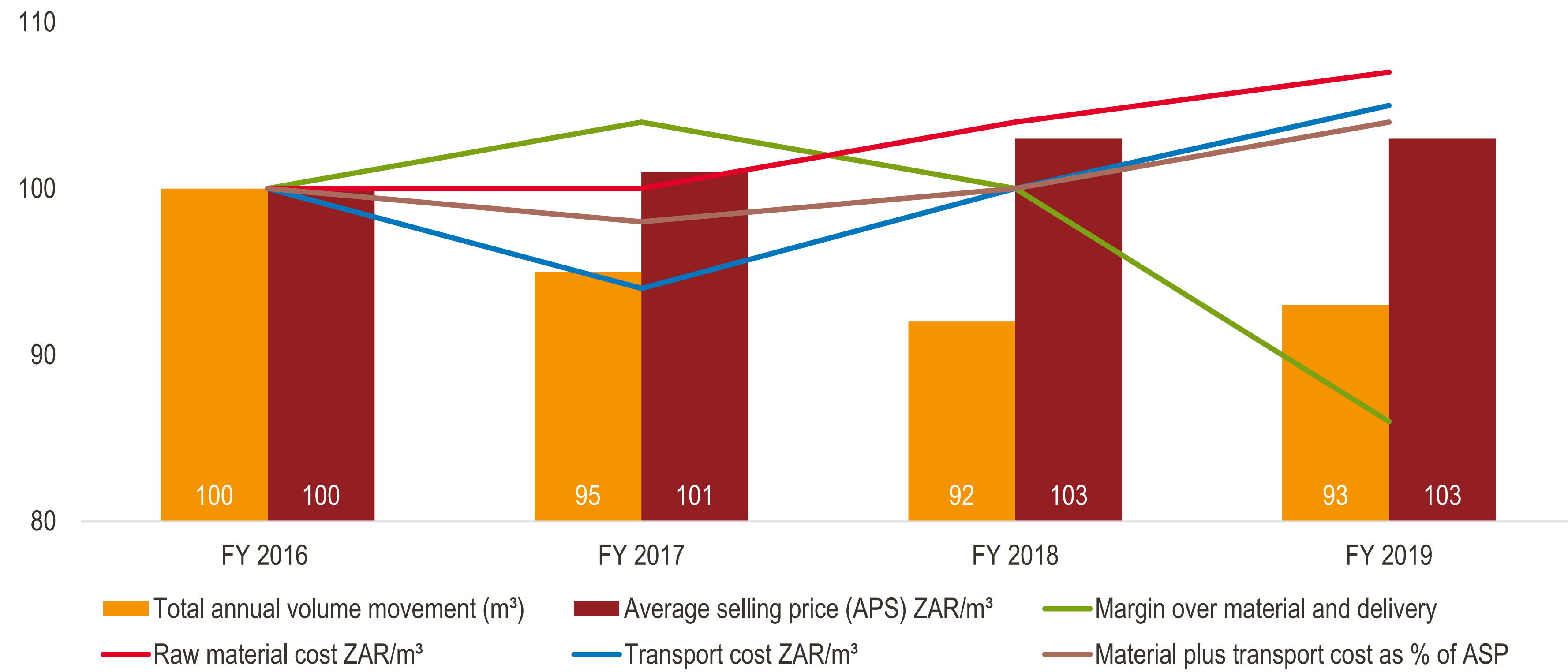
# Métier : Inflationary input costs and flat pricing reduces profitability

## Indexed average pricing and cost comparison




Initiatives to support profitability include;

- Delivery fleet rationalisation
- Strategic sourcing of key inputs to minimise cost increases



