SEPHAKU HOLDINGS LTD

# YEAR-END FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED

**31 MARCH 2022**

# AGENDA

1 FINANCIAL REVIEW

2 TRADING ENVIRONMENT

3 OPERATIONAL REVIEW

4 OUTLOOK

5 APPENDICES

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# 1

# FINANCIAL REVIEW

# FINANCIAL REVIEW
## *Salient points*

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### GROUP

- ▲ **Net profit after tax of R44,6 million**
  - FY2021: R19,9 million
- ▲ **Basic EPS at 17.52 cents**
  - FY2021: 7.83 cents
- ▲ **HEPS at 17.67 cents**
  - FY2021: 6.09 cents
- ▲ **SepCem equity accounted earnings of R28,9 million**
  - FY2021: earnings R15,9 million

### MÉTIER MIXED CONCRETE

- ▲ **Sales revenue of R785,8 million**
  - FY2021: R634,3 million
- ▲ **EBITDA of R74,9 million**
  - FY2021: R55,2 million
- ▲ **EBITDA margin of 9.5 %**
  - FY2021: 8.7%
- ▲ **EBIT margin of 6.1% at R48,2 million**
  - FY2021: 5.2% at R33,2 million
- ▲ **Net profit after tax of R29,6 million**
  - FY2021: R16,6 million

### SEPHAKU CEMENT

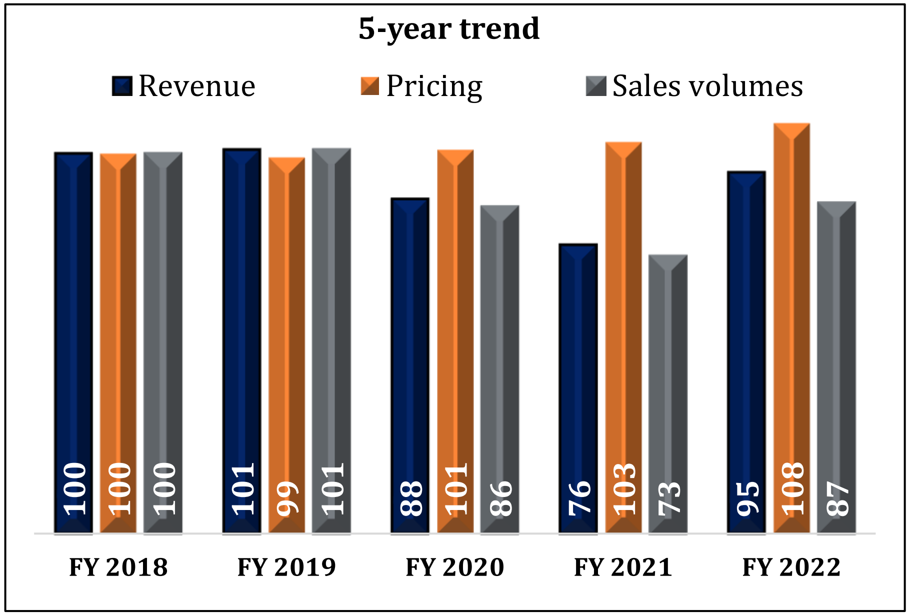
***SepCem has a December year-end as a subsidiary of Dangote Cement PLC *.***

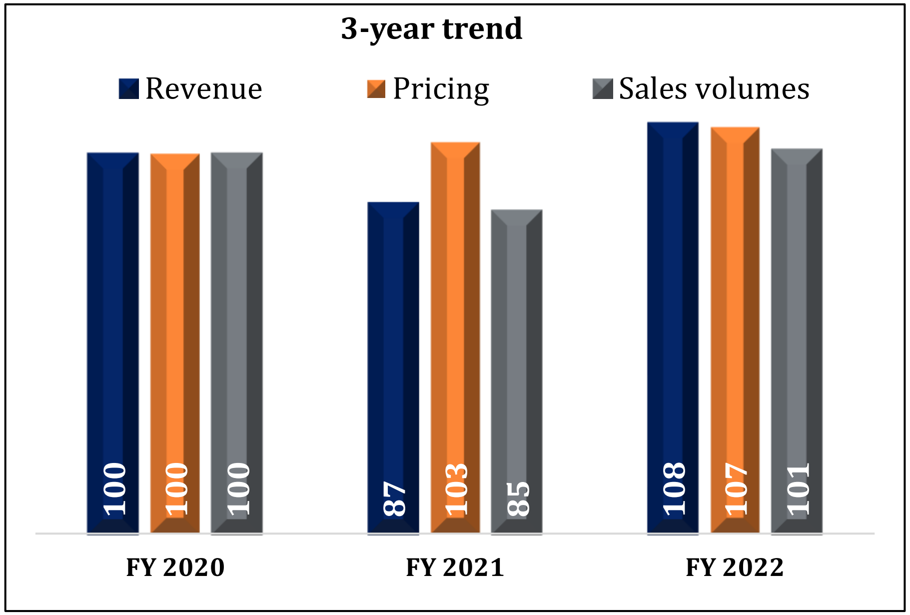
- ▲ **Sales revenue of R2,6 billion**
  - FY2021: R2,4 billion
- ▼ **EBITDA of R375,4 million**
  - FY2021: R381,6 million
- ▼ **EBITDA margin of 14.6%**
  - FY2021: 15.9%
- ▼ **EBIT margin of 8.6% at R219,4 million**
  - FY2021: 9.1% at R219,4 million
- ▲ **Net profit after tax of R81,9 million**
  - FY2021: R44,4 million

** FY2021 refers to the 12 months ended 31 December 2020 for SepCem because the associate has a December year-end.*

# FINANCIAL REVIEW

## *Revenue trend: Métier**



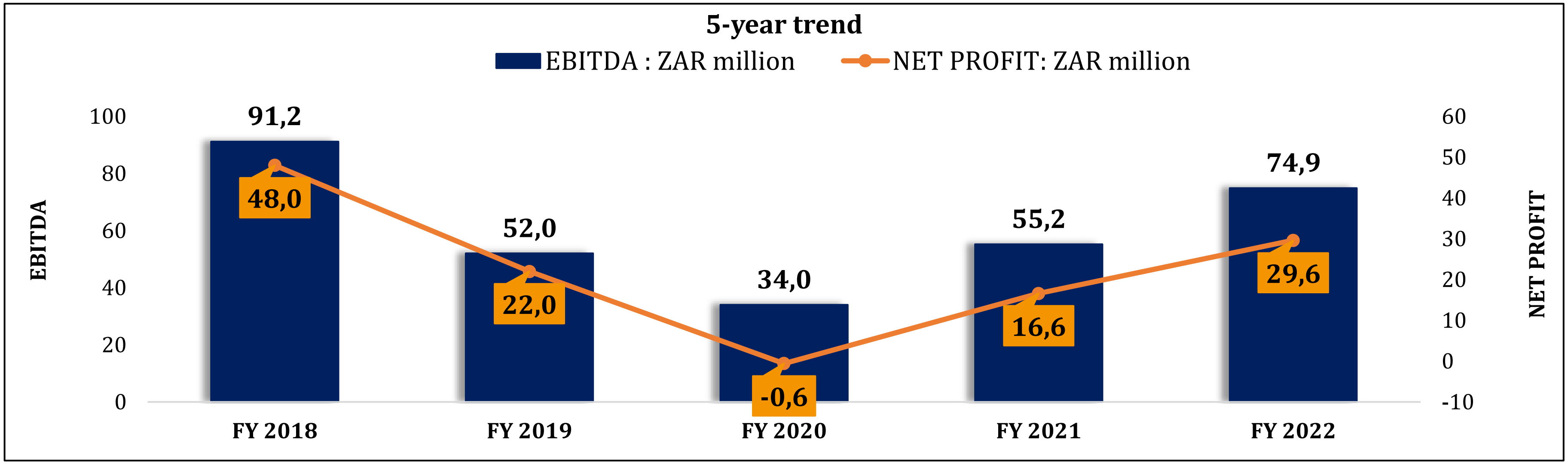




- 24% increase in revenue YoY
  - 18% increase in sales volumes
  - 5% increase in pricing
- Comparative FY 2021 sales volumes lower due to the 45 non-trading days due to COVID-19 restrictions
  - Volume movement effectively flat considering fewer trading days in FY 2021
- FY 2022 performance still below pre-COVID-19 levels

