



## Afrimat – Earnings Update

Date: 10 March 2021

**Key message:** We update our forecasts for the very strong iron ore prices as FY21 is now over. A higher medium-term iron ore price outlook increases our earnings forecasts.

- Afrimat's FY21 year is complete, and we update our forecasts for the higher-than-expected iron ore prices. A higher medium-term iron ore price outlook increases our earnings forecasts.
- The Construction Materials business has also experienced a strong increase in demand in 2H FY21 as the construction materials market in general experiences a boom since the Covid lockdowns.
- Industrial Minerals has also experienced a recovery in demand, with AMSA and Scaw demand increasing.
- We update our FY21 and FY22 HEPS forecasts to 591c (from 474c) and 551c (from 254c) as we move away from the previous long-term USD65c price for iron ore from FY22 to USD110c in FY22 and USD80c in FY23).
- We adjust our Target Price to R43.76 (from R41.00).
- Should we use spot iron ore prices for Demaneng (US\$165/tonne for iron ore fines), our valuation increases to R88.67 per share.
- Afrimat continues to look for further acquisitions following the UCP and Coza transactions. Given the strong demand in Construction Materials and Industrial Minerals there is scope for organic growth.

### Analyst

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Price (10/03/2021): R46.18

Target Price: R43.76

Market cap R5,071m

Shares in issue 139.3mn

### Financial summary

ZARmn (year to February)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2966	3304	3916	4372	4587
Ebitda	626	771	1178	1103	905
Net income	301	463	638	596	456
<b>Headline EPS (diluted)</b>	<b>2.33</b>	<b>3.44</b>	<b>5.91</b>	<b>5.51</b>	<b>4.54</b>
PE Ratio	13.5	8.3	7.4	8.0	9.7
Dividend	0.81	0.36	2.19	2.04	1.68
Dividend yield (%)	2.7	1.3	5.0	4.6	3.8

Source: Factset, Company data, Chronux Research estimates

**Sponsored Research:** Chronux Research is compensated by certain corporates to produce objective and impartial research. A Recommendation is not provided. Earnings forecasts and a Target Price are the independent view of the analyst, based on his/her view of all factors that could influence earnings and peer comparisons. Management has no editorial input.