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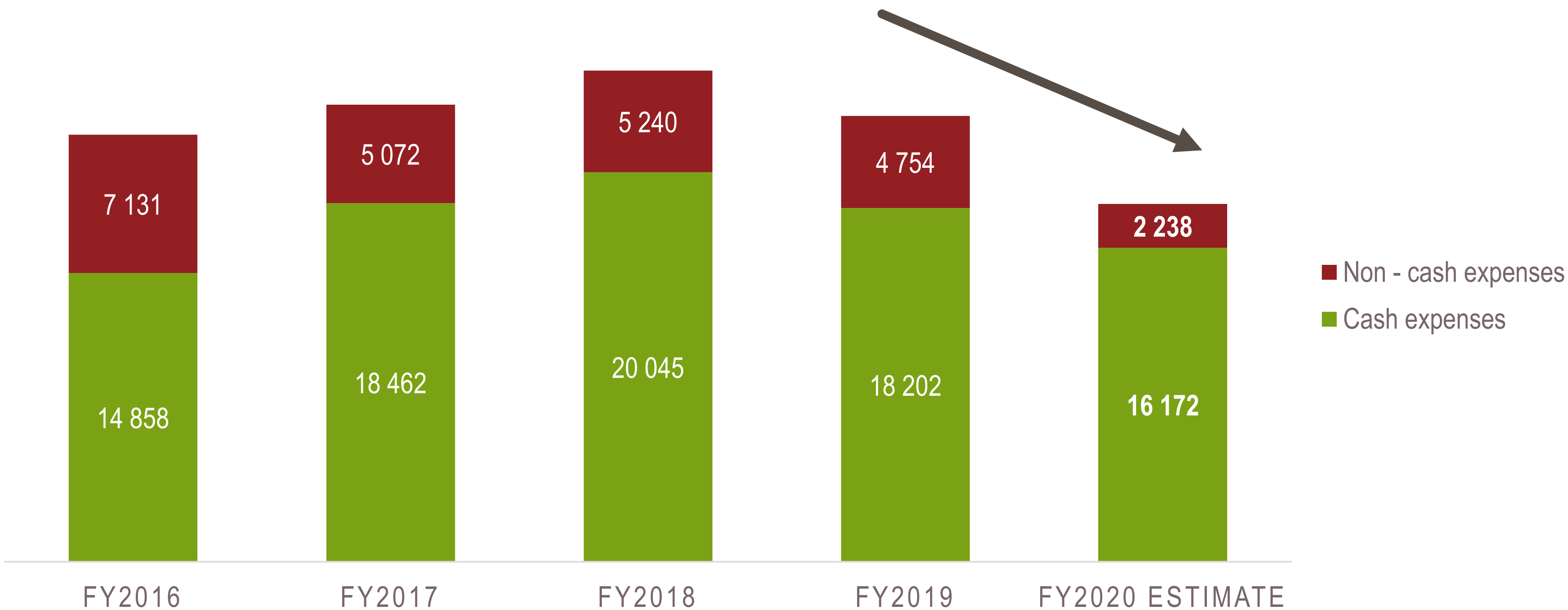
# SepHold initiative to reduce head office expenses

- SepHold expenses reduction initiative to align with tough trading environment commenced in October 2018
- Reduced expenses by R4,8 million for the six months period ended March 2019
  - Expenses at R22,9 million (FY2018 : R25,3 million) with 21% being non-cash expenses including depreciation
- Total expenses target of R18,4 million by 31 March 2020