** FY refers to 12 months ended March*

# FINANCIAL REVIEW

## *Profitability trend: Métier**

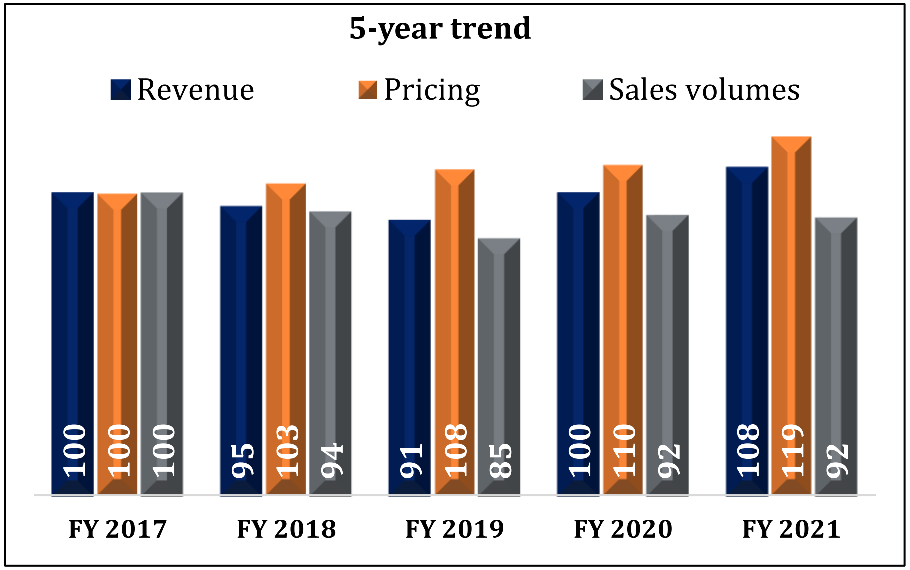


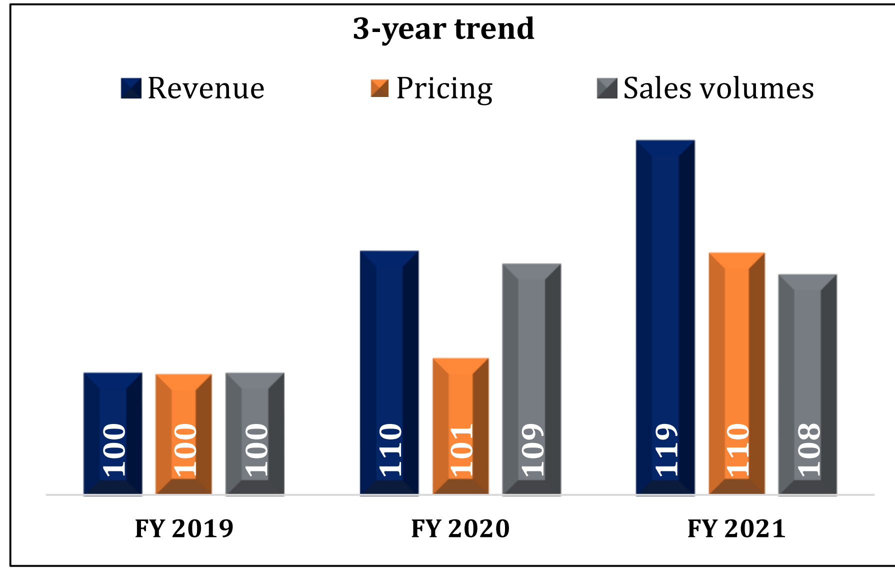

- 36% increase in EBITDA YoY due to the higher revenue
- 45% increase in EBIT to R48 million despite increase in operating expenses
  - 16% increase in operating expense against a low comparative base
- 76% increase in net profit supported by lower finance costs
- Profitability expected to be under pressure in FY 2023 due to increases in costs
  - Métier to overcome cost pressures by continuing to focus on its customer offering
  - Hybrid transport model enables effective control of a key cost driver

** FY refers to 12 months ended March*

# FINANCIAL REVIEW

## *Revenue trend: SepCem**

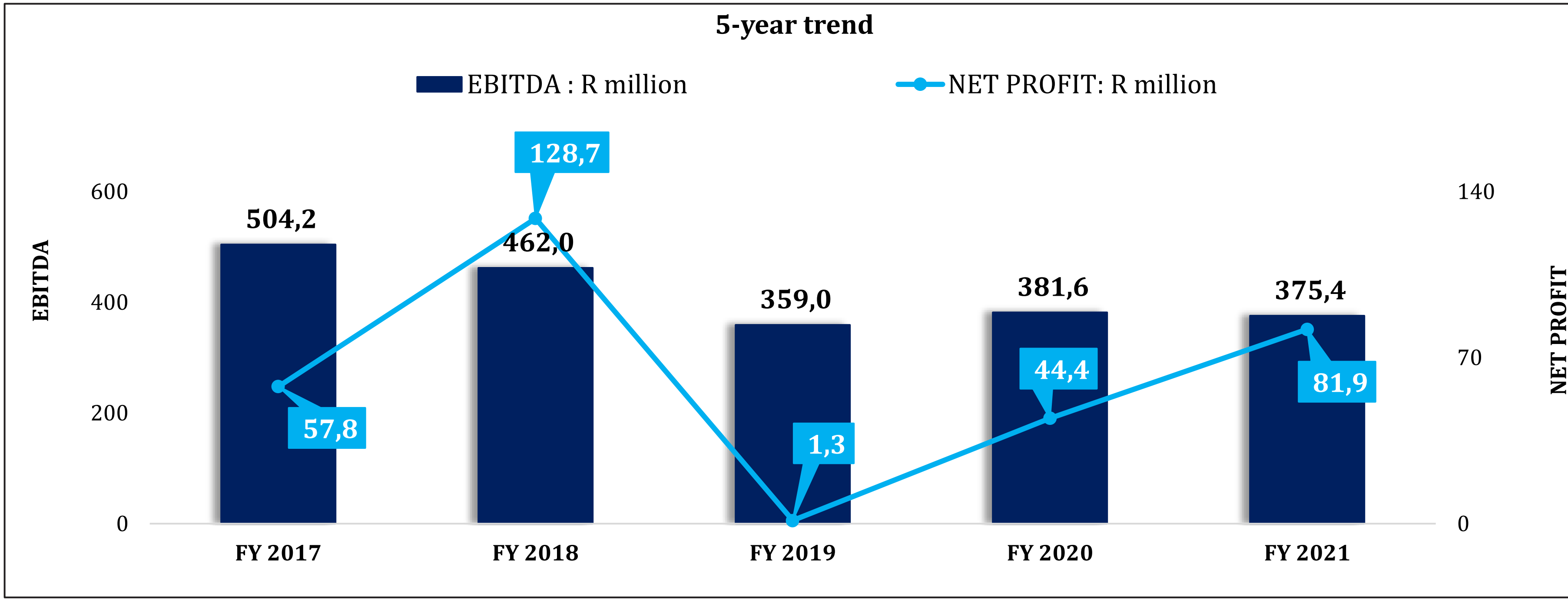



- 7% increase in revenue YoY
  - 1% decrease in sales volumes
  - 8% increase in pricing
- Sales volumes relatively flat from FY 2018
- SepCem targeting to enhance margins by:
  - Tight control of cost whilst navigating through energy crisis
  - Optimising market segmentation

