

Sephaku Holdings Limited  
(Incorporated in the Republic of South Africa)  
(Registration number: 2005/003306/06)  
Share code: SEP  
ISIN: ZAE000138459  
("SepHold" or "the Company")



## **Sephaku Cement 2020 financial results and Métier operational update**

Following Dangote Cement PLC's ("DCP") 2020 financial results announcement for the period ended 31 December 2020, released on 24 March 2021, SepHold reports on Dangote Cement SA (Pty) Ltd.'s ("Sephaku Cement", "SepCem" or "the associate") performance. The commentary also includes an update on Métier Mixed Concrete (Pty) Ltd.'s ("Métier" or "the subsidiary") operational performance.

Any forward-looking information in this announcement has not been reviewed or reported on by the Company's external auditors. All Sephaku Cement figures included below are shown on a 100% basis and do not reflect SepHold's 36% attributable interest unless otherwise stated. Thirty-six per cent (36%) of SepCem's profit after tax will be equity accounted for in the SepHold financial results for the 12 months ending 31 March 2021.

### **Commentary**

#### **Sephaku Cement**

##### *Sales volume*

The sales volume for the 12 months ended 31 December 2020 was 9% higher year-on-year ("y-o-y"). In the six months to June 2020, the volume was 8.5% lower y-o-y due to the persistently weak demand during SepCem's first quarter ended 31 March 2020 and the impact of the COVID-19 related national lockdown in the second quarter.

The significant increase in the second half ("H2") sales volume was mainly due to the third quarter performance during which SepCem recorded its highest quarterly volume to date. As a result, the H2 sales volume contributed 62% to the associate's total annual volume. After the level 5 COVID-19 pandemic lockdown, the increase in demand for cement can be attributed to several factors, including increased home improvement projects by individuals with discretionary income that would normally be used for other expenditures such as holidays and entertainment.

The associate's ability to ramp-up its operations in response to increasing demand is credited for the exceptional performance during the second half of the year. Furthermore, some incumbents experienced technical plant challenges that limited their ability to supply the market whilst blender activity was severely hampered by the shortage of extenders. Post-period, all cement manufacturers implemented price increases between January and February 2021. SepCem increased prices by between 8% and 10% in the same period.

For the 12 months under review, imported cement volume decreased by approximately 5% y-o-y to approximately 990Kt due to the restrictive global lockdown conditions to limit the spread of the COVID-19 virus. The cement industry's application for a safeguard tariff from the International Trade Administration Commission of South Africa has progressed well but the COVID-19 pandemic has unfortunately impacted the decision timeline. If approved, the application will result in a non-country-specific flat tariff on all imported cement.

In 2020 approximately 81% of the imported cement entered the country via the Durban port into KwaZulu Natal ("KZN"), which implies that SepCem is well-positioned to benefit from the application of the tariff because KZN is one of its key markets.

#### *Revenue and profitability*

SepCem's after-tax profit for the 12 months ended 31 December 2020 was R44,4 million compared to R1,3 million in 2019. The revenue increased by 9.8% to R2,40 billion (2019: R2,18 billion) due to the relative increase in sales volume. The earnings before interest, taxation, depreciation and amortisation ("EBITDA") increased to R381,4 million compared to R359,0 million in 2019. The EBITDA margin was flat at 16% for the year due to the weak H1 performance compared to the 23% margin achieved in H2 2020. SepCem implemented various cost-saving initiatives to mitigate the negative impact of lockdown restrictions and achieved savings of approximately 10%, of which 7% are sustainable into the future.

SepCem implemented price increases of between 5% and 9% in January 2020 and February 2020 for bulk and bagged cement, respectively. Although increases in bulk cement prices held, the price increases on bagged cement were discounted due to intense competition. The weighted average price per tonne for H2 2020 was approximately 5% higher than for H1 2020.

#### *Debt management*

In August 2020, DCP contributed R125 million capital into SepCem's debt service reserve account (DSRA), increasing the balance to approximately R152 million. The funds in the DSRA were then applied as prepayment in August 2020 to reduce the six capital instalments as of February 2021 on a straight-line basis. The capital contribution was converted into a shareholders' loan on the same terms as the existing bank loan. The capital repayments due in August and November 2020 were deferred to the final loan instalment payable in November 2022. The debt service cover and debt to EBITDA ratios were redefined to align with the prevailing trading environment.

By 31 December 2020, the bank loan capital balance was R1,03 billion following the repayment of R450 million, including interest payment of R123 million. The interest rate is the preceding 3-month JIBAR plus 4.5%, which equated to 7.83% in 2020 compared to 11.29% in 2019. The DCP quasi-equity loan balance was R581 million at an interest rate of JIBAR plus 4%, which is accrued and capitalised.

SepCem repayments are current, and the associate is in full compliance with the loan covenants.

#### **Métier**

Métier achieved an increase in EBITDA of 40% despite a 21% decrease in sales volume mainly due to cost-saving measures implemented as part of its turnaround strategy for the nine months ended 31 December 2020. The construction industry's stagnancy and price competition resulted in a slight increase of 1.7% in the unit price y-o-y. The subsidiary continues to experience intense competition in both the Gauteng and KZN markets.

Métier had fully recovered from the impact of the COVID-19 pandemic by the end of December through adopting stringent cost management practices and effective sales management.

### *Debt management*

The capital debt balance on 31 December 2020 was R75 million. Métier has continued to service its interest on bank debt according to the repayment terms and resumed capital repayments in January 2021. The subsidiary is current with the monthly instalments of slightly below R1,7 million and fully compliant with the covenants.

### **Outlook**

The building plans passed data from Statistics SA recorded a historical y-o-y decline of 46% for the 12 months ended 31 December 2020 due to the pervasive low demand and the pandemic's impact. Nonetheless, the commencement of several government infrastructure projects has been observed, and they are expected to contribute to the growth of the construction sector. As a leading indicator for construction activity, building plans passed data indicates continued constrained building materials demand.

Centurion

31 March 2021

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Sponsor: Questco Corporate Advisory (Pty) Ltd

### **About Sephaku Holdings Limited**

SepHold is a building and construction materials company with a portfolio of investments in the cement sector in South Africa. The strategy of SepHold is to generate growth and realise value for shareholders through the production of cement and ready mixed concrete in Southern Africa. The Company's core investments are a 36% stake in Dangote Cement South Africa (Pty) Ltd (Sephaku Cement) and 100% in Métier Mixed Concrete (Pty) Ltd.

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