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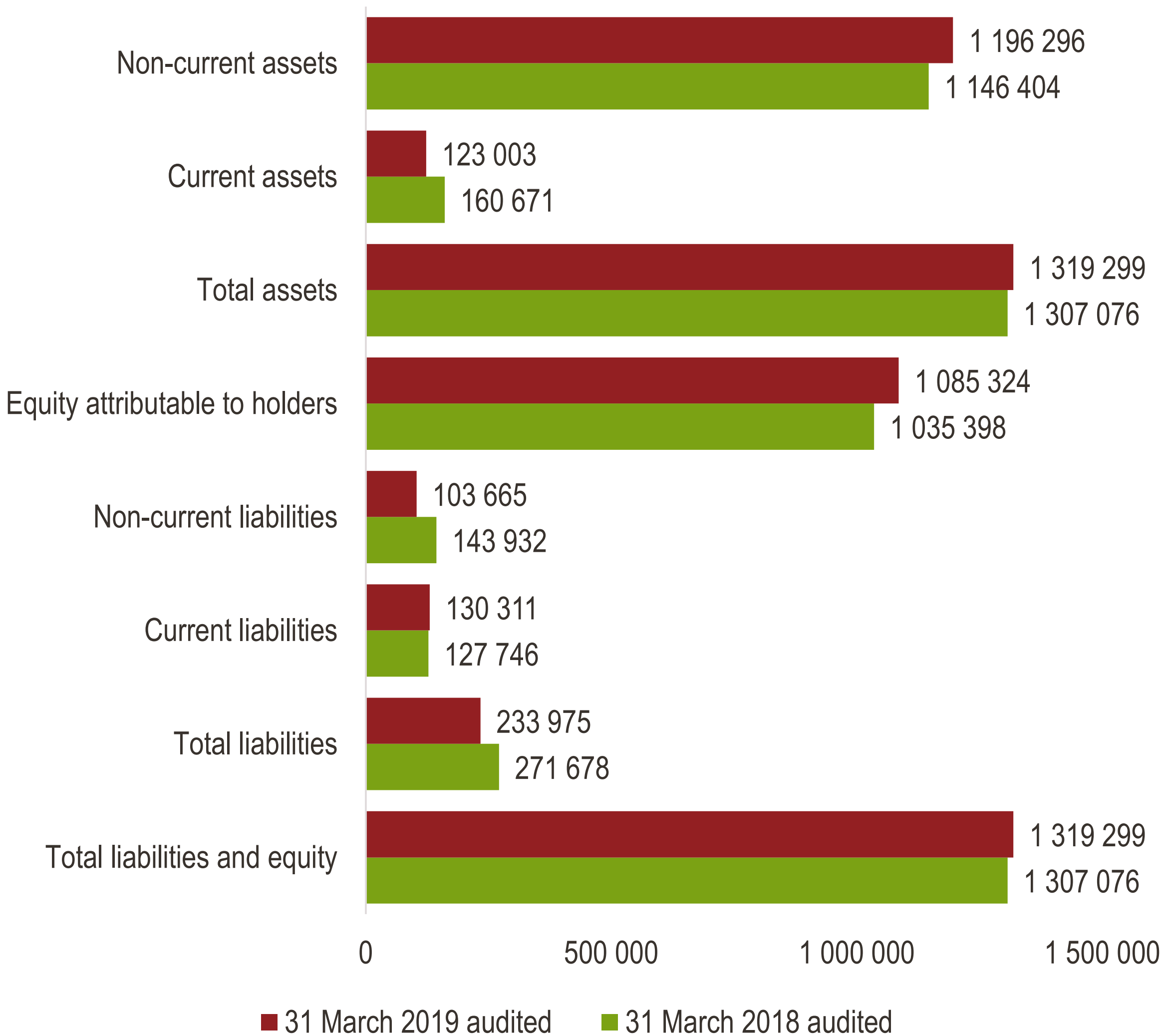
# Focus on strengthening the balance sheet

## Group statement of financial position (R'000)




- Métier repaid R39,7 million capital debt resulting in a total outstanding balance R121,7 million balance by 31 March 2019
- Métier wrote off R8,95 million in debtors
  - R4,59 million through the income statement
  - R4,35 against the R6 million provision for bad debts
- Strict debtor management implemented to minimise customer credit default risk
- Métier debt to EBITDA target of 2.0 by end of FY2020