** FY refers to 12 months ended December*

# FINANCIAL REVIEW
## *Profitability trend: SepCem**

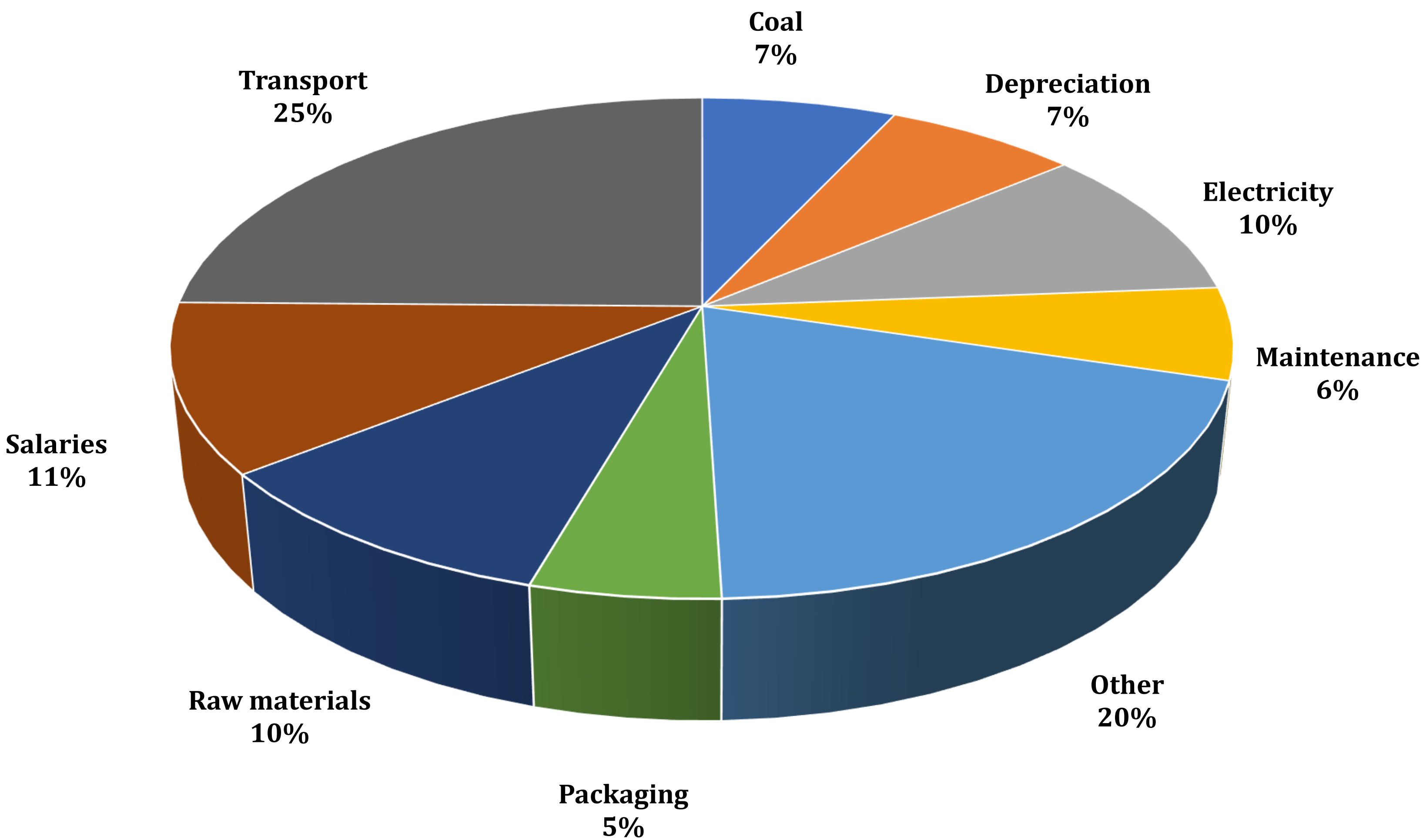



- 2% decrease in EBITDA YoY
  - Input cost not fully recovered through pricing
  - Deferrals during COVID-19 (FY2020) taking effect and insourcing of clinker
- 85% increase in net profit YoY
  - Supported by lower finance expense

