

One-trick pony perception hamstringing a visionary, acquisitive Afrimat

Afrimat is not a one-trick pony. That's the message that came through loud and clear from management at its recent interim results presentation. And it's true.

Many market participants seem to think that the company's fortunes lie entirely with the iron-ore price, which has been profoundly weak recently. And while it is true that iron ore is a key component of Afrimat's diversified portfolio, it is becoming progressively less so as new elements are added.

But perceptions are everything in investments; it took many years to convince the market that Afrimat wasn't really a construction company, even though it was categorised as such by the JSE. It could take time to get the message across that this company really is a unique blend of very carefully chosen components, all of which make valuable contributions.

Its financial communications capability, one of the best on the JSE, will be further tested as the group's new investments come on stream.

Afrimat is a visionary company. It could easily have just carried on with its original



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portfolio of construction and construction-orientated products and services but by now it may well have been on the scrapheap had it followed such a path. Instead, it decided to make clever and often innovative acquisitions, many of which were much larger than incremental, bolt-on types. This is what has differentiated it from the pack and resulted in the group being such a diverse operation now.

While many, if not most of its erstwhile competitors have fallen by the wayside, Afrimat has exhibited a compound annual growth rate (CAGR) in profit after tax since 2009 of 22%.

For the six months to end-August, bulk commodities remained the star performer, contributing 52% of group revenue and 77% of group operating profit. The three main components of this segment are Demaneng and Jenkins iron ore mines and Nkomati anthracite

mine.

Though revenue rose 13% to R1.353bn, operating profit fell 13% to R393.2m due to lower iron ore prices. The average price in the six months to August was \$129/tonne compared with \$190/tonne a year earlier.

Demaneng, the original iron ore mine in Afrimat's portfolio, is nearing the end of its life and that is reflected in falling contributions to revenue and profitability.

Jenkins is much newer with a much longer lifespan than Demaneng and overtook Demaneng in terms of contribution to profitability this year.

Nkomati turned around from a R107.9m loss to a R20.6m profit at the interim.

The industrial minerals segment had a tough time with revenue falling 10% and operating profit 26%. Construction materials' revenue and operating profit were relatively flat.

The transaction relating to the Gravenhage manganese mining right has been terminated due to conditions not being fulfilled by August 20. In particular, the granting of a usable water licence was not forthcoming.

But the really exciting

elements of Afrimat have not even started operating properly yet. These relate to the recent acquisition of Glenover.

The first stage of this project adds vermiculite, high-grade phosphate and single super phosphate and should be ready by the second half of 2023. Stage 2 brings a nitro-phosphate plant and a rare earth plant, with completion expected by the first half of 2024.

Apart from diversifying the product range even further, this new development offers much sought-after new minerals in the form of fertiliser for agriculture and rare earths for electric vehicles and wind turbines.

At a share price of 4,678c, Afrimat is rated on a price-earnings ratio of 9.4 times. This is not expensive for a company of such high quality and degree of earnings visibility. But it may take about another year of sustained strong earnings growth before general realisation sinks in.

Existing operations in the bulk commodities segment such as Jenkins and Nkomati should produce enhanced contributions to group profitability.

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