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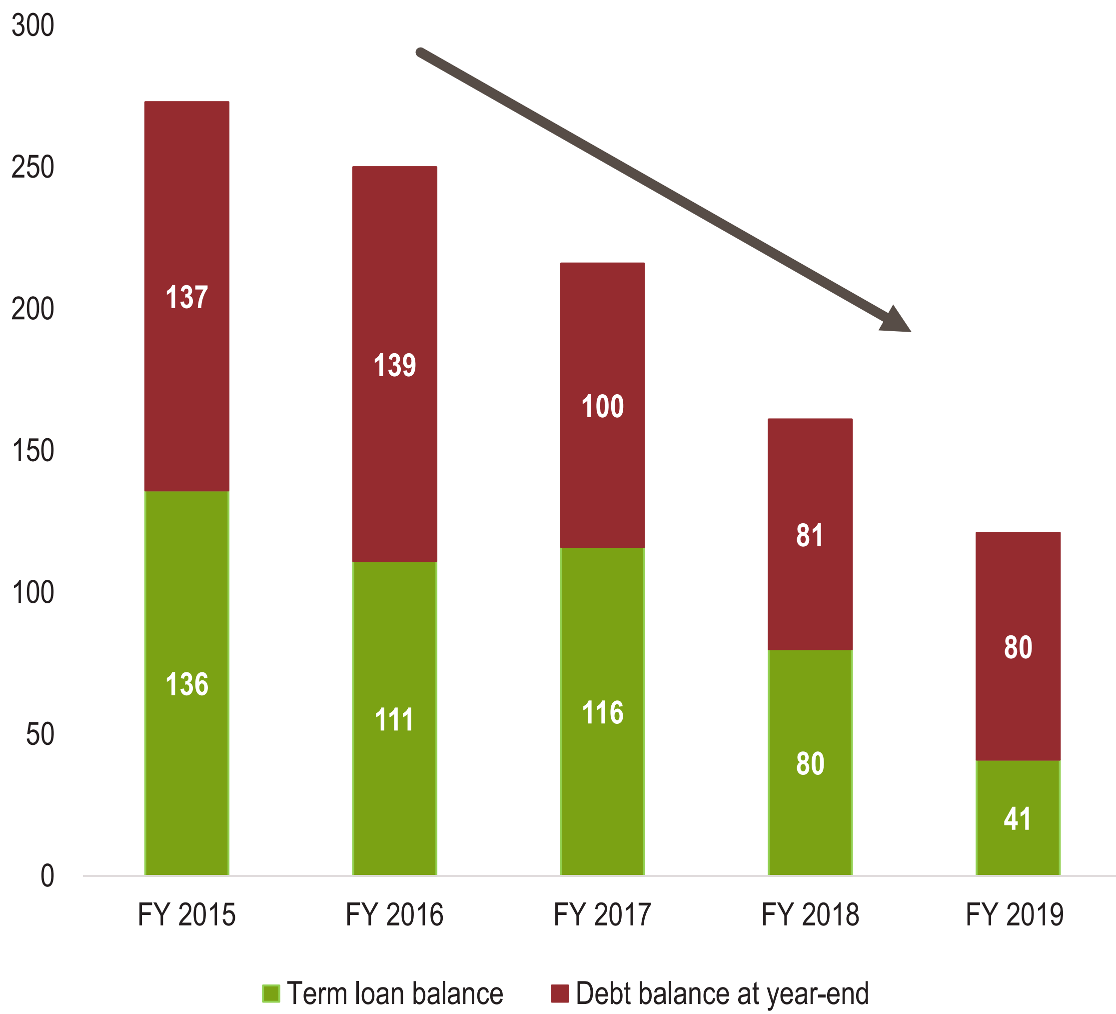
# Strengthened balance sheet: 25% decrease in Métier bank debt YoY

## Métier bank debt profile (R million)




- Term loan debt at a quarterly interest rate of JIBAR plus 3.49% has been decreasing by 11% annually since FY2015
  - Outstanding balance of R40,7 million
- R100 million revolving facility at a quarterly interest rate of JIBAR plus 4%
- Final instalments for both facilities to be paid on 15 April 2020