Figure 1 Financial summary

Financial year to February	FY19	FY20	FY21E	FY22E	FY23E
ZAR/USD exchange rate	13.75	14.77	16.43	15.10	15.34
Iron ore 62% Fe - fines spot (N.China)	69.00	80.50	118.00	110.00	80.00
<b>Per share data</b>					
Earnings	2.29	3.42	6.00	5.58	4.60
<b>Headline earnings (diluted)</b>	<b>2.33</b>	<b>3.44</b>	<b>5.91</b>	<b>5.51</b>	<b>4.54</b>
NAV	10.30	12.46	16.55	19.52	22.51
Dividend	0.81	0.36	2.19	2.04	1.68
<b>Valuation ratios</b>					
P/E ratio	13.5	8.3	7.4	8.0	9.7
EV/EBITDA	7.0	5.2	5.1	5.5	6.7
P/B	2.89	2.29	2.66		
Dividend yield	2.7%	1.3%	5.0%	4.6%	3.8%
<b>Income Statement (ZARmn)</b>					
Sales	2,966	3,304	3,916	4,372	4,587
Operating costs	2,487	2,710	2,920	3,457	3,876
<b>EBIT</b>	<b>479</b>	<b>594</b>	<b>996</b>	<b>915</b>	<b>711</b>
Net interest expense	(42)	(13)	(40)	(13)	23
Non-operating expenses	(15)	(8)	0	0	0
<b>Pretax profit</b>	<b>422</b>	<b>573</b>	<b>956</b>	<b>902</b>	<b>735</b>
Tax	(117)	(108)	(315)	(301)	(255)
Minorities	(3)	(3)	(3)	(5)	(23)
<b>Net income</b>	<b>301</b>	<b>463</b>	<b>638</b>	<b>596</b>	<b>456</b>
<b>Cash flow statement (ZARmn)</b>					
Depreciation/amortisation	146	177	182	188	194
<b>Cash from operations</b>	<b>568</b>	<b>750</b>	<b>1,088</b>	<b>1,062</b>	<b>956</b>
Changes in working capital	(87)	(32)	(96)	(101)	(106)
Other non-cash items	(70)	(42)	0	0	0
<b>Available cash</b>	<b>410</b>	<b>677</b>	<b>992</b>	<b>962</b>	<b>850</b>
Capital expenditure	(94)	(154)	(535)	(312)	(275)
Acquisitions/disposals	5	13	(257)	(26)	34
<b>Investing cash flow</b>	<b>(89)</b>	<b>(141)</b>	<b>(792)</b>	<b>(338)</b>	<b>(241)</b>
Changes in borrowings	(200)	(282)	183	(94)	(193)
Dividend paid	(86)	(136)	(49)	(379)	(350)
<b>Financing cash flow</b>	<b>(286)</b>	<b>(418)</b>	<b>134</b>	<b>(473)</b>	<b>(544)</b>
Change in cash	36	110	334	151	66
<b>Balance sheet (ZARmn)</b>					
<b>Total assets</b>	<b>2,687</b>	<b>2,795</b>	<b>3,699</b>	<b>4,093</b>	<b>4,340</b>
Cash and equivalents	192	168	564	715	780
Current assets	902	909	1,440	1,627	1,729
Fixed assets	1,470	1,572	1,940	2,018	2,100
<b>Total liabilities</b>	<b>1,277</b>	<b>1,106</b>	<b>1,441</b>	<b>1,368</b>	<b>1,197</b>
Long-term liabilities	591	507	769	669	470
Current liabilities	686	599	672	699	727
<b>Total shareholders' funds</b>	<b>1,410</b>	<b>1,689</b>	<b>2,258</b>	<b>2,725</b>	<b>3,143</b>
Net debt/(cash)	415	326	(6)	(251)	(510)
<b>Key ratios</b>					
Operating margin	16.2%	18.0%	25.4%	20.9%	15.5%
RoE	21%	27%	28%	22%	15%
RoIC	18%	21%	27%	22%	16%
Net debt/EBITDA	0.66	0.42	(0.01)	(0.23)	(0.56)
Net debt/equity	29%	19%	0%	-9%	-16%

Source: Factset, Company data, Chronux Research estimates

## Valuation

- We value Afrimat using a Sum-of-the-Parts methodology. We value the iron ore assets (Demaneng and Coza) using a DCF for the life-of-mine. We have added a valuation for the Nkomati anthracite mine. We apply a 5x PE multiple to the expected profit after tax for the operation (expected to contribute from 2H FY22).
- Our base year for EBITDA multiples is FY22 to remove the Covid impact expected for FY21.

**Figure 2 Sum-of-the-Parts Valuation – FY22 EBITDA (Base Case)**

ZARm	Multiple range	Comment	FY22 EBITDA	EV/EBITDA Multiple	Enterprise Value
Construction Materials	4-6x	Mid range multiple	325	5.0x	1,624
Iron ore		DCF @ WACC			3,399
Anthracite - Nkomati	5x	PE			574
Industrial Minerals	4-6x	Mid range multiple	126	4.0x	504
					<b>6,100</b>
Other assets		From balance sheet			97
Minorities		From balance sheet			(94)
Net (debt)/cash		From balance sheet			6
<b>Equity value</b>					<b>6,110</b>
Number of shares ('m)					139,610
<b>Valuation (ZAR per share)</b>					<b>43.76</b>

Source: Company data, Chronux Research estimates

### Construction Materials

- We use a 5 times EBITDA multiple to value this division. This is in line with how we value comparable company Raubex – the two companies have similar construction materials businesses with significant regional footprints.

