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Conference call transcript

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INTERIM RESULTS PRESENTATION

Operator
Good day, ladies and gentlemen, and welcome to Sephaku Holding Limited's interim results presentation. All participants are in listen-only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this event is being recorded. I'd now like to turn the conference over to Kenneth Capes. Please go ahead, sir.

Kenneth Capes
Thank you very much and good morning to everybody and thank you for joining us. The results were announced on Thursday the 9th in the SENS announcement and in the newspaper on Friday the 10th. The format that we're going to follow is our Financial Director, Neil Crafford-Lazarus, will do an overview of the financial results. And then Duan Claassen, CEO of Sephaku Cement, and myself on the Metier Mixed Concrete side will have a look at the outlook. So, I'd like to hand over to Neil Crafford-Lazarus.

Neil Crafford-Lazarus
Thank you, Kenneth, and welcome to everybody on the call. As Kenneth said, the results have been known to everyone for the last couple of days, so I'm just quickly going to recap, set the scene for any questions that might be forthcoming. So, the first, second and third pages are the normal readings, agenda and disclaimer, so I'm going to skip through and start with the financial review. Moving on to slide four on the financial review for the groups, Sephaku Holdings, earnings per share down from 10.5 cents to 7.75 cents, 26% drop there. EPS the same 7.254c but from 11.26c. The NAV up by the profits generated to 467 cents. And the SepCem accounted loss of R14 million against the profit of R3.8 million that they contributed last year for the six-month period.

That brings us to the profit after tax for the group of R19.7 million, down 26% from last year's comparative to 26.7%. The Metier side, all green arrows on the right-hand side. They had a fairly good six-month period. Turnover went up by R100 million to R626 million. The EBITDA at R62 million and an EBITDA margin of 10%, an increase of 6% above the R59.2 million of the previous year. EBIT R52.3 million, 8.4% up from the R43 million of 2023, leaving them with a profit altered tax of R37.8 million, up from the R29.5 million by 28% from the previous year, and contributing positive numbers to that.

We are looking at the R14 million equity loss that we accounted for, basically the influence of taking that R37 million down to R19.7 million after also taking account of the head office costs. SepCem, a slight increase on the revenue side from 1.16 to 1.24. EBITDA, R106 million, down R40 million from the previous year. And we will look at that trend and probably have a discussion around that when we get to the environment and outlook. EBIT on R14 million. Of course, once the EBITDA is reduced by the R40 million margin, the EBIT remaining portion with depreciation that is same year on year takes quite a knock, so it's coming in at R14 million opposed to the R61 million of the previous year. That brings us to a loss of R38.9 million for the six months, compared to R10.5 million in profit for the previous year. We will have a look at the last three months on our update for the nine-month period for the year to date, and we will see that there was some good recovery over the last quarter.

Looking at the trends, and we've gone back as far as six years, because I think that was the last year that we really had good cement sales and then construction results. After that, we saw 2019, which was the first year that demand on the cement side really dropped by about 18%, and then we hit the COVID period. But Métier has now, for the first time, recovered above the 2018 levels on all three legs. Last year we already saw prices and revenue above the 2018 levels, and this year they've managed to also increase their volumes above the 2018 levels. So, everything positive on the Metier side there. And as I just mentioned, volumes positive on 2018 for the first time.

Moving on to page, slide six, page seven of the booklet, the financial review for Métier. Again a 20% increase of the gross profit to R233 million, 6% EBITDA increase to R63 million, and 19% EBITDA to R52 million. All of this follows better improvements as there are slight improvements on volume and price, as depicted by the bar charts and all the results on the line graphs. So, a 47% increase in net profit, the final line for Métier, the R30 million. On the SepCem side, trends still below the 2018 levels for the volumes. As you can see the yellow bars, 82% of that for the current year. And it's back to, as I've mentioned, pre-COVID already in 2019, we really saw a big drop in demand on the cement side, and there was a 19% drop during that year. And we're finding that for the last two years, some cement demand for the six-month period has remained the same. And we're still sitting at 81%, 82% of the 2018 levels.

For the specific current year, year-on-year, 1% increase in sales volume, 7% increase in revenue, and a 4% to 6% increase in pricing. I've talked about the volumes that was comparable with 2019 levels. And I think Duan will elaborate on what is being done to achieve cost efficiencies and then cost cutting and other efficiencies throughout in a period that lower volumes really impact on your overhead burden as a cost per ton produced.

Moving on to slide 8, we will see the 27% drop in EBITDA to 207% there. Input cost, as I've mentioned, does not recover as quickly the increase in pricing has. You will see the pricing, although on the light blue bars, has steadily increased from 23 to 23, not sufficient to have any of the other lines in an upward trend. And we've seen pressure on both the EBITDA and the net profit. So, EBITDA down 77% from the R14 million profit to the R39 million for the current year.

Moving on to debt management, slide 10, with the results that we've seen from Métier, also significant cash generated by them in, relatively speaking, to what has been done previously. Started the year with an overdraft of R13.56 million, again reflecting back to mainly due to that payment of the debt in October of the previous year, generated R62 million during this period, tax paid of R6.7 million and capex of R25 million, repayment of financial obligations of R10.5 million and currently sitting with R7.25 million cash on hand.