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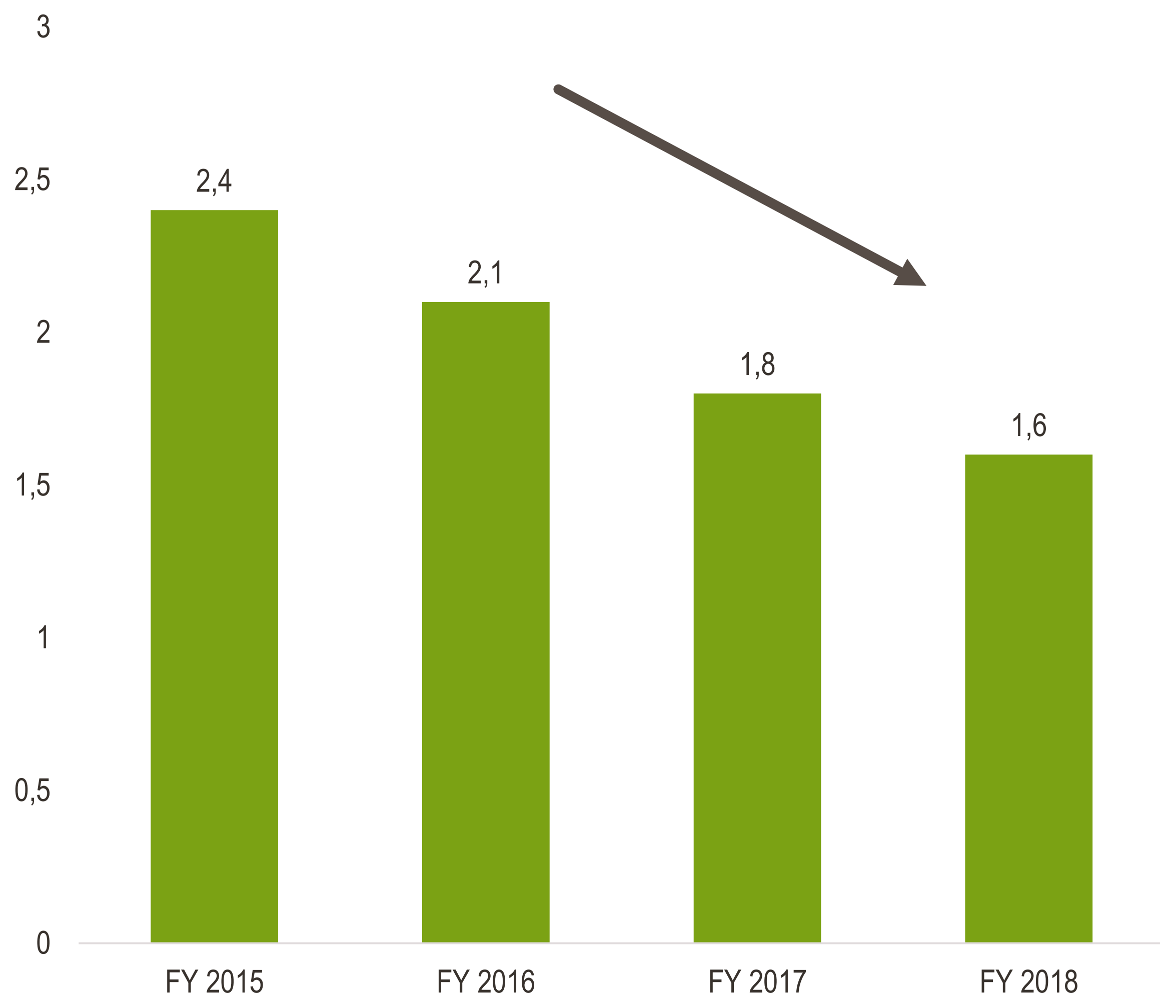
# Strengthened balance sheet: SepCem targeting debt to EBITDA ratio of x2.5