### Bulk Commodities

- We value the Demaneng iron ore mine using a DCF methodology.
- The Coza acquisition does allow for an extension of the LOM for iron ore exports from 10 years to +20 years (Coza should extend the LOM by more than 20 years). We have included this in our iron ore valuation.
- The opportunity to sell 1.25mtpa of direct shipping ore (minimal processing required) to AMSA is a potential boost to earnings, with margins/t expected to similar to export margins (AMSA will buy the product on an export parity pricing model). However, we have not included this in our model at this stage due to the uncertainty over the future of AMSA.
- We do add a value for the access to the rail line to Saldanha and allocated tonnage from Transnet – this allocation is valuable on a stand-alone basis to anyone who requires access to the export market.
- We have added a valuation for Nkomati Anthracite – we ascribe a 5x PE to the expected PAT of the mine.

### Industrial Minerals

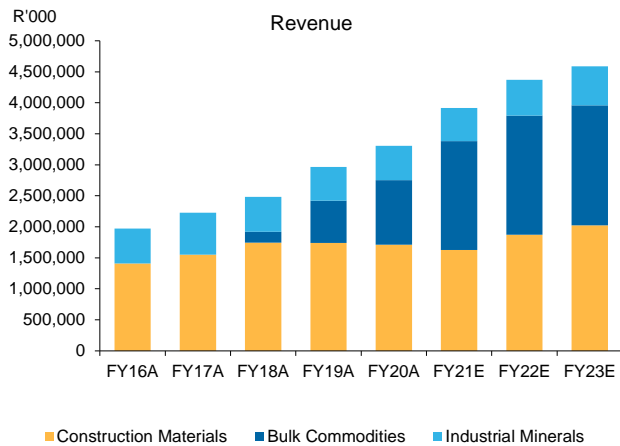
- We use a 4 times EBITDA multiple to value this division. Afrimat has well-placed quarries close to market with high-grade material.
- However, reliance on large industrial customers (Arcelor Mittal South Africa) does pose a potential risk – AMSA accounts for approx. 12-15% of revenue in this division.

### Overall Valuation

- The Coza acquisition adds R6-7 to our valuation (net of acquisition costs and WC). Nkomati adds R2-3 (net of R250 capital required) to our valuation of Afrimat.