** FY refers to 12 months ended December*

# FINANCIAL REVIEW

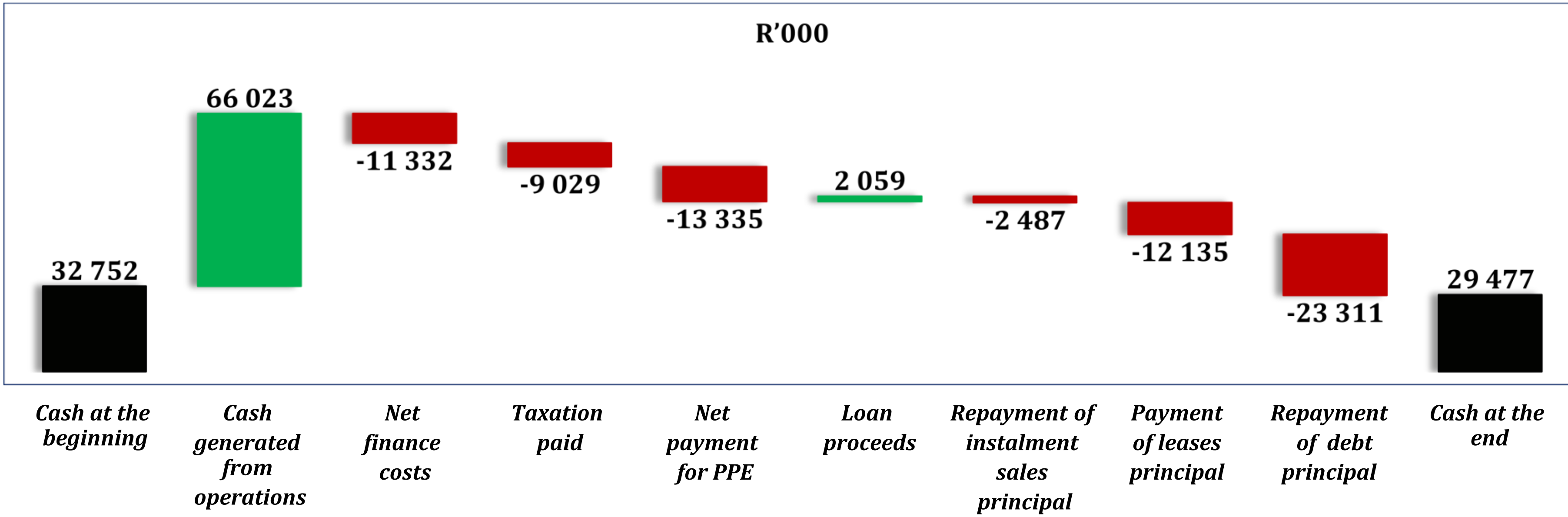
## *Cost control a priority for SepCem*




* Other including pallets, refractories & clinker transfer cost

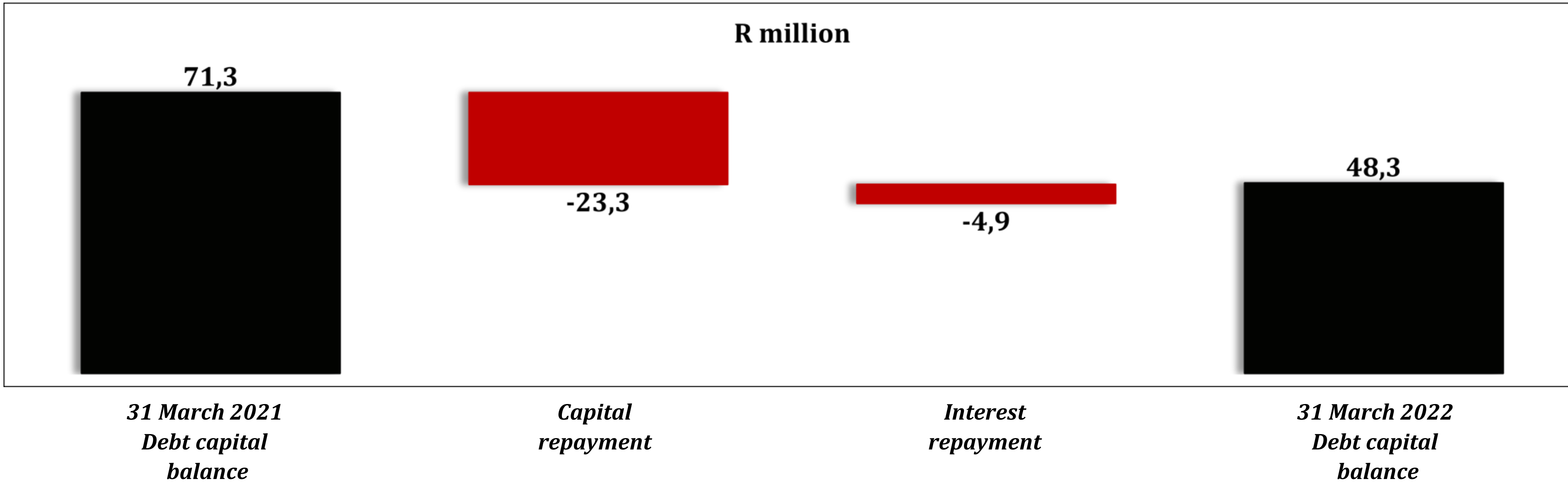
# FINANCIAL REVIEW

## *Group cashflow analysis*




- Cash generated from operations increased by R19 million due to increased earnings
- Total instalment of R4 million for additional vehicles acquired from Mercedes
  - Additional vehicles mainly for the Métier Western Cape expansion
- Total repayment including interest of R28 million towards bank debt

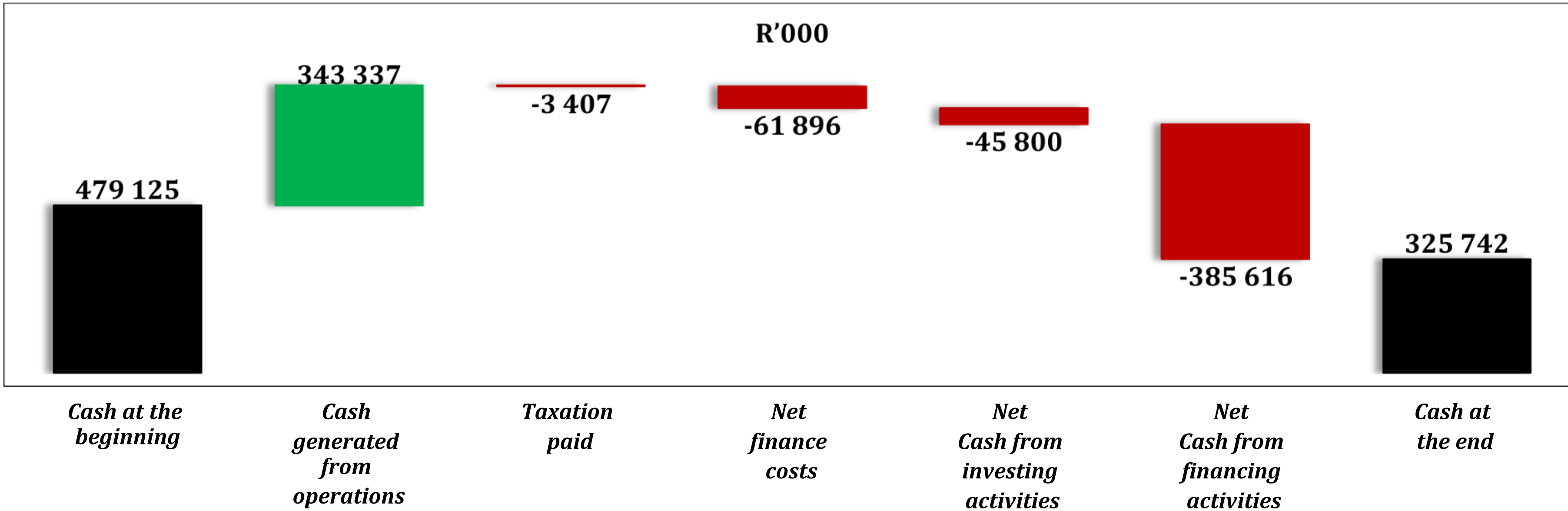
# FINANCIAL REVIEW
## *Métier debt reduced by 32%*




- Bank debt principal reduced by R23 million
  - Quarterly interest rate of JIBAR plus 4.25% at year – end equating to 8.51%
- Repayable in varying instalments
  - Final balloon repayment on 15 April 2023

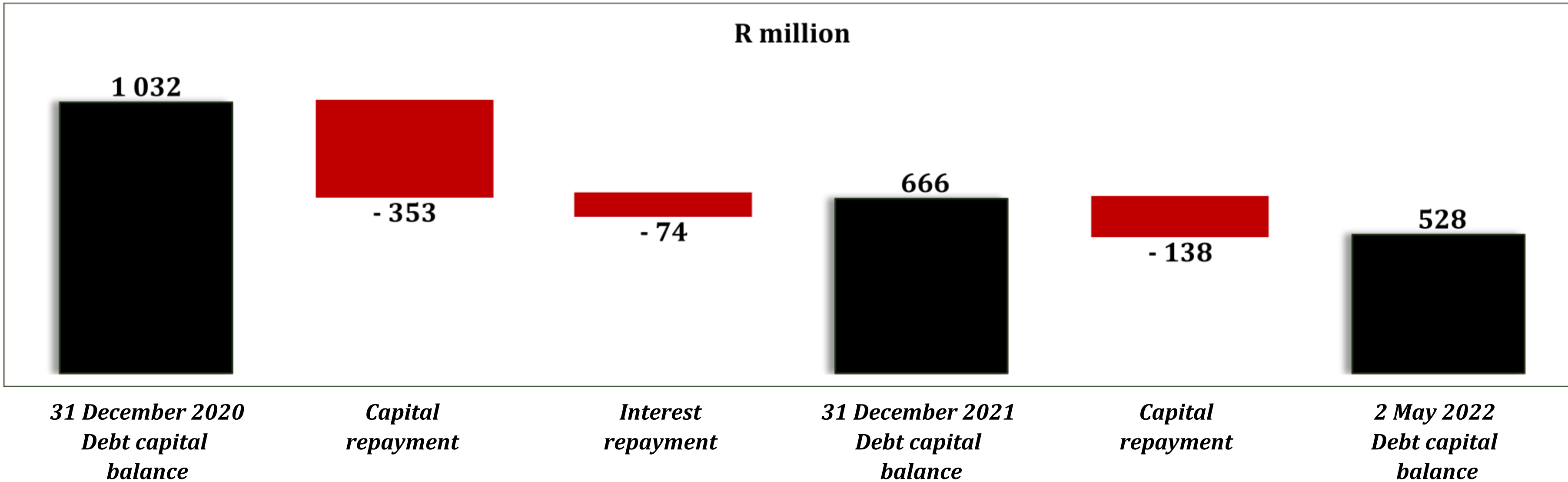
# FINANCIAL REVIEW

## *SepCem cashflow analysis*




- Cash generated from operations increased by R15 million to R343 million due to increased earnings
- Cash at the beginning of the period supported by shareholder capital injection of R125 million