On the Sephaku Cement side, slide 11, we started off with R108 million cash in the bank, generated R154 million, outflow to capital expenditure of R31 million, net finance cost R17 million, lease payment R17 million, loan repayment R67 million and then a R24 million cash at the end of the term. There are updates for that coming up now as we move on to Sephaku operational update.

For cement the numbers that we have reported on are the six-month period, or half-year results, but it covers the period 1 January to 30 June because SepCem is a subsidiary of DCP. We can also now discuss the results for the last three months to bring them up to date to the September numbers. First, we need to look at the imports, which always have an effect on the numbers. I know it's something that we get asked for regularly, so just an update on the numbers there. You can see fairly comparable cement, being flat. There's a little bit of a dip on the second half of last year, but it's still again on the 2021 levels, if you're looking at cement, clinker always also being relatively the same throughout the period. And then the final graph at the bottom just showing what the impact of the exchange rate had on imports. Previously, we believed that it was a direct relationship, but at the moment you can see that there were still imports during this year, even though it was quite a negative effect on the exchange rate.

Moving on to slide 14. The update that we also mentioned in the results. The nine-month turnover is R2.08 billion, as opposed to the R1.83 billion of the year to date to Q3 for last year. EBITDA is R208 million, as opposed to the R192 million, which you will see is a good turnaround. The six month period was R107 million, so there was another R102 million added during the third quarter. EBIT is currently sitting on R73 million, as opposed to the 64 million of the previous year, coming from the R14 million that we saw for the half-year that we have discussed.

The same debt position after the nine-month period. The Nedbank loan started the year at R403 million. R102 million was repaid, so that's currently sitting at R301 million. The DCP bridging loan, that is the one that has been running up over the period because it is a subordinated two bank loans but will be serviced over the five year period once the bank gets settled. We have just got another two years to go with the R300 million, R150 million per year. The lease is sitting at R19 million, so the total debt R1 billion. Cash on hand is R220 million, so the net debt position for cement is R850 million. Ladies and gentlemen, that brings us to the outlook. I'm going to hand over to Kenneth and Duan to speak about the current environment and discuss on the outlook items as mentioned on slide 17. Kenneth, you want to start?

Kenneth Capes

Yeah. Thank you Neil. So, essentially on the Metier business we have a programme where we're focusing on our products and our customers. Obviously we do that all the time, but we're specifically looking at our products for optimisation. There's a lot of money and a lot of margin to be made, and we're running various systems that we've put in place where we can measure more accurately. And then of course on the customer segmentation, it's trying to ascertain the groups of customers that require specific value products and services that we offer rather than just short gaining the whole market. And so far it's working, I think you can see it in the results.

The proactive adjustment of the business model to align with the prevailing conditions, a lot of that has got to do with the infrastructure projects that are coming out. We are trying to be very quick to react. We're busy building another batch plant, which is to cater for some of that. There's certainly a lot of high-value products that are required for these projects. It's not your everyday compete, and it's a huge focus of ours to try and react quickly to what is required for these projects. And then, of course, we continue our sales efforts in the Western Cape. We keep talking about it, we haven't expanded our footprint yet because of the other projects that we've been looking at. So, we're not in a hurry, but we certainly are in talks with various people on properties that are available for us to expand in the Western Cape. So, that's certainly an ongoing focus for us into the new financial year as well.

Overall, as far as the market is concerned, although the construction market in certain sectors, and Duan will maybe touch on it, and retail is certainly struggling, some of the bulk projects that we're involved in are continuing to give us some good volumes. And we're putting a lot of focus on making sure we get all of that right. So, we're still quite optimistic about the future on the readymix side and probably slightly different on the retail side. At which point I'll hand over to Duan to give an update on Sephaku Cement.

Duan Claassen
Thank you Kenneth and good morning everyone. I think it's important maybe to start off by saying the first half of the year, if one looks at the results, it was quite clear from the third quarter that there was quite a significant turnaround. I think every year we've got the same phenomenon where with us being a single kiln business, whenever you have your planned outage, whichever half of the year that falls in is of course going to be adversely affected as far as the variable cost is concerned. As Neil mentioned, in terms of the absorption of your fixed cost into lower inventories that you produce, that's of course going to affect results. But I think it's good to see that on a three-quarter year-to-date basis, it's looking a lot better. And I think overall the outlook would be that this trend would probably continue for the fourth quarter.

I think what we are definitely finding is the market is still severely subdued from the volume trends that we saw. We're still 18% down on what we used to sell in 2018. And that is mainly from the subdued retail sector where that is really under a lot of pressure and it's been basically the second year running that we are now seeing this trend continue. Fortunately for us we have targeted some other sectors in terms of the industrial sectors. Kenneth has mentioned that they have seen some benefit in some of the projects and we've leveraged on that to some extent as well to counter the negative trends in terms of the retail sector.

I think last year we mentioned that with the subdued environment, we needed to right-size the business. And we continued to implement that throughout this year and we're starting to see that that is realising the benefits that we'd anticipated. And this is something that we will continuously monitor. And that's really in terms of the plants that we've got available to make sure that we source from the cheapest and lowest cost to market options is what we try and execute so that we can maximise the benefits that we can realise under these very subdued conditions.