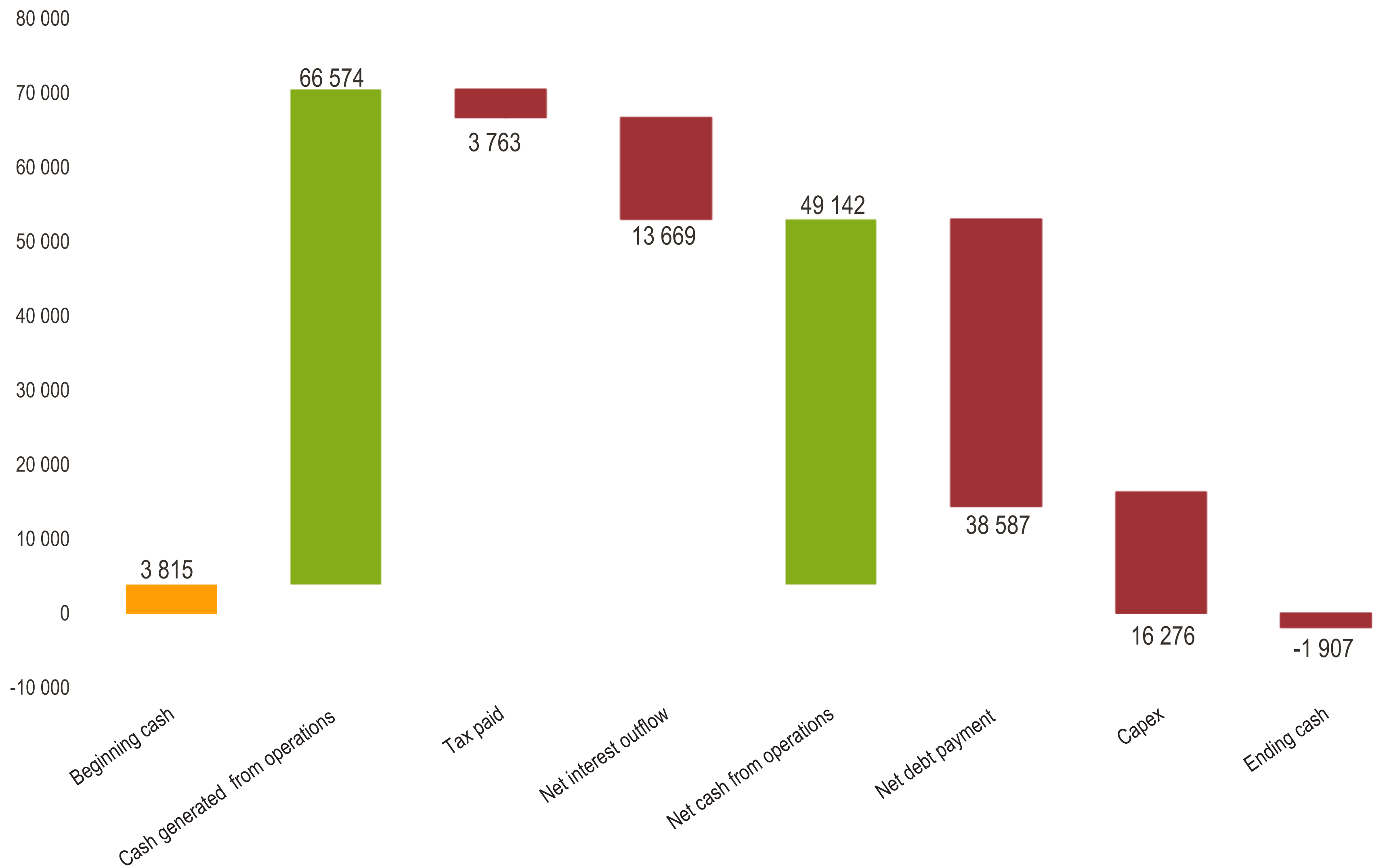
## SepCem project debt profile (R billion)




- SepCem had reduced debt capital by R750 million (31%) by end of December 2018
- Total debt payments R377 million in FY2018
  - R182 million capital
  - R195 million interest
- Dangote Cement PLC loan balance at R474 million (FY2017 : R425 million)
  - Interest rate at JIBAR plus 4%