# *SepCem debt reduced by 35%*




- Bank debt principal reduced by R353 million by 31 December 2021
  - Interest payment of R74 million at a rate of JIBAR plus 4.5% equating to 8.18% by year – end
  - Post-period balance at R528 million by May 2022
- Final balloon instalment of R377 million converted to a R400 million , 3-year term loan at JIBAR plus 3.25%
- Secured R200 million working capital facility at prime minus 0.5%
- DCP shareholder loan balance at R627 million on 31 December 2021 at an interest rate of three-month JIBAR plus 4%

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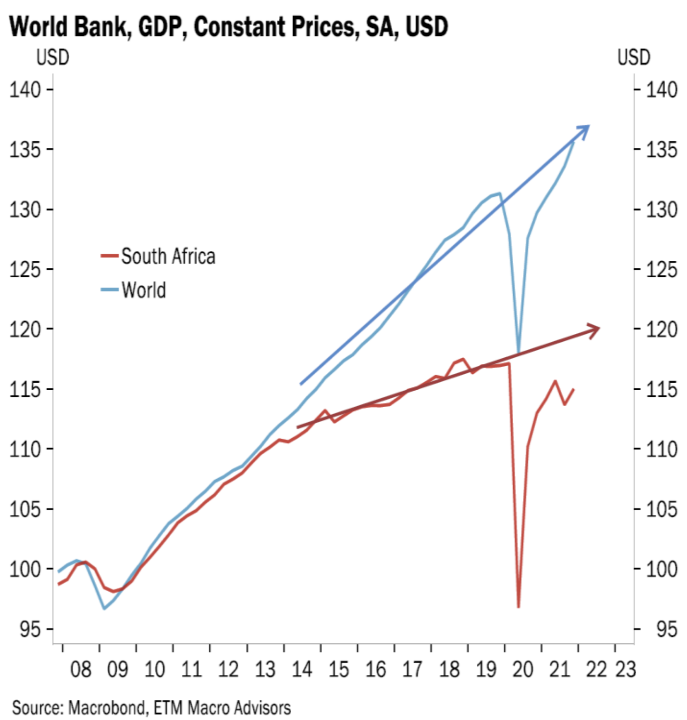
# TRADING ENVIRONMENT

# TRADING ENVIRONMENT

## *Weak macro-economy since 2012*

- **2012-2022**: SA GDP growth of ± 6.5% compared to population growth at ± 16%
- Variance between RSA and global GDP growth expected to widen




**IMF Forecasts (%)**

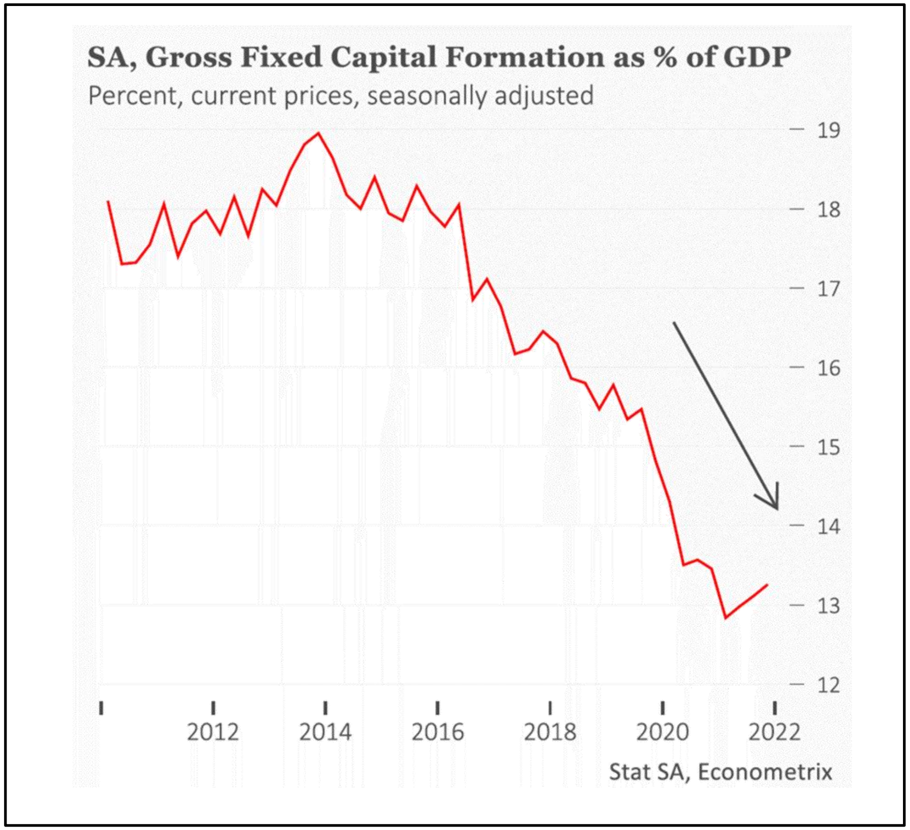
| | 2021 | 2022 | 2023 |
|---|---|---|---|
| India | 8,9 | 8,2 | 6,9 |
| Egypt | 3,3 | 5,9 | 5,0 |
| Columbia | 10,6 | 5,8 | 3,6 |
| ASEAN | 3,4 | 5,3 | 5,9 |
| China | 8,1 | 4,4 (4,8) | 5,1 |
| Argentina | 10,2 | 4,0 | 3,0 |
| Sub-saharan Africa | 4,5 | 3,8 | 4,0 |
| Emerging Economies | 6,8 | 3,8 | 4,4 |
| United Kingdom | 7,4 | 3,7 | 1,2 |
| US | 5,7 | 3,7 (4,0) | 2,3 |
| **World** | **6,1** | **3,6 (4,4)** | **3,6** |
| Nigeria | 3,6 | 3,4 | 3,1 |
| Advanced Economies | 5,2 | 3,3 | 2,4 |
| Eurozone | 5,3 | 2,8 (4,1) | 2,3 |
| Turkey | 11,0 | 2,7 | 3,0 |
| Japan | 1,6 | 2,4 | 2,3 |
| Mexico | 4,8 | 2,0 | 2,5 |
| **South Africa** | **4,9** | **1,9 (1,9)** | **1,4** |
| Chile | 11,7 | 1,5 | 0,5 |
| Brazil | 4,6 | 0,8 | 1,4 |
| Russia | 4,7 | -8,5 | -2,3 |