Alternative fuels is something that we are still driving aggressively and we are continuing to do so. And there is more development that is ongoing, and into the next financial year there is further developments and capital projects that we are going to execute to put us in a position to use even more alternative fuels as a means of hedging against carbon tax on the one hand but also just cost of energy on the other hand. And then as far as the technology that we're employing and that's really in terms of route to market optimisation synergies that we're looking for in terms of delivery of product, returning of raw materials to the plants etc. So, that is an ongoing focus area and that's something that will probably become ever more important again under these adverse market conditions.

And then we also have enhanced the customer targeting through business intelligence tools which we've developed in-house and this is something that is coming in very handy. We target specific micro markets where they have certain benefits in terms of delivered cost compared to vis-a-vis competitors and we're exploiting those micro markets to make the best of these conditions. Kenneth, I think that's as far as the presentation. I think I'll pause there and then we could take some questions if there are any questions later. Thank you.

Operator
Thank you, gentlemen. Ladies and gentlemen, for the benefit of the participants who have joined via the telephone lines, if you wish to ask a question, please press * 1 on your touch-tone phone or the keypad on your screen. If you decide to withdraw your question, you may press * 2 to exit the question queue. For the benefit of the participants who have connected via the webcast, you are welcome to pose your questions in the question box provided on your screen. We'll pause a moment. At this stage, we have no questions from the telephone lines. Do you have any questions from the webcast?

Neil Crafford-Lazarus
Yes, thank you. Thank you, Judith. We have one. It is just coming. Let me just go through it. Just give me a moment to look at it. Please clarify the section on debt management and repayment strategies. You previously mentioned that the DCP loan would be serviced from 2023 onwards. Your comments today suggest otherwise. What are the specific bank covenants preventing service of interest to DCP? Thanks, Leonard.

Yes, there is no change in that. I think we did mention previously that we had an intention to start paying interest last year, but the results show that, with the 82% levels of 2018 production, we are in a position that the cash flow was just not available. You'll see the opening cash for the year was R108 million and then the interest on a R600 million or R700 million loan came to R64 million per annum. So, the cash flow didn't allow it last year to do that. And then the same with the start of the first six months this year. The free cash did not allow it. We will review it towards the end of the year and do that if possible.

With regard to the covenants, we have negotiated that funds can be available for these types of payments, but there is an EBITDA cover that is required. I think it is sitting at 1.3x. Depending on whether we meet that covenant and cash is available and will be required within the first six months of the next year, we will look at that and, if possible, start reducing that number.

Kenneth Capes
Thanks Neil, I don't know if we have any more questions.

Neil Crafford-Lazarus

Also, another question from Leonard to Duan. When is the next kiln maintenance showdown? And given the quarterly volatility it creates in reporting, may the guys maybe guide us to the next cycle's timing, please. It's just a matter of when you anticipate the next shutdown, Duan.

Duan Claassen

Thank you, Neil. So, we had the main annual showdown in the first half of the year. We typically have a shorter showdown just to have certain refractory repairs on a certain segment of our kiln which is imminent. But we are at this stage are planning to extend the run until the first quarter. Depending on the exact date, that could mean that we do the extended showdown as a result of the good performance that we've been seeing this year specifically with work that we've been doing over the last couple of years to improve on the refractory life. So, we're very close to a point where we could almost eliminate that second stop in this particular year. And so that's what we're really trying to achieve. So, it's typically then the way it's projected at the moment is we will have that extended shut down the first quarter of next year. Thank you, Neil.

Neil Crafford-Lazarus

Thanks. Another question just came in. SepCem, can you comment a bit on the targeted pricing strategy and what level of price increases you were able to put through in Q3?

Duan Claassen

Yeah I think typically as we've mentioned there, the price increases have been in the order of 4% to 6%. We have targeted a slight increase again mid-year, but that was a nominal increase and that's typical for what one would try and achieve. Mid-year is another small adjustment in pricing. And then again, the next price increase is obviously due in the beginning of 2024, which we're hoping to recover some of these input cost pressures that we've been reporting for a number of years. So, we will certainly be attempting to pass that on to the customer. Thanks, Neil.

Neil Crafford-Lazarus

Thanks, Duan. I think the pricing and just the dynamics of the market pricing has been really problematic over the last couple of years. And you often hear the comments that double digit increases are required, but then you find one producer doing that and the response in the market is probably such a nature that it doesn't last and that there's a pullback. And therefore, seeing the results, I think all producers are under the current circumstances.

Kenneth Capes

Thanks Neil. Have you got any more questions on your side?

Neil Crafford-Lazarus

Nothing on the webcast.

Kenneth Capes

Judith, is there anything else that's come through?

Operator

Thank you sir, there's no questions on the telephone lines.

Kenneth Capes

So, with that being the end of the meeting then, thank you to everybody that's attended and listened in. And hopefully we can touch sides again in the near future. Thank you.

Operator

Thank you very much sir. Ladies and gentlemen, that concludes today's event. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT