



**RMB OFF PISTE VIRTUAL CONFERENCE**

**16 SEPTEMBER 2021**

- 1** BUILDING MATERIALS OVERVIEW
- 2** OPPORTUNITIES & CHALLENGES
- 3** FEEDBACK ON OUR STRATEGIC OBJECTIVES
- 4** OUTLOOK
- 5** APPENDICES

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**1**

**BUILDING MATERIALS OVERVIEW**

2

OPPORTUNITIES & CHALLENGES

3

FEEDBACK ON OUR STRATEGIC OBJECTIVES

4

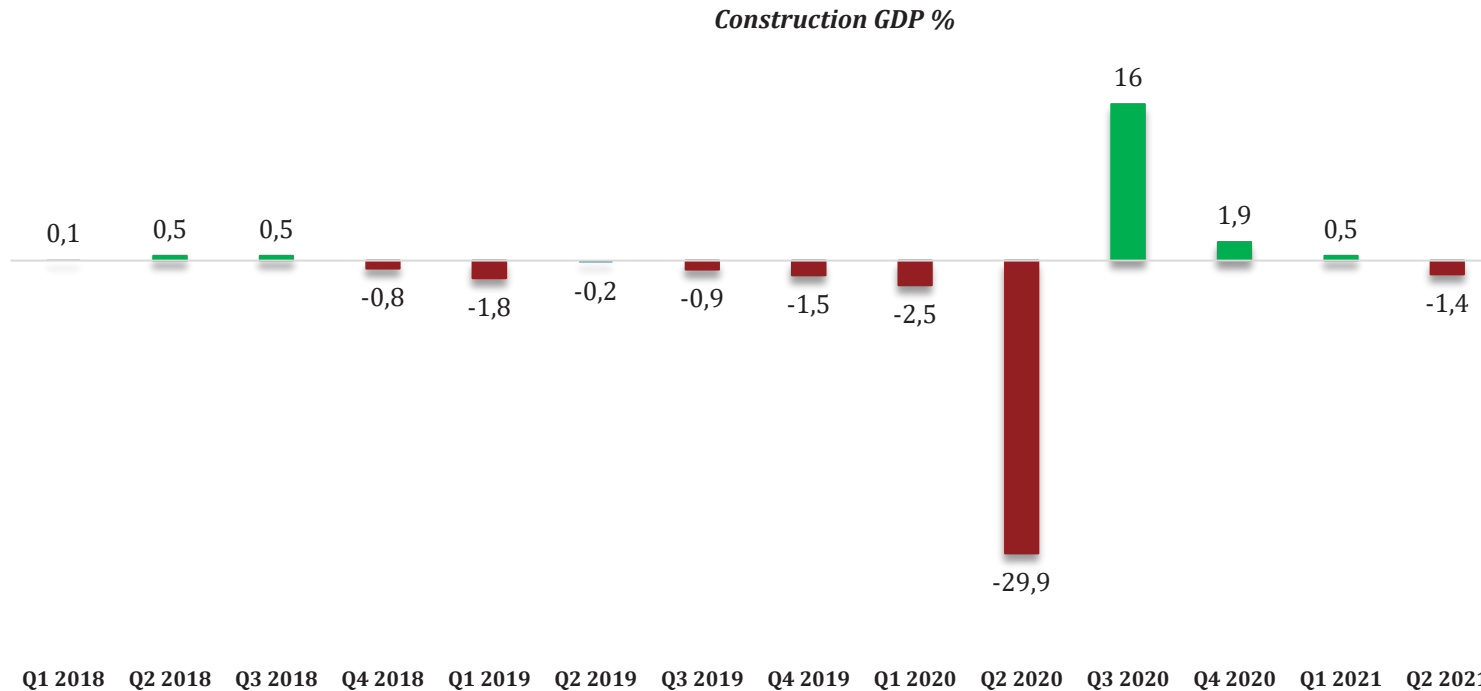
OUTLOOK

5

APPENDEXES

# BUILDING MATERIALS OVERVIEW

## Construction GDP quarterly trend

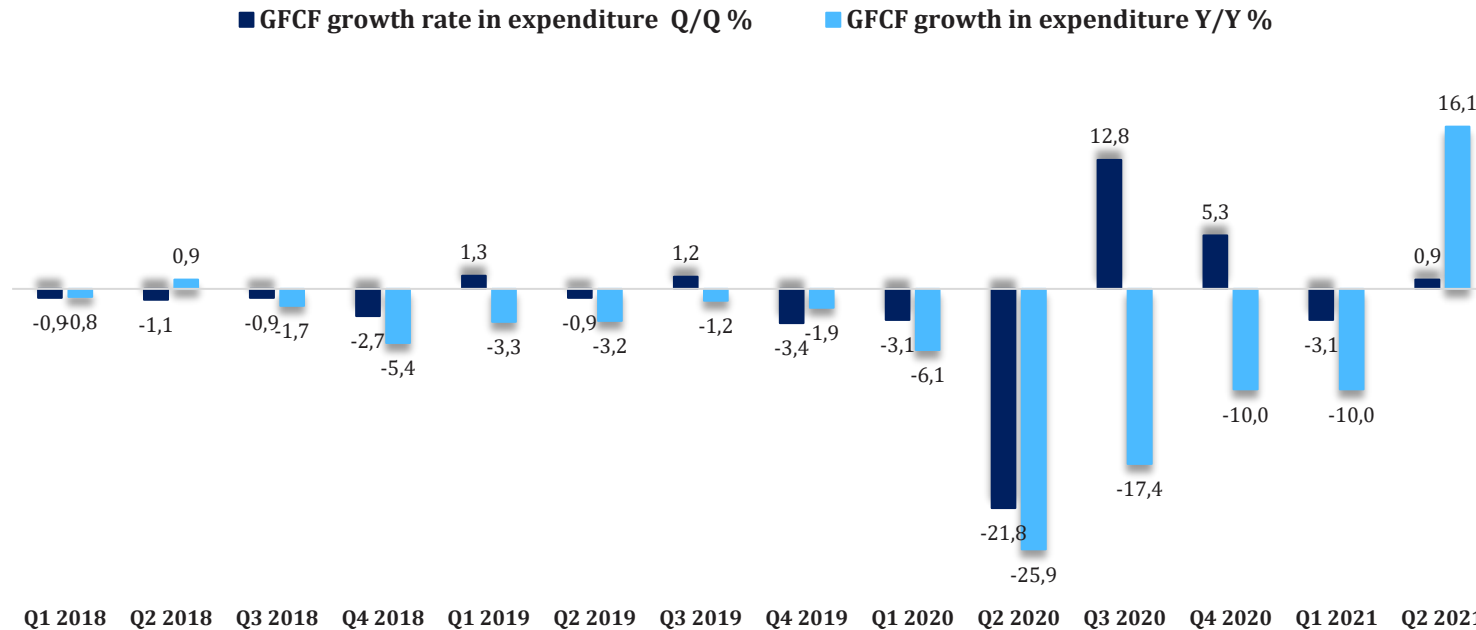


Source : StatsSA based on constant 2015 prices ,seasonally adjusted , annualised

- Construction industry negative quarterly growth from Q4 2018 to Q2 2020 a reflection of low infrastructure investment.
- Low construction activity reflected in weak bulk cement and mixed concrete demand.

# BUILDING MATERIALS OVERVIEW

## Gross fixed capital formation (GFCF) quarterly trend



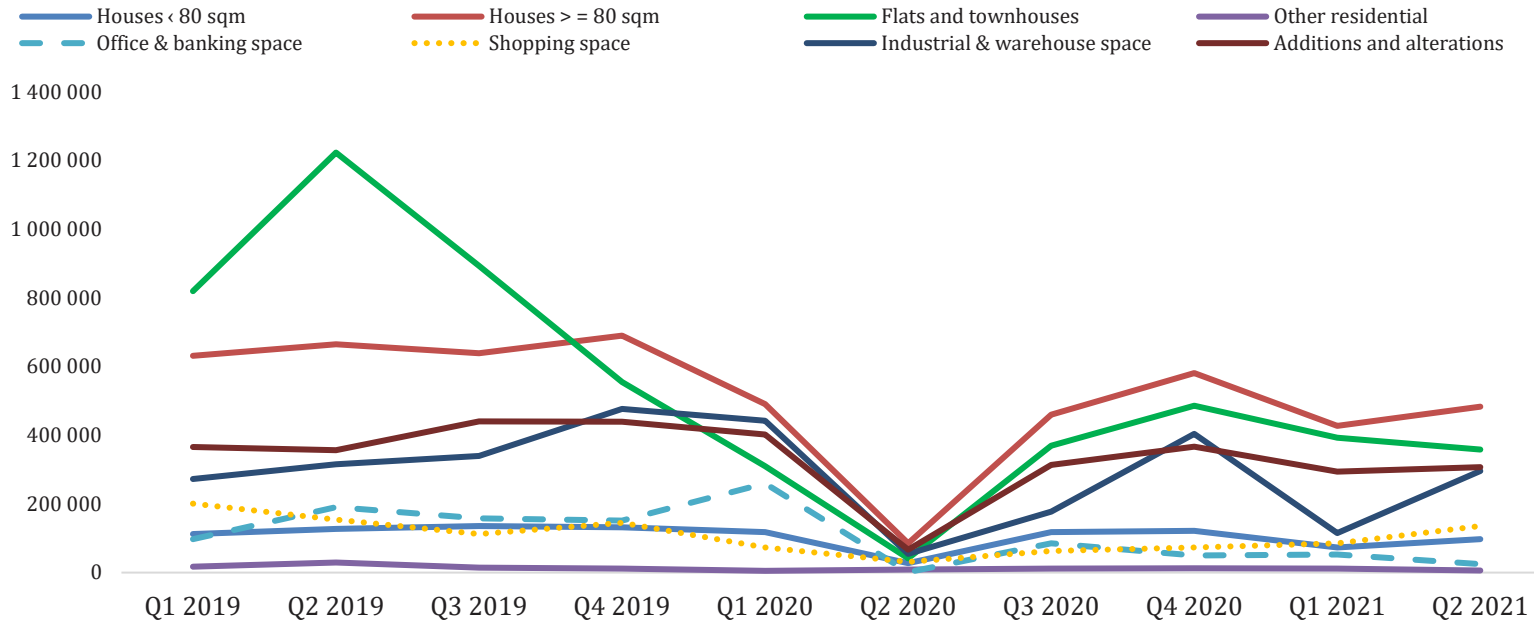
Source : StatsSA based on constant 2015 prices ,seasonally adjusted , annualised

- GFCF a component of expenditure GDP includes residential , non-residential and construction works sectors.
- Quarterly growth in Q2 2021 was 0.9 % compared to Q1 2021.
  - Growth mainly due to machinery and equipment.
  - Quarterly Y/Y growth exaggerated by the low base in 2020 due to the pandemic.
  - Contribution of 0.1% to GDP 1.2% growth.

# INDUSTRY OVERVIEW

## *Residential buildings dominate completed plans*

Square metres (SQM) of buildings completed by type of building

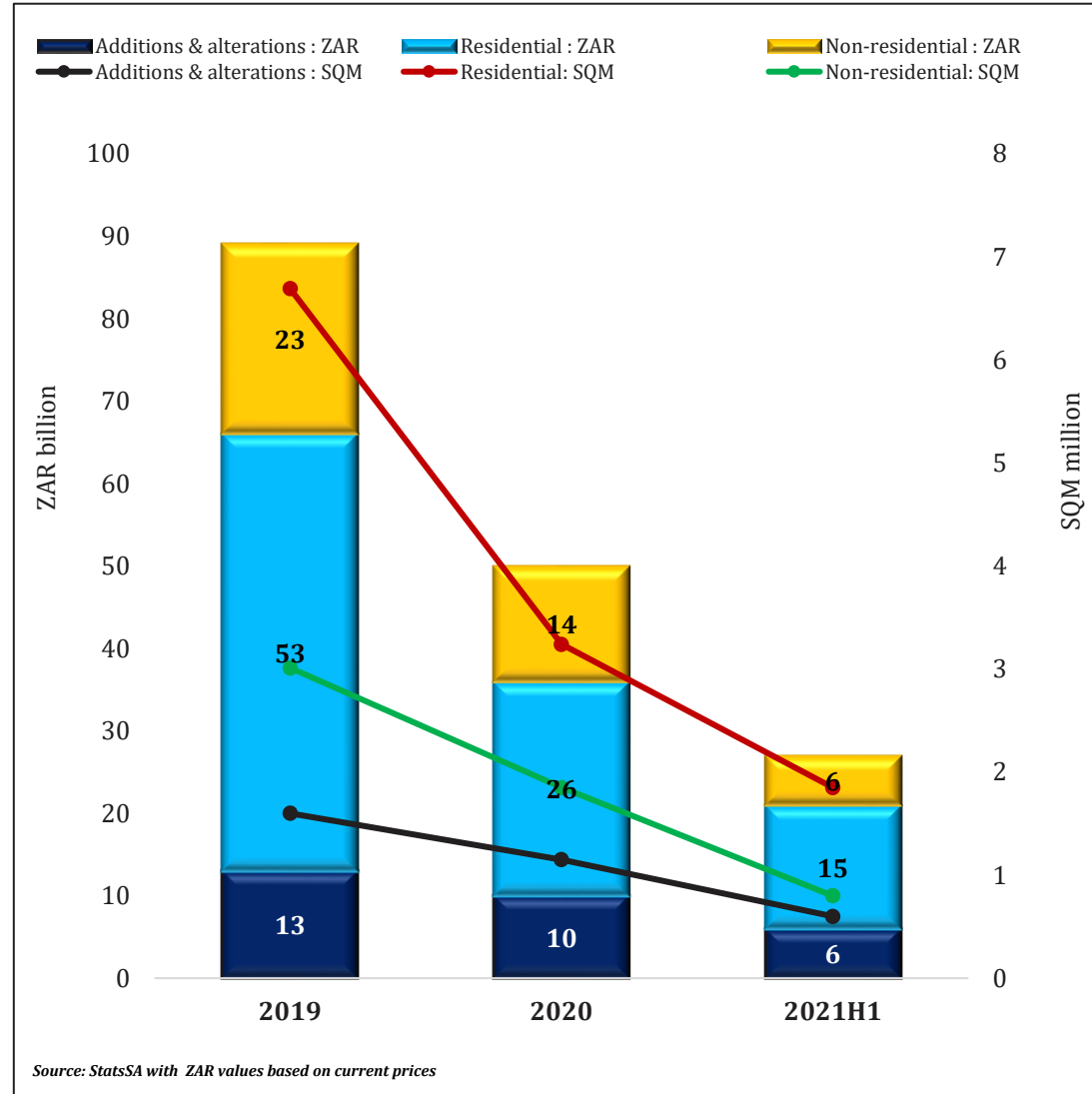


Source: StatsSA, Econometrix

- Residential buildings have constituted 50% - 60% of completed plans between 2019 – 2021.
- Approximately 18% of the completed plans in 2020 and 2021 were for additions and alterations.
  - Driver of demand in 2020 due to the impact of the pandemic.
- Residential building activity projected to be the driver of retail cement demand.
- Non-residential buildings underperforming due to over-supply.

# INDUSTRY OVERVIEW

## Building plans completed

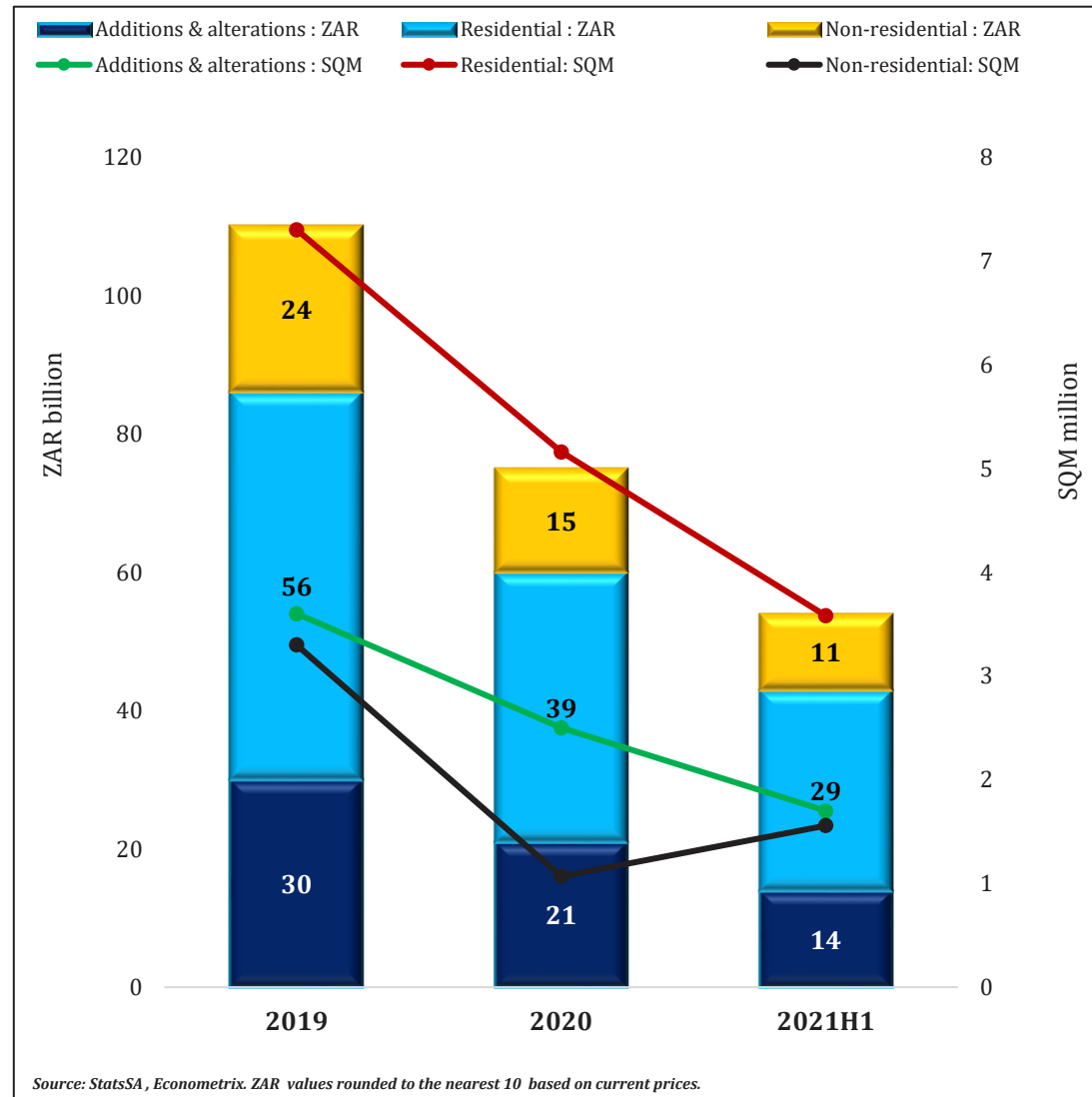


- Total SQM buildings plans completed increased by 8% in Q2 compared to Q1 2021 mainly due to the residential sector.
- H1 2021 SQM 70% above H1 2020 but 4% lower than H1 2019 y/y.
  - Activity normalising to pre-pandemic level.
- June seasonally adjusted value of buildings completed unfortunately weakest level since 2004 largely a representative of a broader macroeconomic decline.