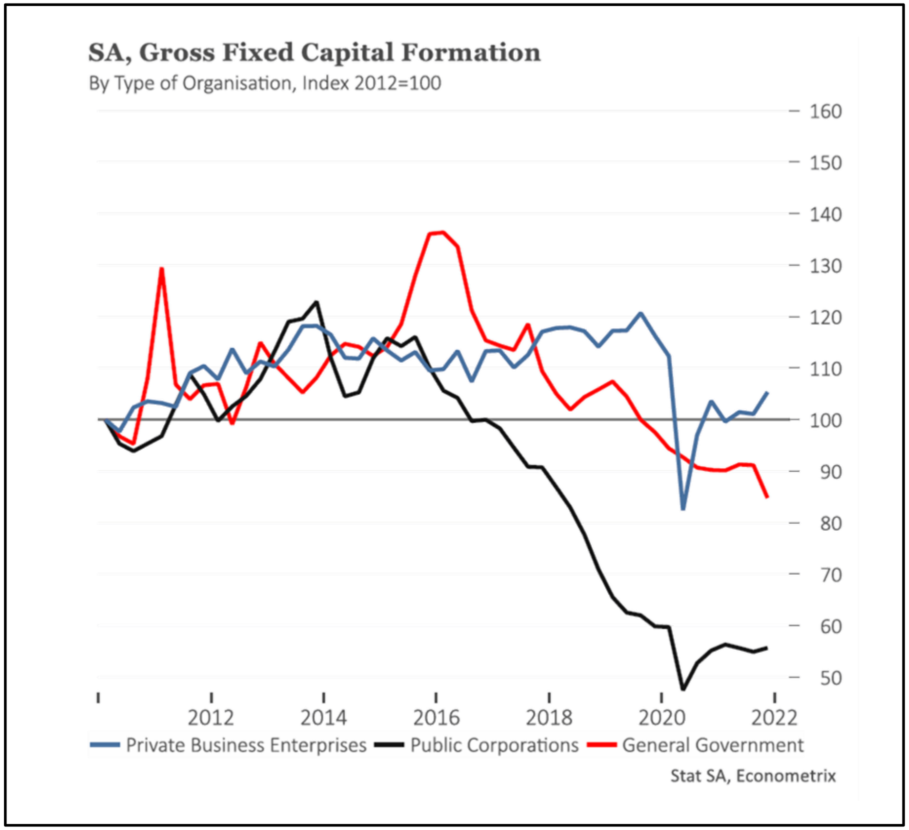
*Source: IMF, April 22 (Jan22)*

# TRADING ENVIRONMENT

## *Declining capital investment*

- GFCF as a leading indicator of underlying cement demand indicating a continued decline in demand
- Decline in government and state-owned enterprises' capital investments due to high debt levels
- Private investment indicates mild recovery

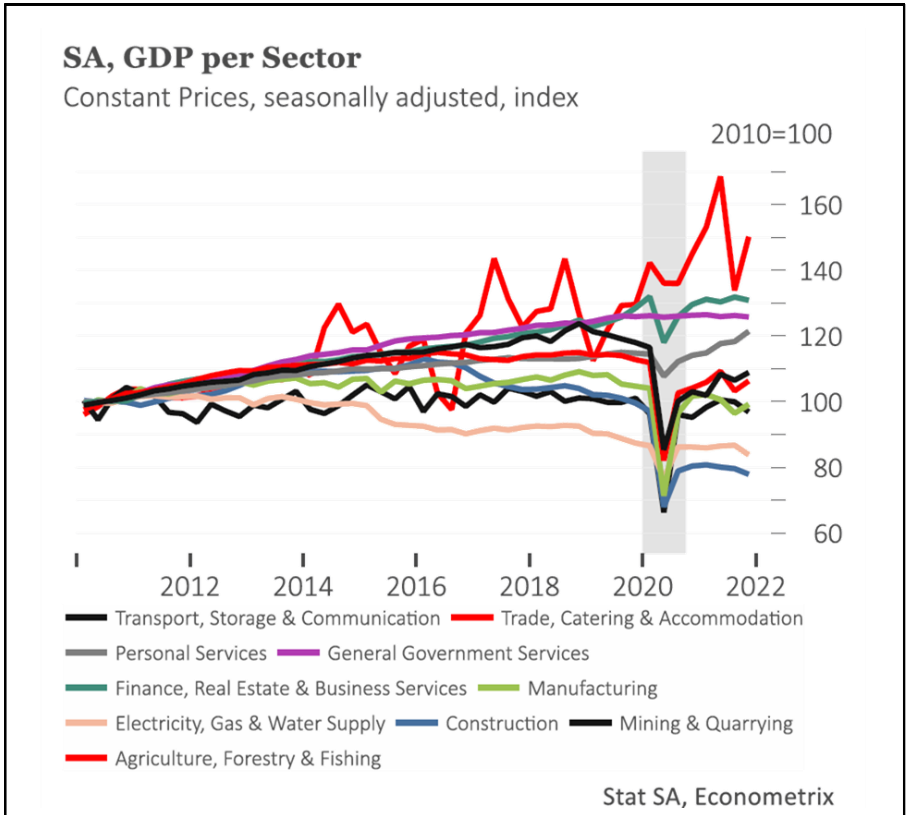


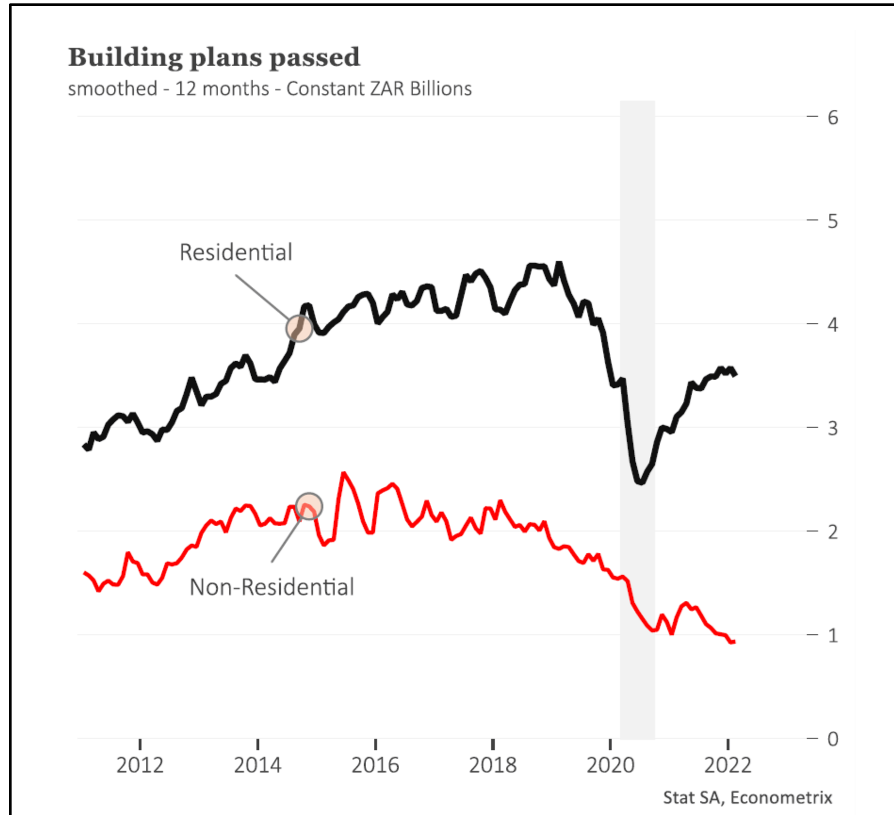



# TRADING ENVIRONMENT

## *Subduced construction activity*

- Construction has been the worst performing sector since COVID-19 lockdown
- Some recovery in residential demand post-lockdown, but at 2014 levels
- Increasing interest rates expected to negatively impact the residential property demand

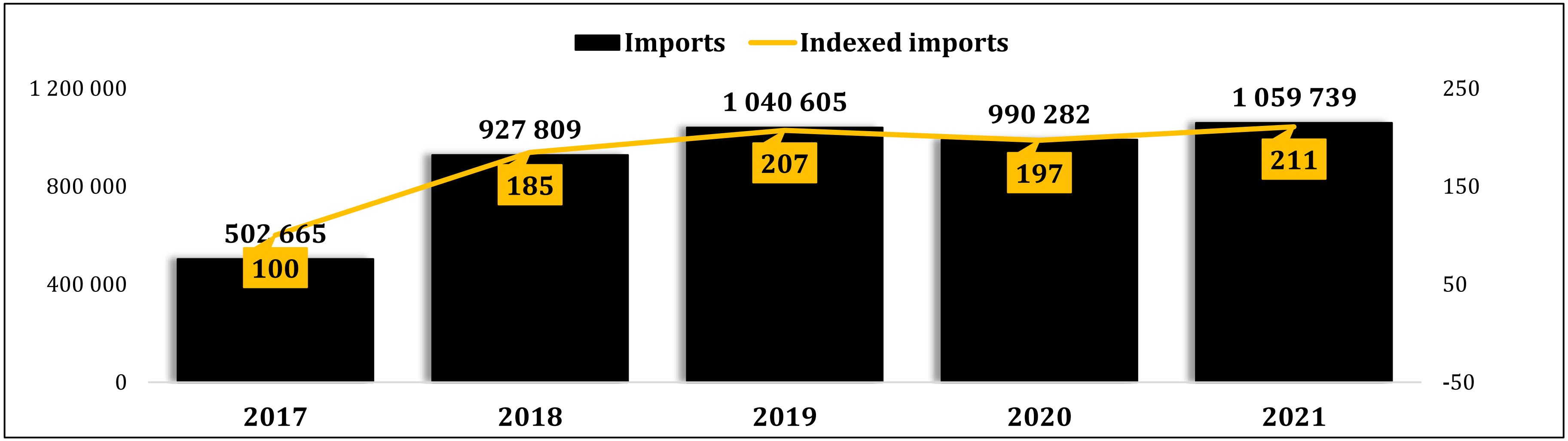


# TRADING ENVIRONMENT

## *Cement imports increase significantly over 5 years*

SEPHAKU HOLDINGS LTD




- Cement imports
  - Approximately 1.1 million tonnes in CY 2021 an increase of 9% YoY
    - 83% imported through Durban
  - Over 100% increase in cement imports since CY 2017 mainly from Pakistan and Vietnam
- ITAC safeguard application
  - Cement industry awaiting ITAC decision on the safeguard tariffs on cement imports
    - Importers not subjected to the same costs of producing cement
    - Application for a flat, non-country specific tariff
- Anti-dumping duties on cement imported from Pakistan extended by 5 years from June 2022

***SOURCE*** *: SARS*

# 3

# OPERATIONAL REVIEW

# *Feedback on FY 2022 focus areas*

- **To grow plant footprint**
  - Established a plant in the Western Cape province
- **To minimise capital expenditure and implement tight cost control**
  - Utilised existing assets to establish plant in Western Cape
  - Replaced aging fleet through purchase of new vehicles to enhance logistics efficiencies
- **To further reduce bank debt**
  - Reduced the bank loan by 32% to R48 million
- **To reduce customer credit risk**
  - Implemented a strict customer credit approval process
- **Health & safety**
  - Zero operational fatalities
  - 16 employees contracted COVID-19 and all fully recovered
  - 75% COVID-19 vaccination rate

# SEPCEM
## *Feedback on FY 2022 focus areas*

- **To further reduce debt**
  - Reduced the bank loan by 35% to R666 million
- **To improve plant reliability through expanding the Tokafatso organisational improvement initiative**
  - Launched Tokafatso at Delmas plant and Centurion office
  - Ongoing focus is to improve plant reliability
  - Artificial intelligence introduced to enhance predictive statistics
- **To attain approval for the social and labour plan**
  - Awarded in January 2022
- **To achieve targeted use of alternative fuels**
  - SepCem achieved substitution rate of 27.9% compared to targeted 30.3% due to availability constraints in targeted renewables
- **Health and safety**
  - Zero operational fatalities
  - 124 employees contracted COVID-19 resulting in two mortalities and the balance fully recovered
  - 71% COVID-19 vaccination rate


# SEPCEM FIRST QUARTER TO 31 MARCH 2022

- Revenue increase of 2% YoY to R 553 million
- SepCem sales volumes decreased by 6% YoY due to weak demand
  - Low construction activity
  - High rainfall
  - Reduced consumer discretionary incomes

# 4

# OUTLOOK

# OUTLOOK

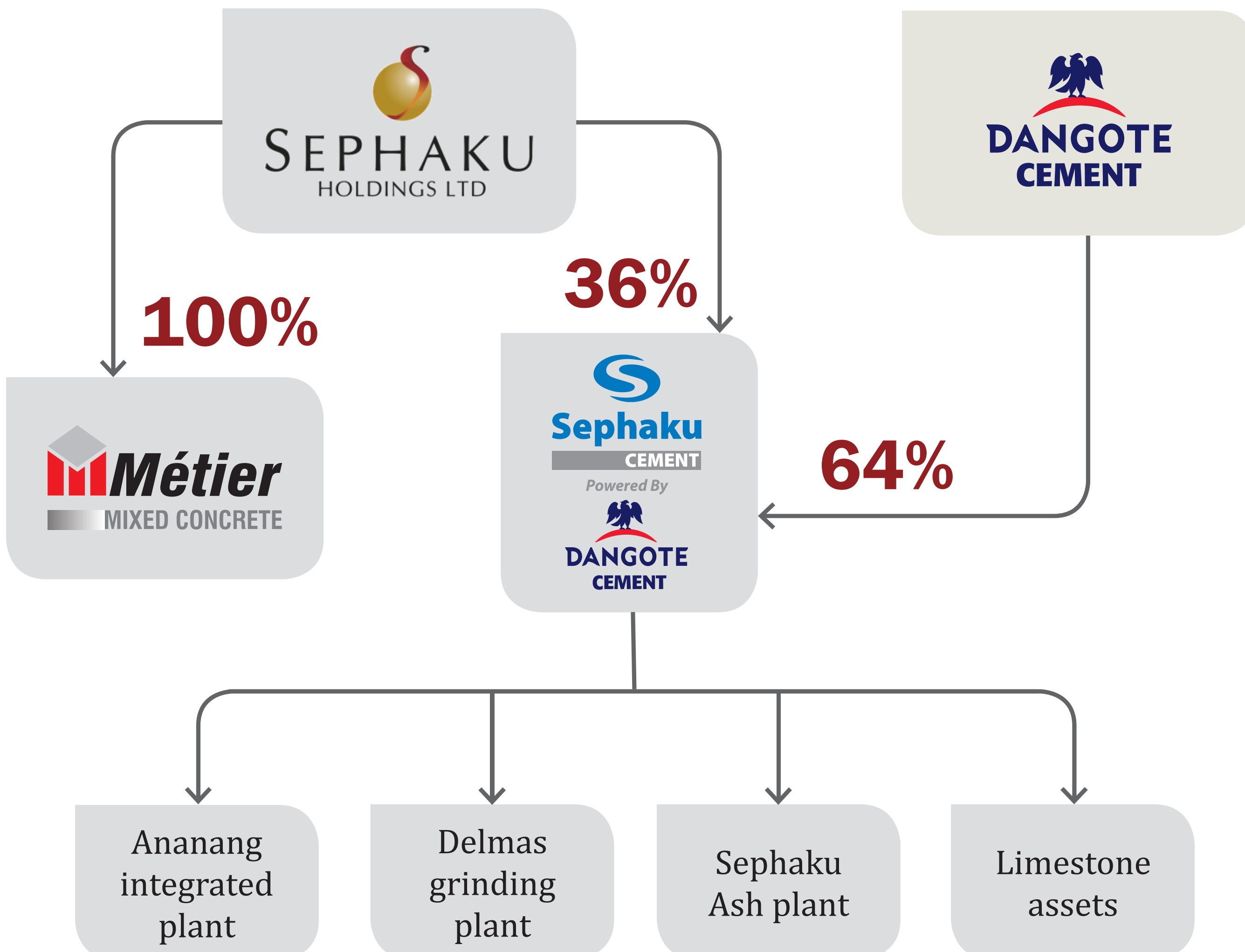
## *Medium-term demand expected to be flat*