# Debt repayment priority for the group

## Group statement of cash flows (R'000)



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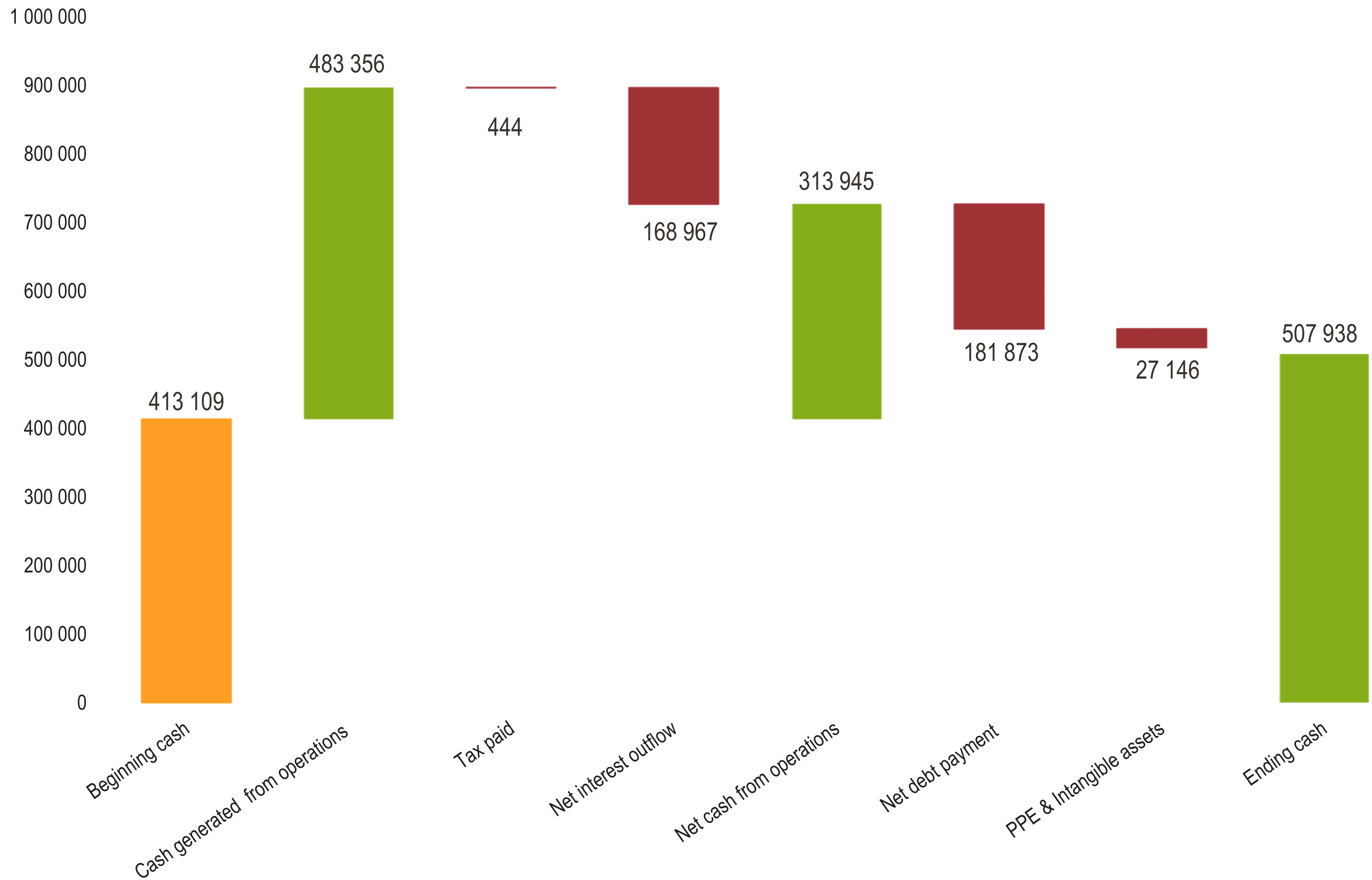
# Debt repayment priority for the group

## SepCem statement of cash flows (R'000)



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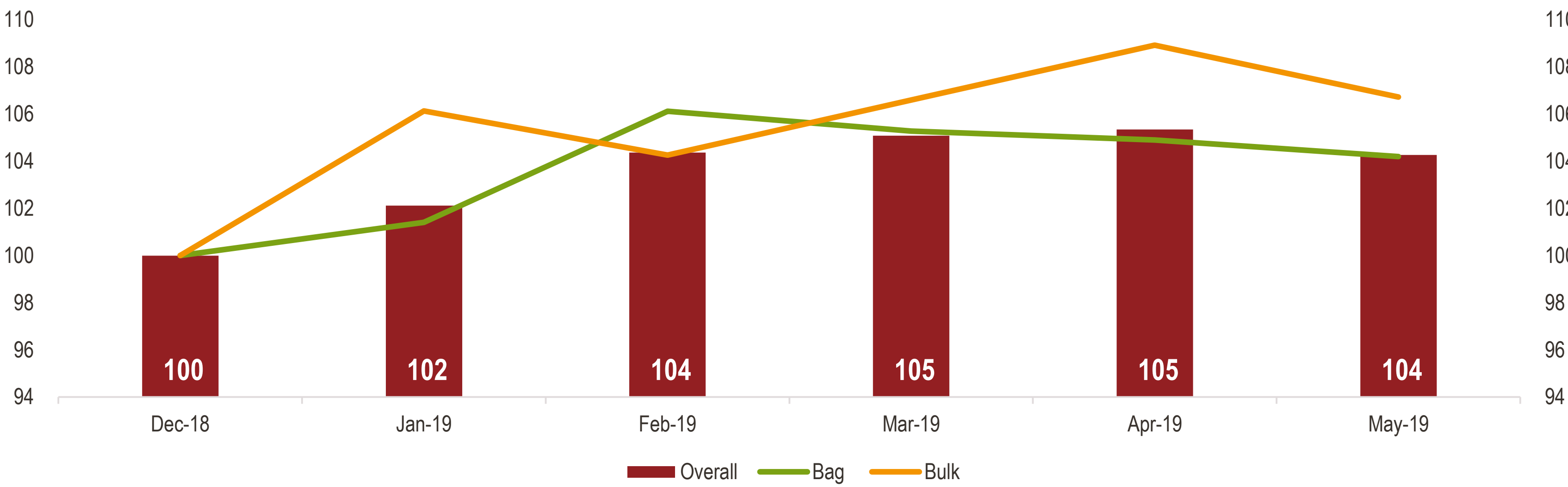
# SepCem first quarter CY2019 performance

## Indexed average pricing per tonne of cement




First quarter performance for the period ended 31 March 2019:

- Revenue decreased to R487 million (2018:R566 million) due to lower sales volumes
- SepCem volumes 19% lower YoY due to
  - anomalously high comparative volumes in Q1 CY2018 exaggerating volume decrease
  - increased imports into KZN
- Industry sales volumes estimated to be 10% - 12% lower in Q1 2019
- SepCem increased prices by 8% - 10% per tonne with effective increase at 5% - 7% due to price competition and product mix
  - Bulk increased 6% - 7% compared to 4% - 5% increase in bagged cement compared to December 2018



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# 3 OUTLOOK

# Constrained trading environment for the next 6 – 12 months

- Carbon tax on cement manufacturers for carbon emissions effective as at 1 June 2019
  - SepCem's estimated carbon emissions tax approximately R35 million - R40 million per annum
  - The tax will be applied as price increase of between 1.5% and 2.5% per tonne based on cement strength
  - SepCem to increase prices by 4% - 6% in July 2019 as per standard biannual increase and in line with carbon taxes
- Continuation of focus on:
  - reducing debt at both Métier and SepCem
  - reducing head office (SepHold) expenses
  - optimising sales reach from the 12th and 13th plants
  - evaluating potential opportunities to enhance shareholder value

# 2019

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