# INDUSTRY OVERVIEW

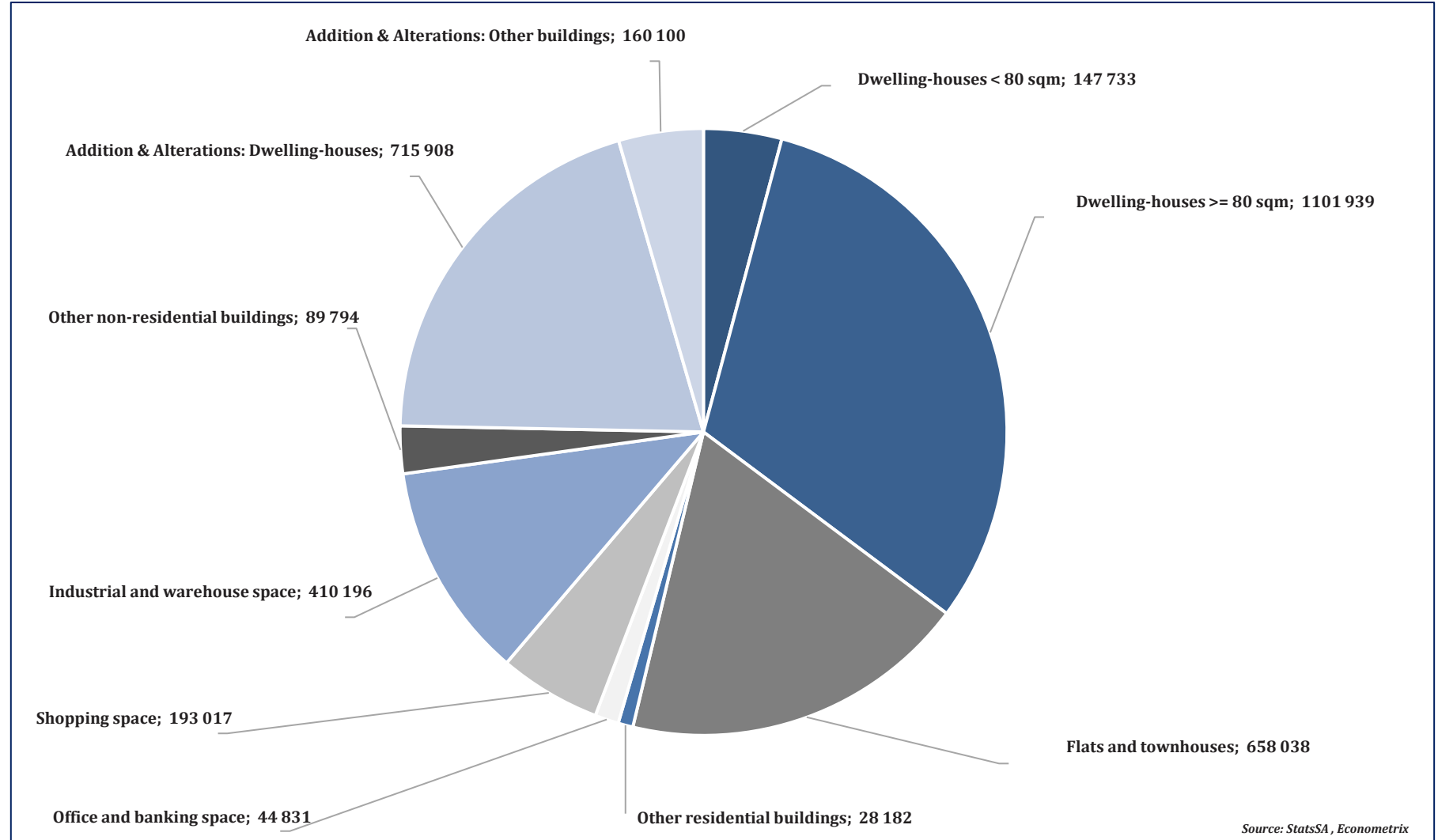
## Building plans passed



- Total SQM buildings plans passed increased by 8% in Q2 compared to Q1.
- H1 2021 SQM 74% above H1 2020 and 2% below H1 2019.
- June seasonally adjusted value decreased by 23% m/m implying a return to the weak construction environment which existed pre-pandemic.

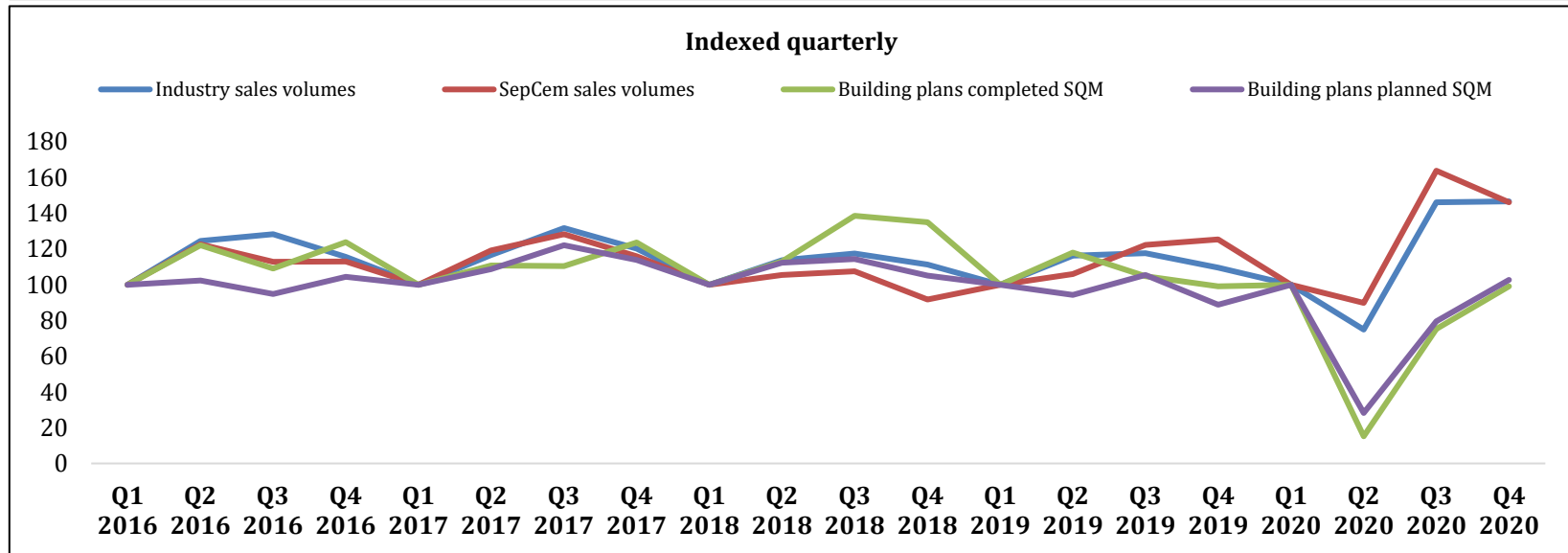
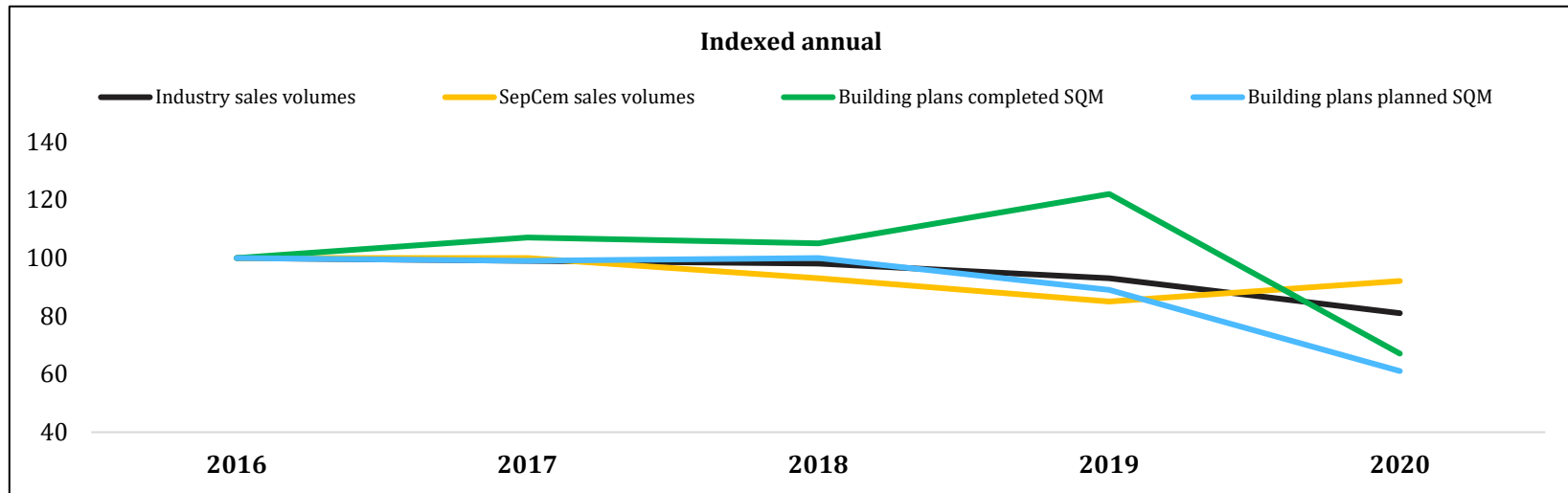
# INDUSTRY OVERVIEW

*Breakdown of plans passed by type of building : Q2 2021 (SQM)*



# INDUSTRY OVERVIEW

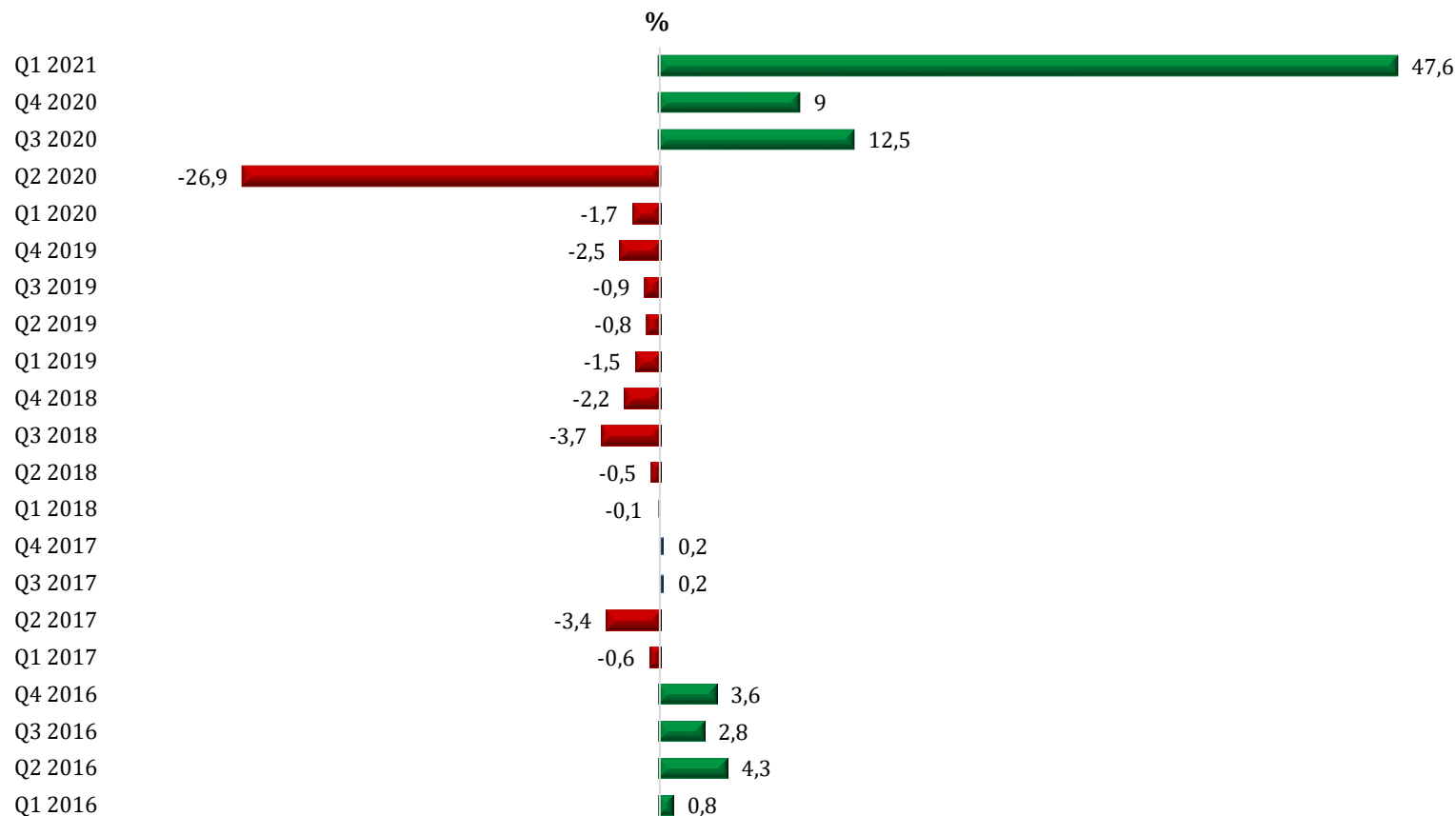
## Building materials demand indicators



Source: StatsSA, Econometrix

# INDUSTRY OVERVIEW

*Robust hardware retail sales y/y real growth*

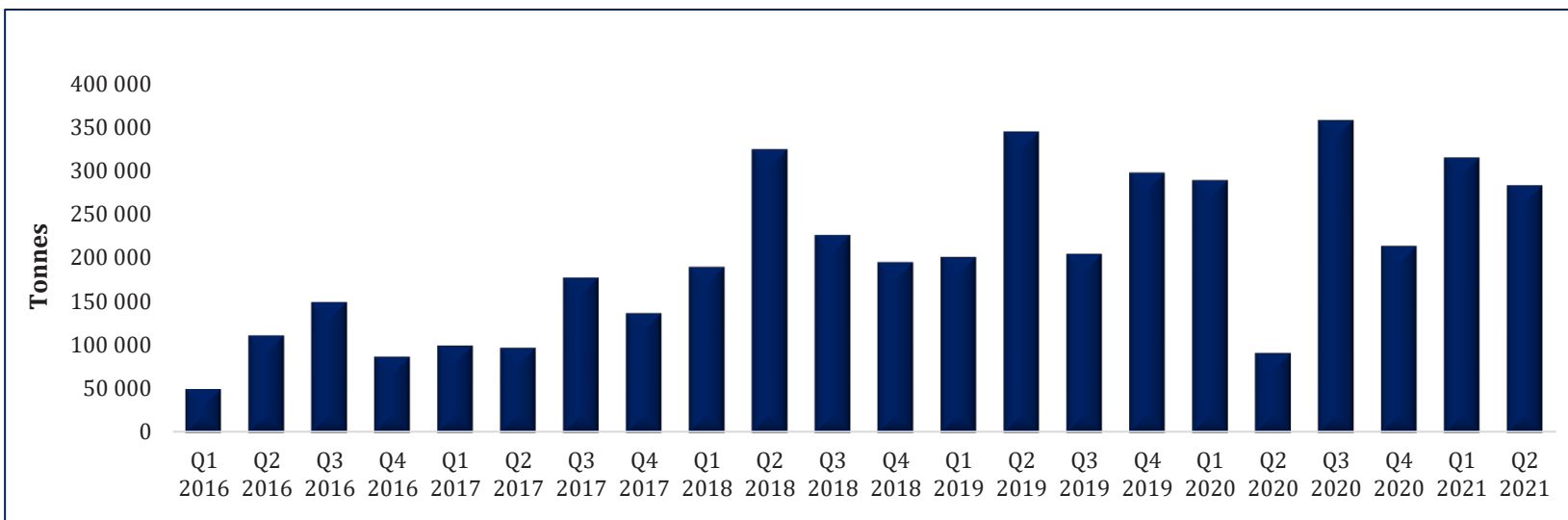


Source: Stats SA

- Robust recovery of hardware retail sales a driver of bagged cement demand post hard lockdown.

# INDUSTRY OVERVIEW

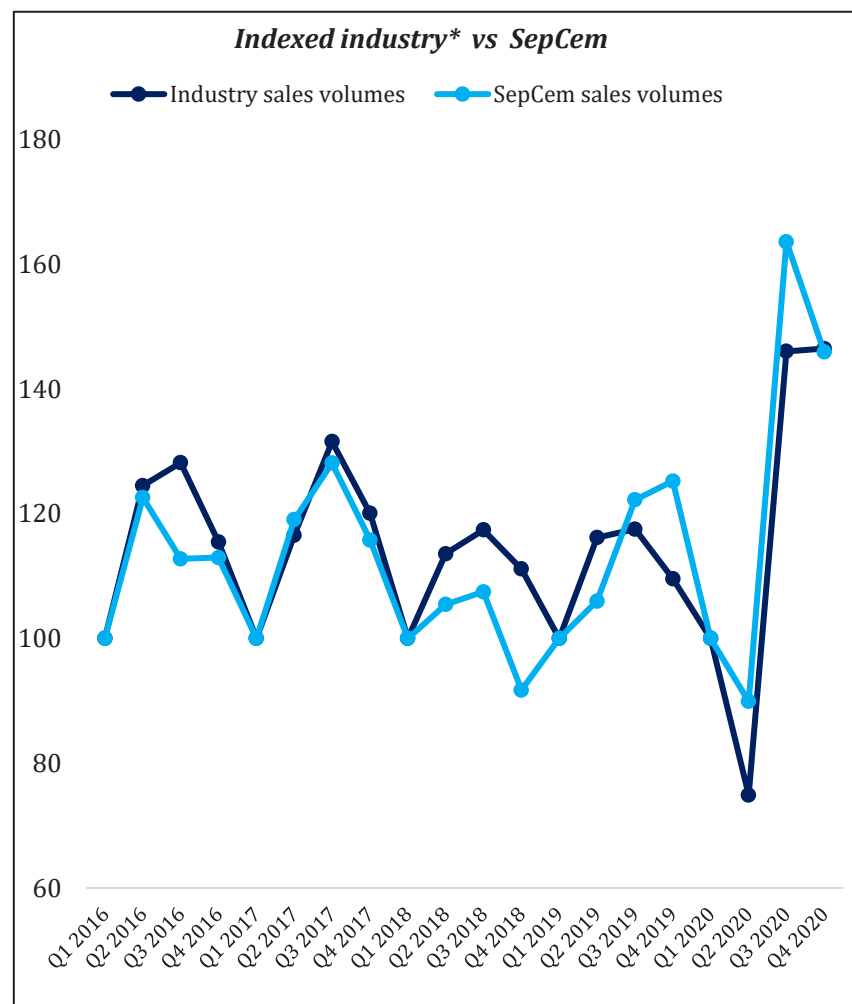
## *Cement imports continue to surge*



- July imports at 79kt a decrease of 16% y/y for the month resulting in YTD of 674 kt an increase of 43% y/y and approximately 4% above 2019 imports for the same period.
  - Approximately 68% imports from Vietnam.
- 594 kt cumulatively imported by June YTD , an increase of 58% y/y.
  - 61% above same period in 2019.
- **Tariffs : ITAC**
  - ITAC at final stage of sunset review of previous tariffs on country-specific imports.
  - Industry safeguard protection application submitted to ITAC.
  - Emerging model of importers expressing intent to construct grinding plants in the coastal markets.
- SepCem continues to supply KZN with fighter brand Falcon.

# INDUSTRY OVERVIEW

*SepCem performance in line with industry*



*\*The industry figures based on actuals disclosed by local manufacturers until Q3 2020 and Q4 estimate based on annual quarterly averages.*

- Various competitors were slow to resume production in H2 2020 due to:
  - Technical plant challenges.
  - Ramp-up from complete shutdown.
  - Uncertainty on demand due to the pandemic.
  - Shortage of extenders.
- SepCem exceptional comparative performance in Q3 2020
- Normalisation in cement supply in 2021 as competitors ramp-up production.
- Inland markets continue to be highly competitive as demand stabilises to 2019 levels.
- Competition intense in coastal markets as imports surge.
- Inconsistent bulk cement and extender supply constraints to blender activity.
- Aggressive pricing resulting in downward pressure on profitability.

1

BUILDING MATERIALS OVERVIEW

2

OPPORTUNITIES & CHALLENGES

3

FEEDBACK ON OUR STRATEGIC OBJECTIVES

4

OUR OUTLOOK

5

APPENDICES

# OUR INVESTMENT PROPOSITION

- The South African cement and ready mixed concrete manufacturing sector presents promising growth opportunities through infrastructure development
- The Group invests in modern, efficient capacity for this sector and is well positioned to capitalise on opportunities to generate growth and create value for shareholders over the long term

**The Group strives for sustainable returns through**



Strategically focusing on the building and construction materials sector and its potential earnings and growth opportunities



State-of-the-art production plants with cost efficiencies that enhance competitiveness



Profitable concrete operations with a renowned concentration of technical skills that provide solid earnings and positive net operating cash flows



Operational management with deep industry skills and experience, and the ability to successfully execute the strategic objectives



# OPPORTUNITIES

## *How we are harnessing them*

### **MÉTIER**

- Expansion into Cape Town
  - Under-utilised assets transferred to explore opportunities in Cape Town
  - Enhanced geographic diversification
- Progress to date
  - Customers increasing steadily
  - Have secured several supply contracts

### **SEPCEM**

- 2021 demand trends as at June 2021
  - Bulk cement : 20% - 25%
  - Bagged cement : 80% - 75%
  - Industry sales volume projected to approximately 13 mtpa in 2021 including imports
    - an increase of approximately 22% and 6% above 2020 and 2019 respectively.
- High retail market demand phenomenon
  - Sustainability : UNCERTAIN
    - dependent on interest rates , disposable income & pandemic effects
- H1 2021 sales volumes 22% above H1 2020
  - Sales volume trend aligned to 2019

# CHALLENGES

*How we are solving them*

- **Pervasive low demand**

- Expansion to new markets by **Métier**.
- Cement supply into KZN by **SepCem**.

- **Excess industry capacity**

- **Métier** restructured into a lean and efficient business.
- **SepCem** implementing an intensive organisational performance improvement programme since 2018.
  - Target to enhance skills to improve productivity and efficiencies.
  - To enhance competitiveness.



1

BUILDING MATERIALS OVERVIEW

2

OPPORTUNITIES & CHALLENGES

3

FEEDBACK ON OUR STRATEGIC OBJECTIVES

4

OUTLOOK

5

APPENDICES

**The group's strategic objectives focus on financial sustainability, product quality and operational efficiency**

## Maintain sustainable sales volumes

- Main goal to maintain market share
- Achieve targeted sales volumes
- Produce high-quality products

## Maximise margins

- Source competitively priced inputs
- Reduce expenses
- Rationalise distribution

## Strengthen balance sheets

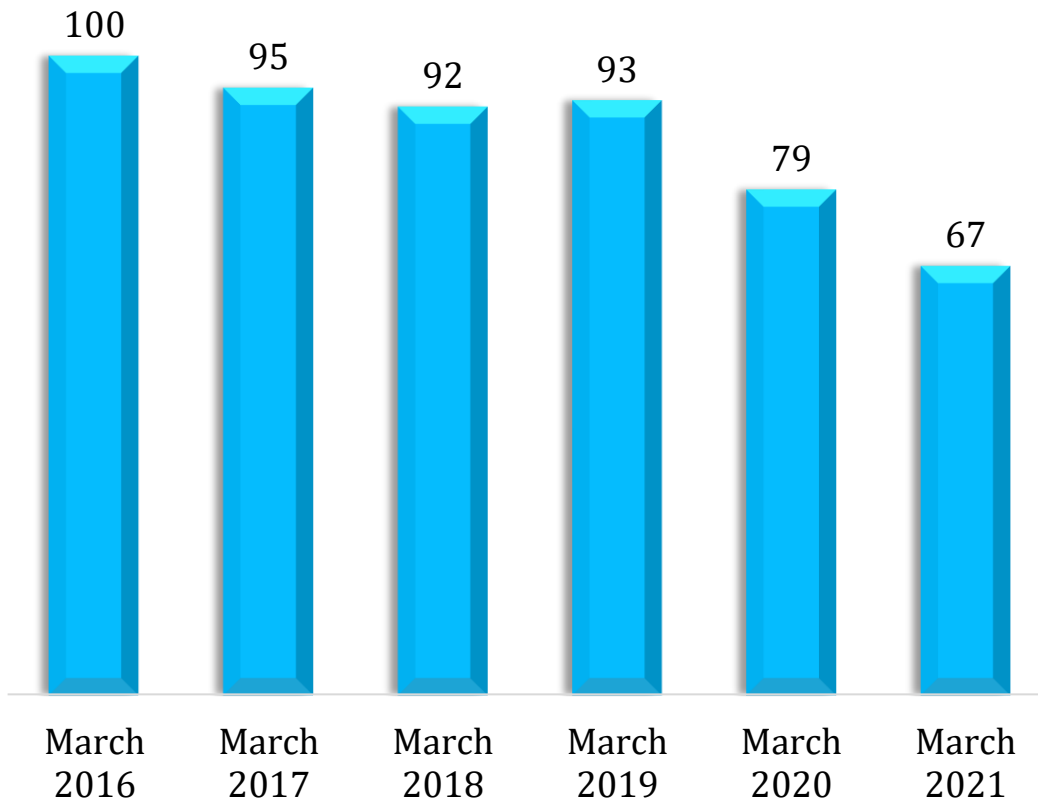
- Focus on reducing debt

## Increase free cash flow

- Prudent debtor management
- Increase pricing

# TO MAINTAIN SUSTAINABLE SALES VOLUMES

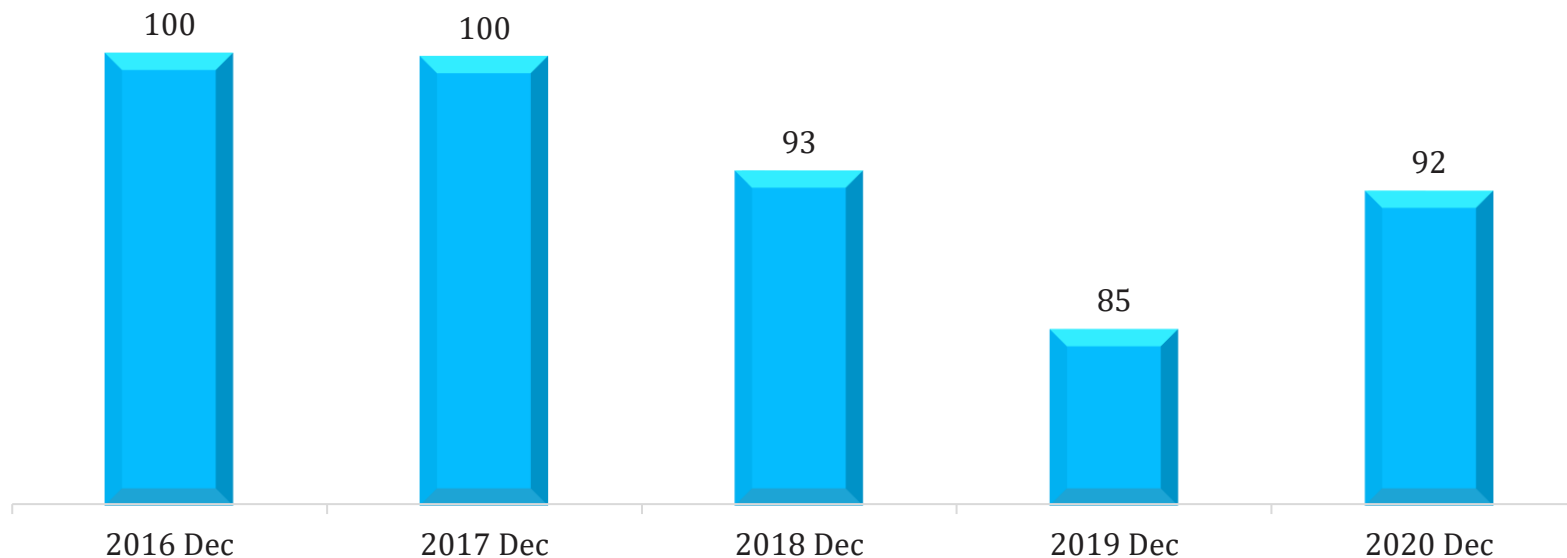
*Métier indexed volumes since 2016*



- Construction activity continues to be weak resulting in lower than targeted sales volumes.
- Participating in the SANRAL NE highway upgrade with two well – positioned plants to secure additional supply contracts.
- Cape Town expansion to support volumes.

# TO MAINTAIN SUSTAINABLE SALES VOLUMES

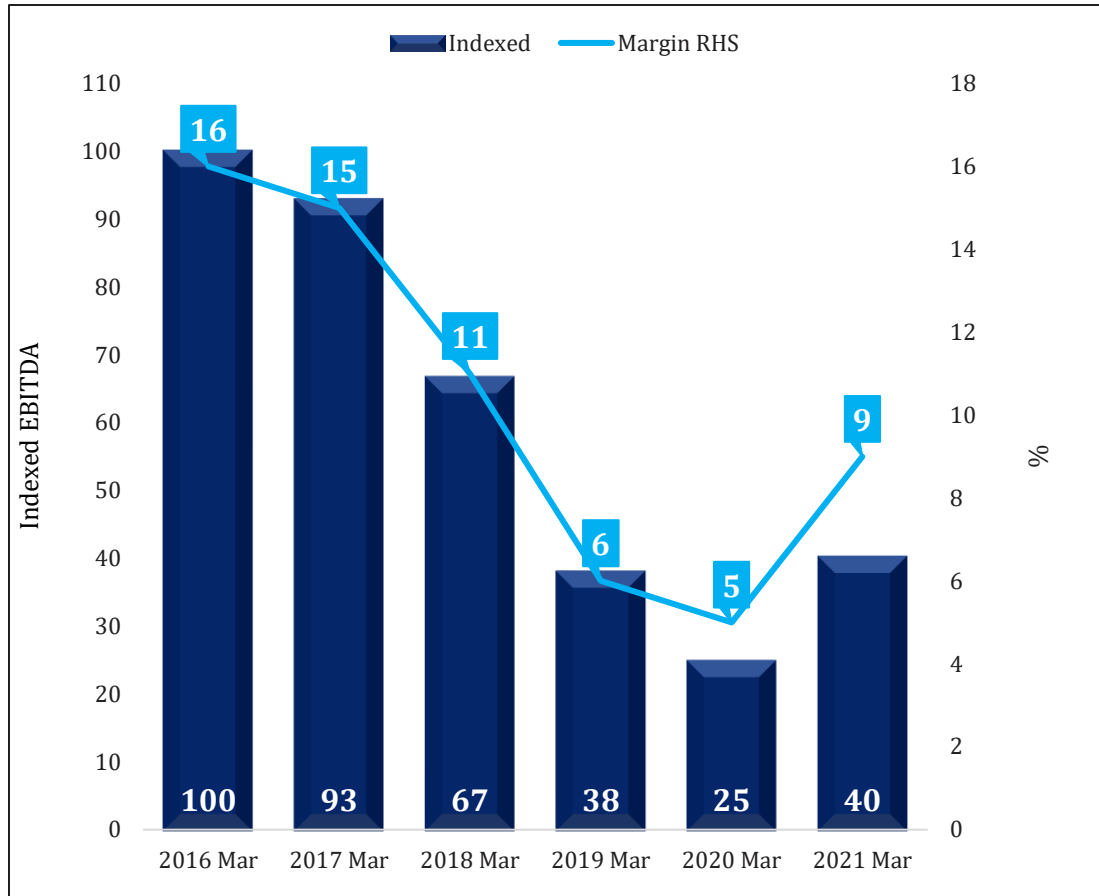
*SepCem indexed volumes since 2016*



- Challenges in maintaining sales volumes due to low demand.
- Improvement in 2020 sales volumes to 2018 level.
- Current volumes considered sustainable in the medium term.
- Focus on maintaining market share.

# TO MAXIMISE PROFITABILITY MARGINS

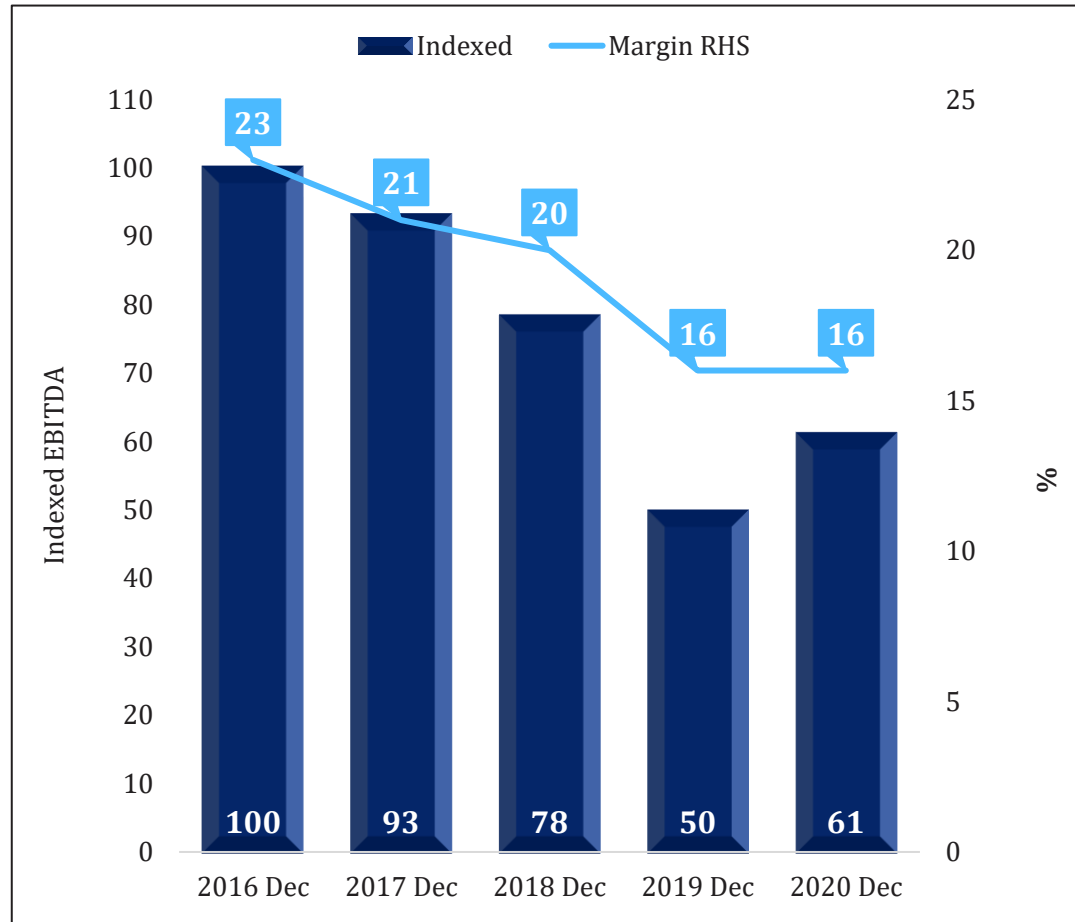
## *Métier EBITDA*



- Profitability severely impacted by the low pricing due to weak construction activity.
- Successful turnaround plan has improved profitability.
  - Margins commensurate with prevailing trading environment.
- Sustainable restructured business model with a lower cost base to support margins.

# TO MAXIMISE PROFITABILITY MARGINS

## SepCem EBITDA

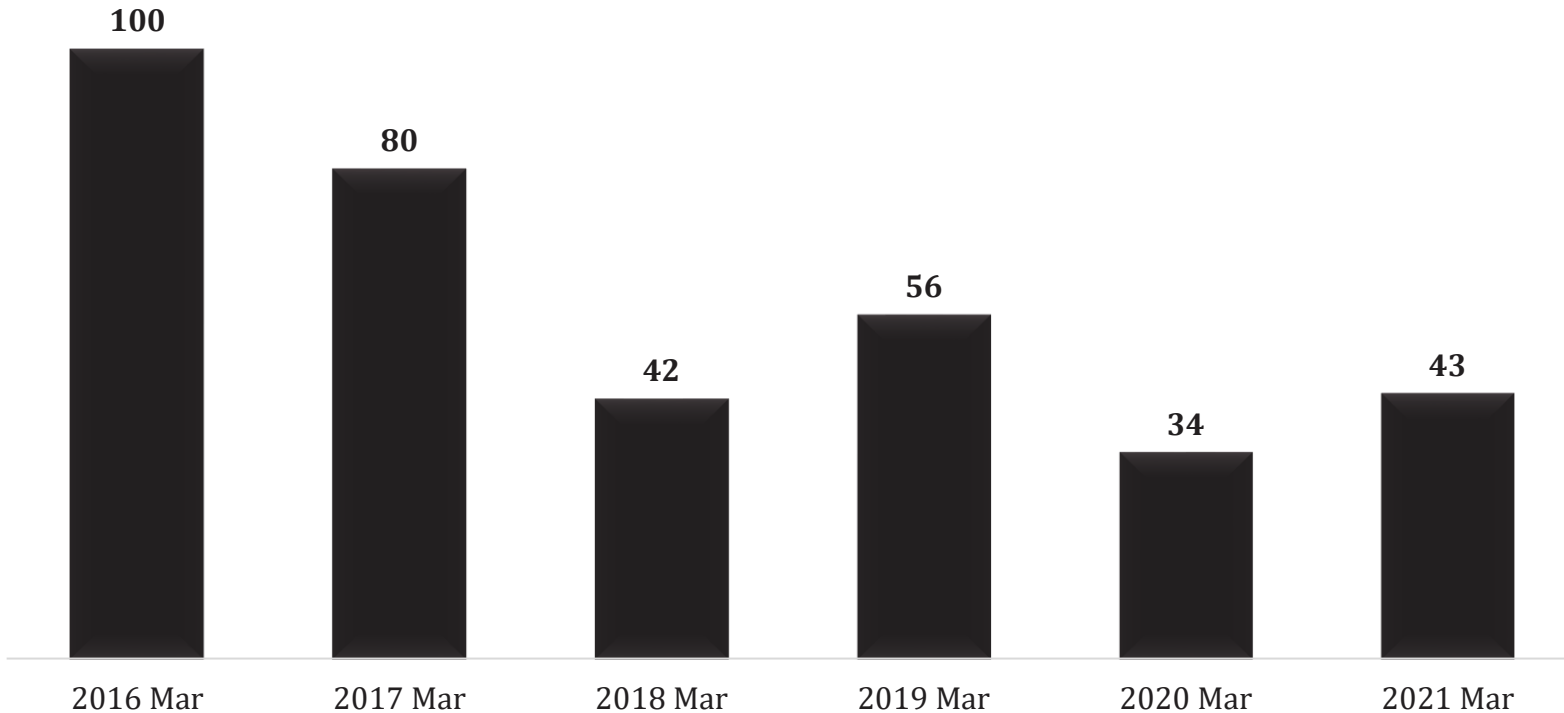


- Downward pressure on profitability
  - Above inflationary input costs.
  - Competitive pricing.
- Slight recovery in absolute EBITDA during 2020.
  - Margin supported by the pandemic related cost savings.
- Increase in demand required to improve pricing.



## TO INCREASE CASH FLOW

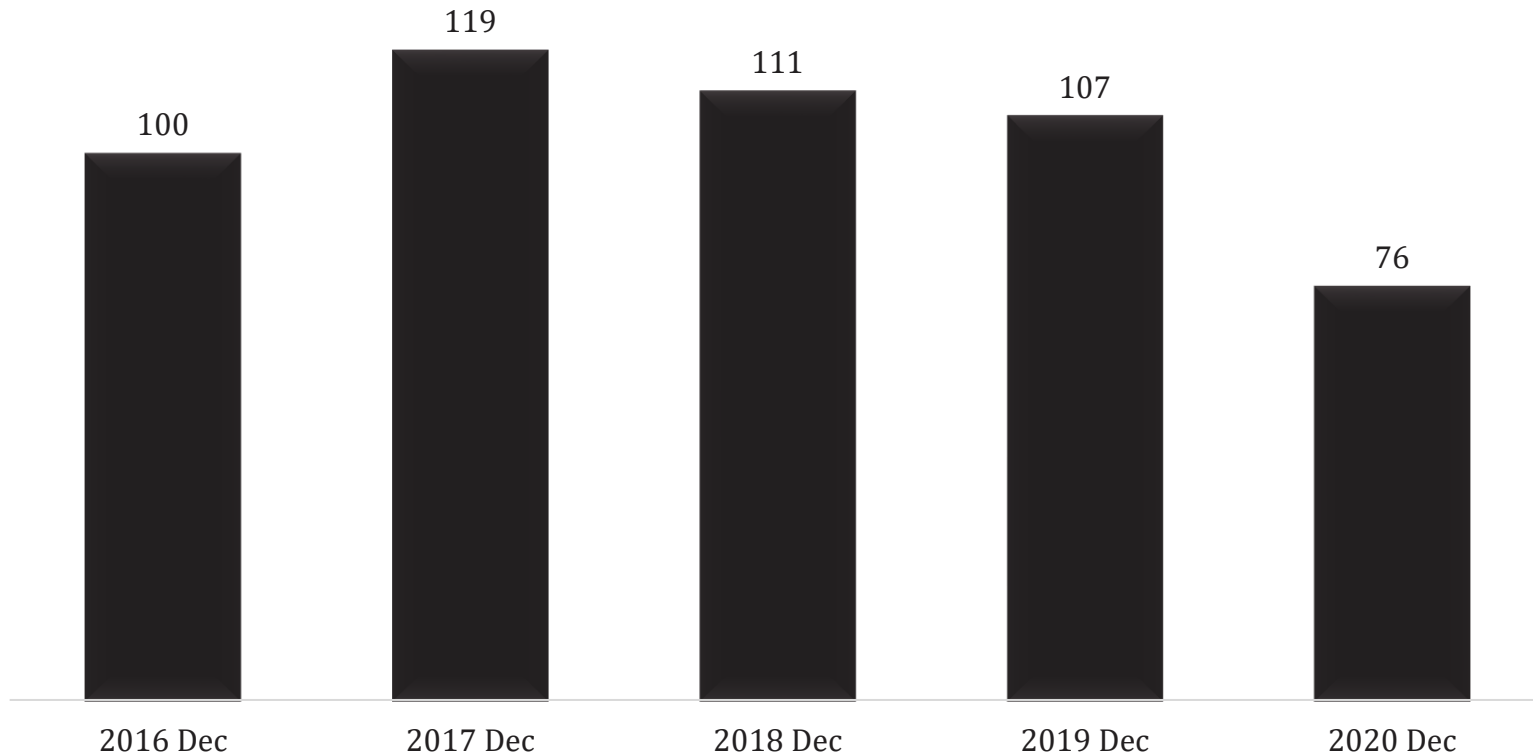
*Métier indexed cash generated from operations*



- Highly competitive trading environment resulting in low pricing has impacted cash generated from core operations.