- Medium-term demand expected to remain flat
  - Demand for mortgages expected to decline as interest rates increase
  - Low non-residential construction activity expected to persist
- Implementation of government infrastructure plan could provide demand impetus and growth in building materials sector
  - High government debt levels limiting ability to implement the plan
  - Low confidence in the macro-economy continues to reduce private infrastructure investment
- Group focus will be:
  - Métier and SepCem to be vigilant on cost control
  - Métier and SepCem to reduce debt
  - Métier to grow the Western Cape sales


# 5

# APPENDICES

# THE SEPHAKU HOLDINGS STRUCTURE



# 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

# STRATEGIC OBJECTIVES

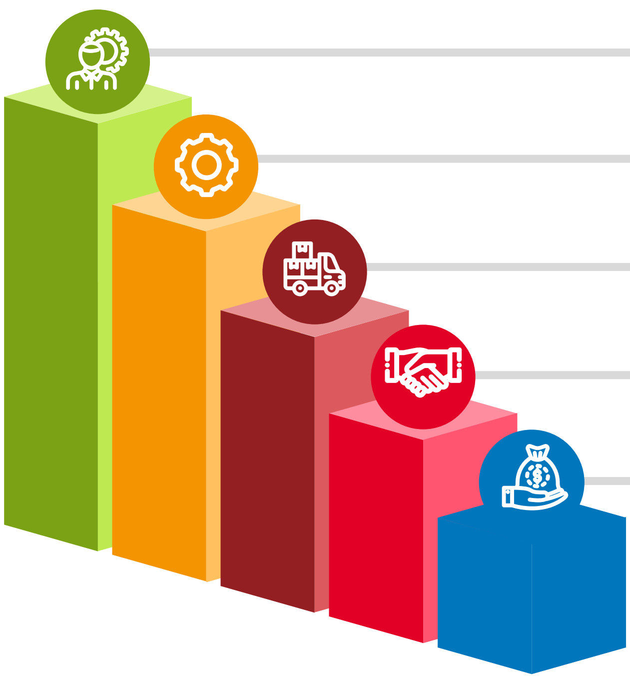
**The group's strategic objectives focus on financial sustainability, product quality and operational efficiency**

| Maintain sustainable sales volumes | Maximise margins | Strengthen balance sheets | Increase free cash flow |
|---|---|---|---|
| ▪ Achieve targeted sales volumes<br>▪ Produce high-quality products | ▪ Source competitively priced inputs<br>▪ Reduce expenses<br>▪ Rationalise distribution | ▪ Focus on reducing debt | ▪ Prudent debtor management<br>▪ Increase pricing |

# 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

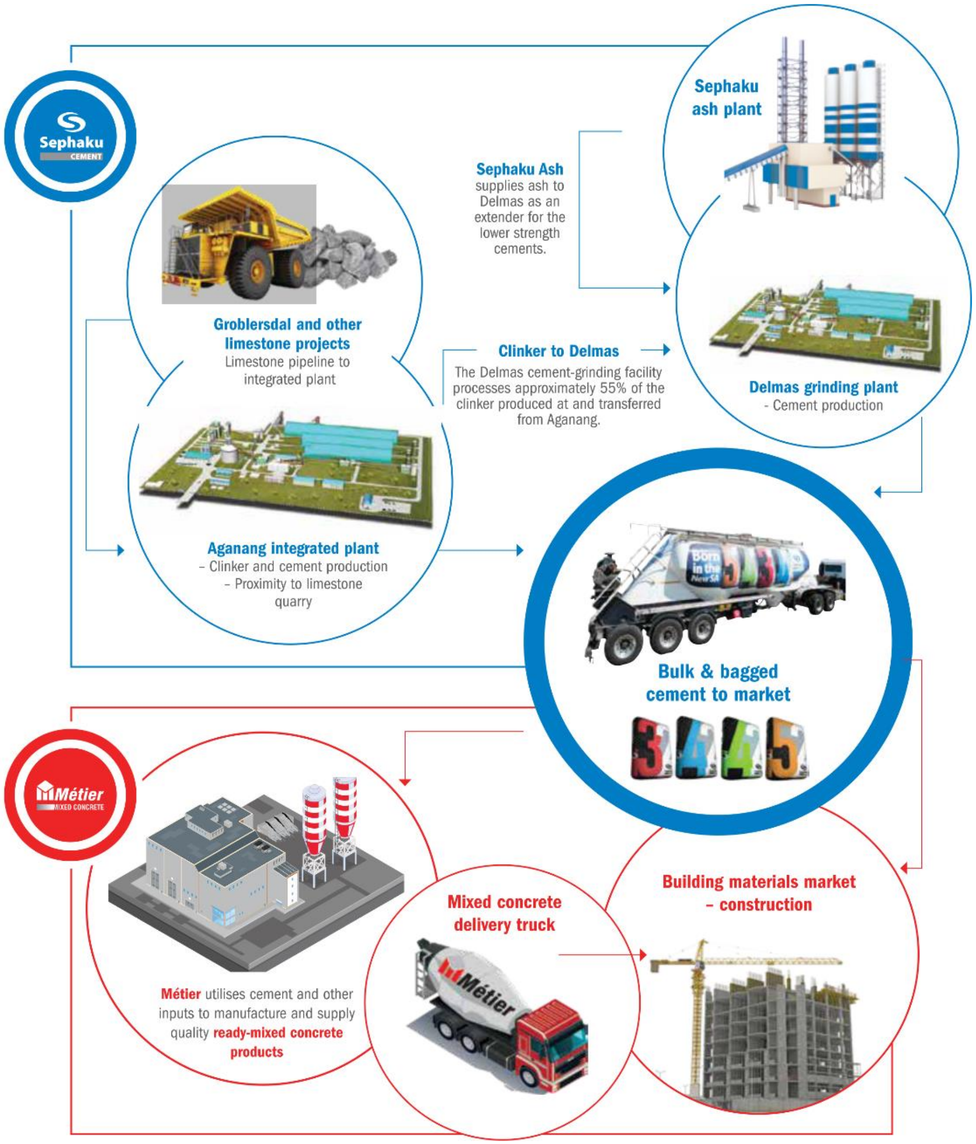
# VALUE CREATION PROCESS

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.



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