## TO INCREASE CASH FLOW

*SepCem indexed cash generated from operations*

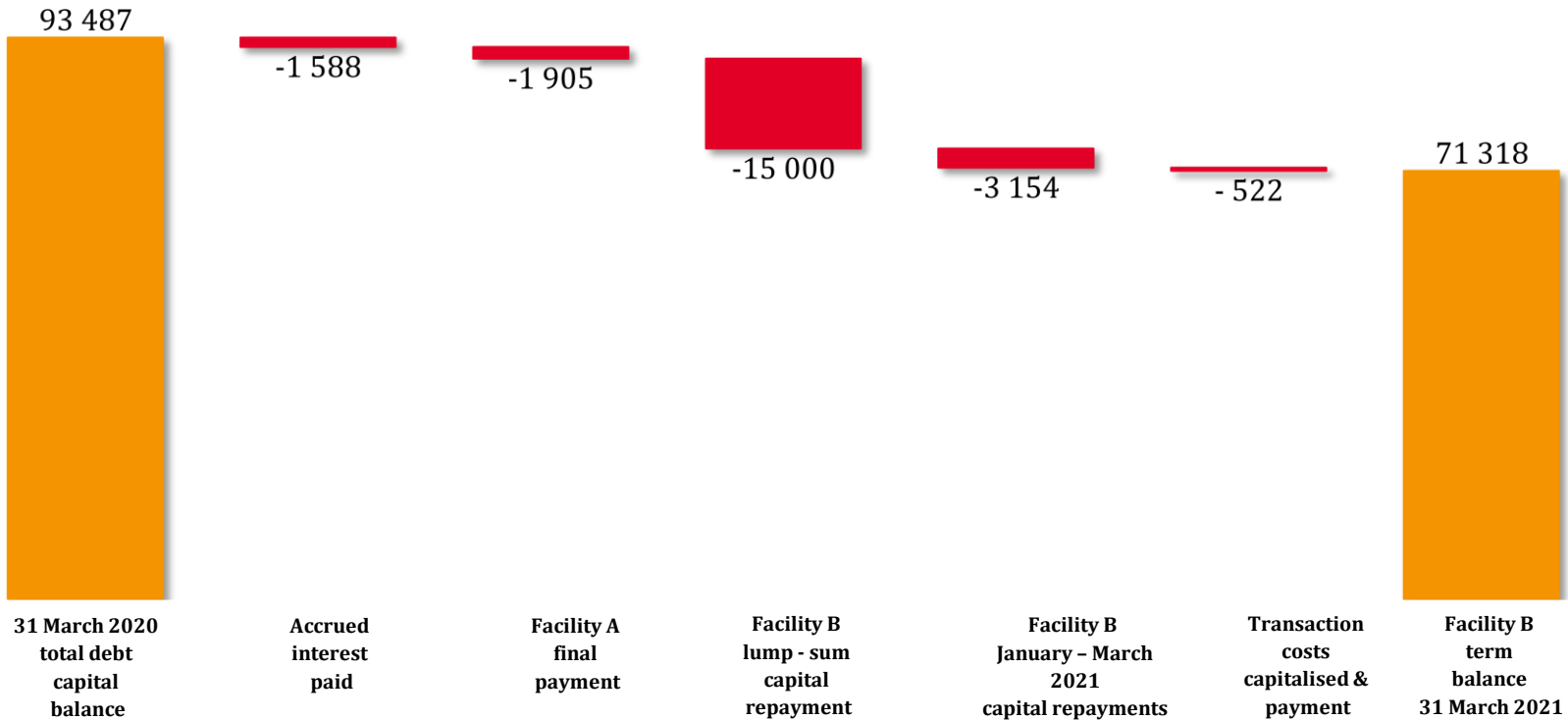


- Highly competitive trading environment resulting in low pricing has impacted cash generated from core operations.

# TO STRENGTHEN THE BALANCE SHEET

## *Métier bank debt repayment*

**Métier bank debt profile at March 2021 year-end**  
(R'000)

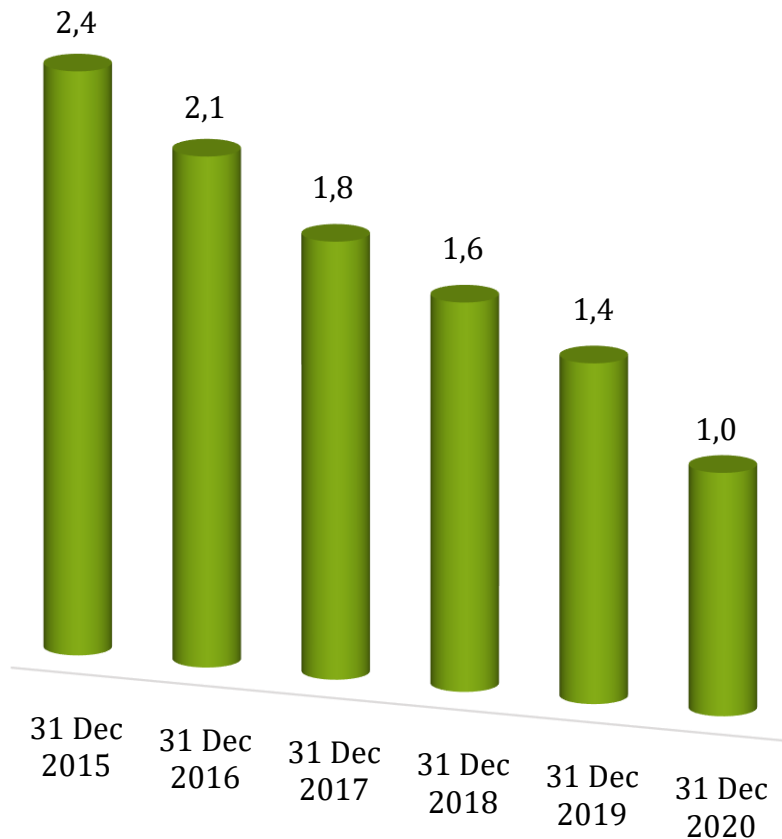


- Facility B capital balance was R 66 million on 31 August 2021
  - Principal paid of R 5,4 million
  - Interest paid of R 2,4 million

# TO STRENGTHEN THE BALANCE SHEET

## *SepCem bank debt repayment*

SepCem bank debt profile as at December 2020 year-end  
(R billion)



- Total debt payments in 2021 approximately R295 million.
  - R237 million capital.
  - R58 million interest .
- Capital balance at R793 million
  - A decrease of 23% in capital
- Interest at 3 – month JIBAR plus 4.5% equating to 7.8% at year-end.

1

BUILDING MATERIALS OVERVIEW

2

OPPORTUNITIES & CHALLENGES

3

FEEDBACK ON OUR STRATEGIC OBJECTIVES

4

OUTLOOK

5

APPENDICES

# OPERATING ENVIRONMENT REMAINS UNCERTAIN

*Focus to remain on debt management and cost control*

- Residential building expected to remain the sub-sector of growth through CY 2021
- Immediate demand 'stimulus' effect of cheaper mortgages expected to subside in the absence of improved production levels
- Group focus will be:
  - To reduce debt at both Métier and SepCem
  - To be vigilant on cost control
  - To grow Métier in Western Cape



1

BUILDING MATERIALS OVERVIEW

2

OPPORTUNITIES & CHALLENGES

3

FEEDBACK ON OUR STRATEGIC OBJECTIVES

4

OUTLOOK

5

APPENDICES

# FY2021 PERFORMANCE

## Financial salient points

### GROUP

- ▲ **Net profit after tax of R19,9 million**
  - FY2020: net loss after tax of R17,4 million
- ▲ **Basic EPS at 7.83 cents**
  - FY2020: basic loss per share of 8.12 cents
- ▲ **HEPS at 6.09 cents**
  - FY2020: headline loss per share of 7.97 cents
- ▲ **SepCem equity accounted earnings of R15,9 million**
  - FY2020: earnings R0,5 million

### MÉTIER MIXED CONCRETE

- ▼ **Sales revenue of R634,4 million**
  - FY2020: R727,0 million
- ▲ **EBITDA of R55,2 million**
  - FY2020: R34,7 million
- ▲ **EBITDA margin of 8.7 %**
  - FY2020: 4.8%
- ▲ **EBIT margin of 5.2% at R33,2 million**
  - FY2020: 1.7% at R12,1 million
- ▲ **Net profit after tax of R16,6 million**
  - FY2020: net loss after tax of R0,6 million

### SEPHAKU CEMENT

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

- ▲ **Sales revenue of R2,4 billion**
  - FY2020: R2,2 billion
- ▲ **EBITDA of R382,0 million**
  - FY2020: R359,0 million
- ▼ **EBITDA margin of 15.9%**
  - FY2020: 16.4%
- ▲ **EBIT margin of 9.1% at R219,4 million**
  - FY2020: 8.2% at R178,8 million
- ▲ **Net profit after tax of R44,4 million**
  - FY2020: net profit after tax of R1,3 million

*\* FY2020 refers to the 12 months ended 31 December 2019 for SepCem because the associate has a December year-end.*



# FY 2021 PERFORMANCE

## *Group income generation*

- Group net profit after tax increased by R37,3 million due to:

### **Métier Mixed Concrete**

- Métier's turnaround process resulted in increased earnings
  - sustainable lower costs
  - income from the disposal of under-utilised assets
- Increase in EBITDA and EBIT by approximately R21 million
  - despite a 13% decrease in revenue due to a 15% decline in sales volumes

### **Sephaku Cement**

- Equity accounted profit increased by R15,4 million
  - 9% increase in sales volumes
  - 10% savings through COVID - 19 related cost reduction initiatives

### **Sephaku Holdings**

- R4 million decrease in expenses



# FY 2021 PERFORMANCE

## Covid-19 impact on value creation pillars

| VALUE CREATION PILLAR   | MÉTIER  | SEPCEM  |
|---|---|---|
| <b>SERVICE EXCELLENCE:</b><br><i>driven by our high-performance culture which distinguishes us from our competitors and improves our value proposition.</i>   | <b>COVID-19 impacts on the ability of the operations to implement customer service</b>  |   |
|   | Métier supplied all its customers without disruptions. Functionality and use of the proprietary sales digital application was enhanced to ensure all customer inquiries were expediently addressed. | Virtual platforms used effectively to maintain customer relationships. Physical engagement with key customers replaced by virtual meetings, which were more frequent, equally efficient and highly effective. |
| <b>TECHNICAL SKILLS &amp; INDUSTRY EXPERIENCE:</b><br><i>are critical to the group's ability to achieve its strategic objectives and to understanding the building materials market dynamics to maximise profitability.</i> | <b>COVID-19 impacts on the preservation of critical skills and experience</b>   |   |
|   | Métier retained all its key technical skills that were enhanced by the return of the founding CEO.  | Retained all critical skills and retrenchments were avoided through effective implementation of other cost saving initiatives.  |
| <b>LEADING TECHNOLOGIES:</b><br><i>produce high-quality cement and ready-mixed concrete.</i>  | <b>COVID-19 impacts on the maintenance of the leading technologies</b>  |   |
|   | Product quality conformance sustained during period.  | Alternative sources of raw material to replace supply negatively impacted by the restrictions. Product quality conformance sustained during period.   |
| <b>STRATEGIC RELATIONSHIPS &amp; DEAL-MAKING ABILITIES:</b><br><i>position the group as a major South African manufacturer of building and construction materials.</i>  | <b>COVID-19 impacts on the ability to maintain strategic relationships</b>  |   |
|   | There was no significant impact on the ability to sustain the subsidiary's strategic relationships.   | Strategic retail partners were serviced throughout the period.  |
| <b>SUSTAINABILITY:</b><br><i>emphasises responsible mining and manufacturing by continually seeking ways to minimise our negative environmental impacts.</i>  | <b>COVID-19 impacts on the ability to implement sustainability initiatives</b>  |   |
|   | Number of environmental audits were limited by the pandemic restrictions.   | Surpassed targeted use of alternative waste fuels.  |

# FY 2021 PERFORMANCE

## *Covid-19 cost savings*

### **Métier**

- Executive management and employees salaries reduced by up to 50% from April to June 2020
- Extensive cost reduction at Métier through the turnaround strategy;
  - Reduced compensation costs by 6%
  - Reduced transport costs by 5%
  - Limited capex to maintenance
  - Fixed cost reduction was a key focus area



### **SepCem**

- Revised the capex plan by cancelling or postponing projects
- Optimised operational processes such as power consumption
- Revised overhead expenditure
- SepCem applied the principle of 'no work , no pay' during lockdown
  - reduced bonuses and other benefits
  - salary increases frozen

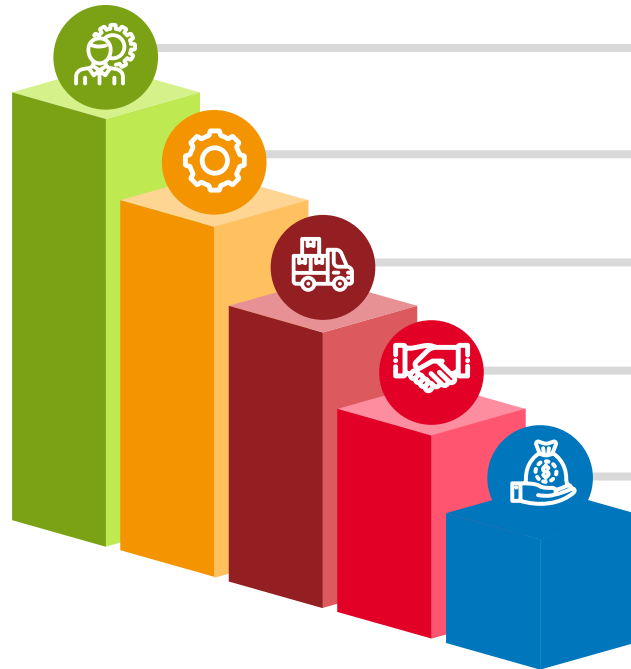


# WHO WE ARE

## *Value creation pillars*

### **The group's five value creation pillars are based on its founding principles and core values**

- The values are reflected in the codes of ethics and conduct to obligate the board, executive management and employees to act ethically
- The directors and employees are required to conduct business with stakeholders in line with these codes
- The board reviews the codes of ethics biannually to ensure it sufficiently inculcates a group-wide ethical culture



#### **Technical skills and industry experience**

are critical to the group's strategy and to our understanding of the building and construction materials market dynamics to maximise profitability

#### **Leading technologies**

enable us to produce the highest-quality cement and mixed concrete

#### **Service excellence**

distinguishes us, and is driven by our high-performance culture, and improves our value proposition

#### **Strategic relationships**

and deal-making abilities position the group as a major South African building and construction materials manufacturer

#### **Sustainability**

emphasises responsible mining and manufacturing by continually seeking ways to minimise our negative environmental impacts



# WHO WE ARE

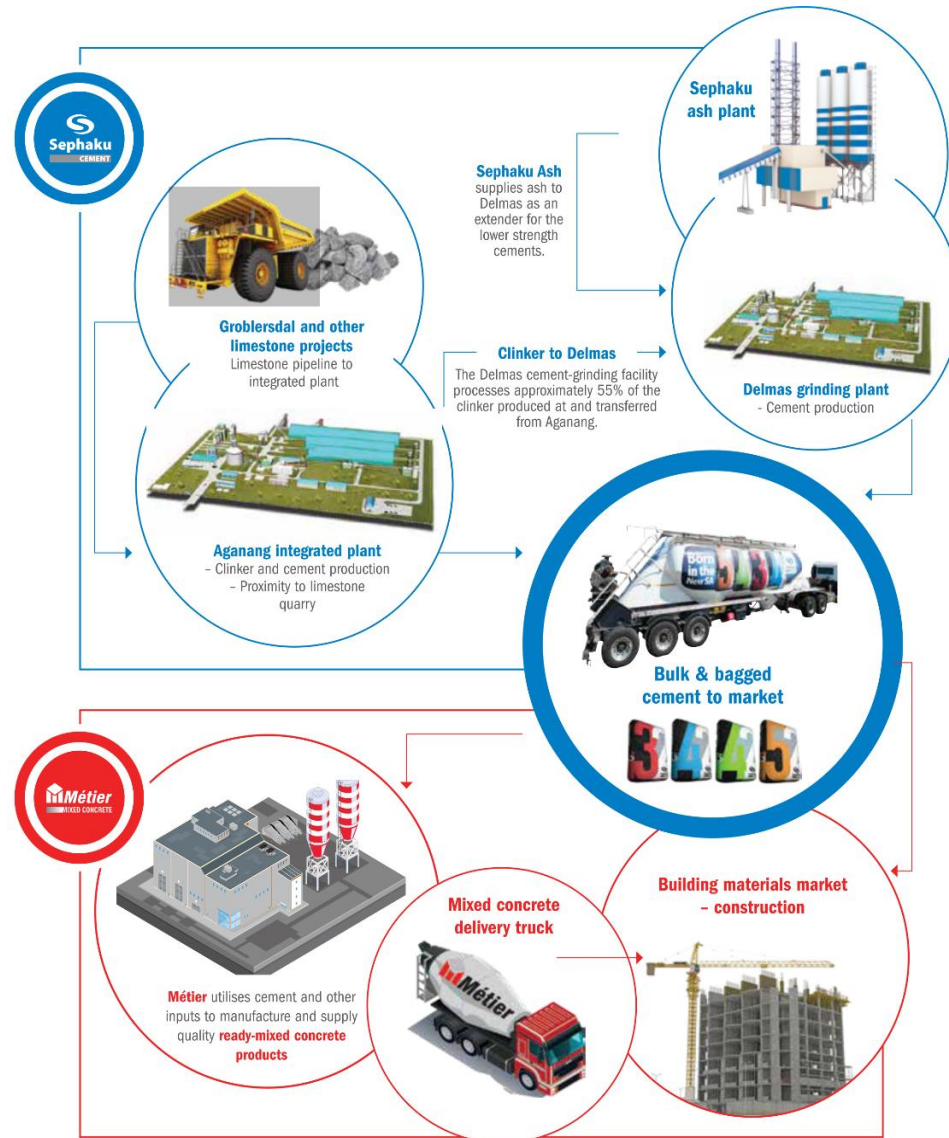
## *Value creation process*

The group's manufacturing and exploration projects aim to create sustainable shareholder value by enhancing the five value creation pillars on which earnings and growth are based.

Métier and Sephaku Cement create value for the group's stakeholders through the production of concrete and cement respectively.

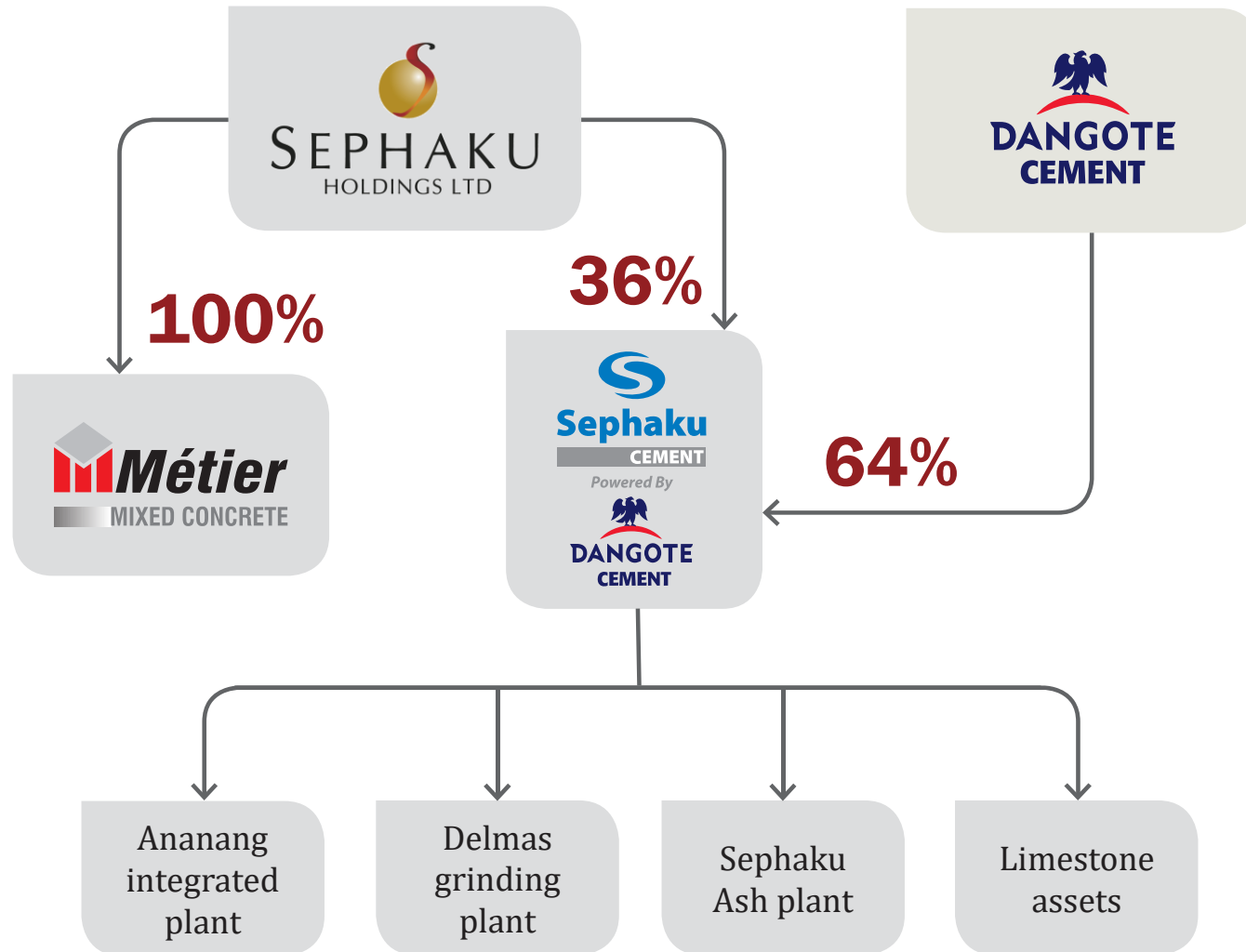
The operations utilise the cash they generate, equity from shareholders and borrowings from lenders to source inputs and services to sustainably manufacture building materials.

The group recognises that business sustainability entails environmental and social responsibility. To that effect, Métier and SepCem have ongoing and planned initiatives to mitigate their negative environmental impact and to uplift communities surrounding their operations.



# WHO WE ARE

*The sephaku holdings structure*



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