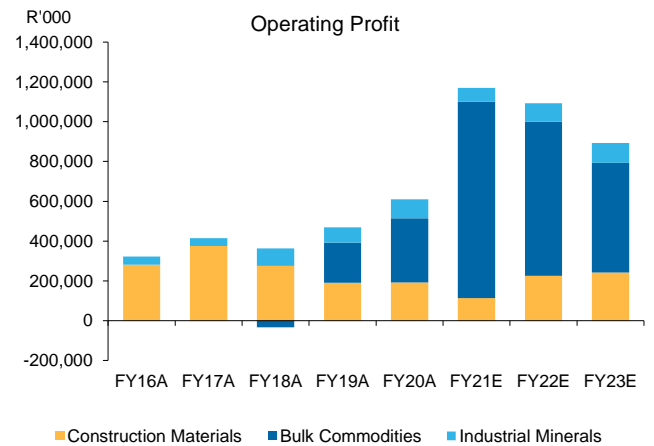
Group Forecast

Figure 3 Group Revenue



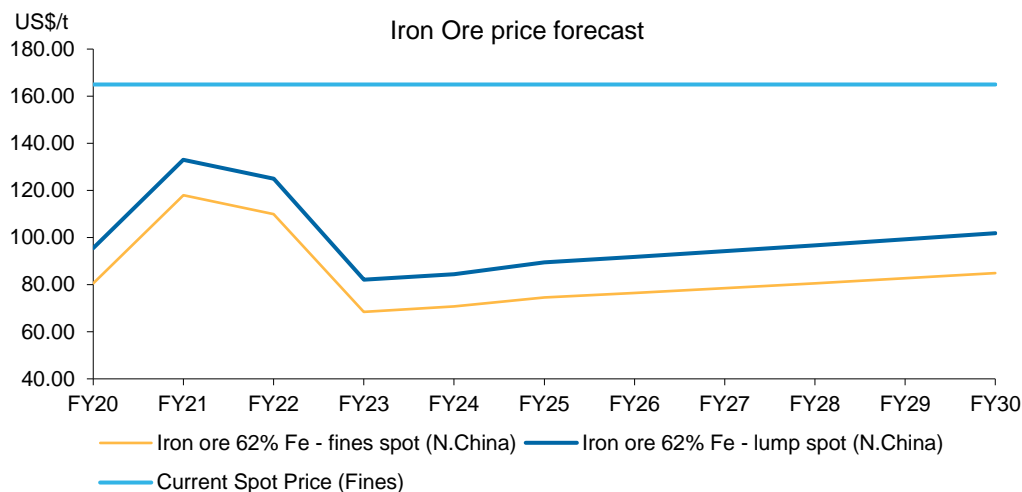
Source: Company data, Chronux Research

Figure 4 Group Operating Profit



Source: Company data, Chronux Research

Figure 5 Iron Ore Price Forecasts



Source: Company data, Chronux Research

Valuation using Spot Prices

- Should we use spot iron ore prices for Demaneng (US\$165/tonne for iron ore fines), our valuation increases to R88.67 per share.

**Figure 6 Sum-of-the-Parts Valuation – FY22 EBITDA (Spot Iron Ore Price)**

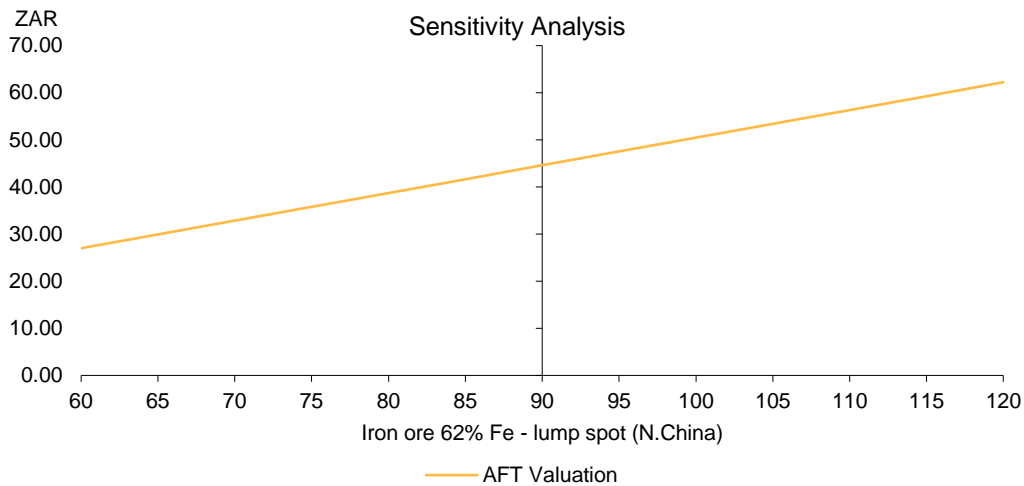
ZARm	Multiple range	Comment	FY22 EBITDA	EV/EBITDA Multiple	Enterprise Value
Construction Materials	4-6x	Mid range multiple	325	5.0x	1,624
Iron ore		DCF @ WACC			9,668
Anthracite - Nkomati		PE			574
Industrial Minerals	4-6x	Mid range multiple	126	4.0x	504
					<b>12,370</b>
Other assets		From balance sheet			97
Minorities		From balance sheet			(94)
Net (debt)/cash		From balance sheet			6
<b>Equity value</b>					<b>12,379</b>
Number of shares ('m)					139,610
<b>Valuation (ZAR per share)</b>					<b>88.67</b>

Source: Company data, Chronux Research estimates

## Sensitivity

- Our valuation is most sensitive to the iron ore price and currency – the most volatile variables for Afrimat. The following chart shows the AFT valuation sensitivity to the iron ore price.

**Figure 7 Sensitivity Analysis**



Source: Company data, Chronux Research

## Coza Mining acquisition

- Afrimat has announced the acquisition of 100% of Coza Mining (Pty) Ltd for R300m. Coza owns adjacent properties to Demaneng with iron ore and manganese resources.
- The price paid works out to less than US\$1/ton direct shipping ore – with further resources still to be explored. Management have previously been wary of reserves for sale at around US\$1/ton, considering that too expensive (Demaneng was purchased at US\$0.33/ton).
- Coza has three iron ore projects that would be able to extend the life of the iron ore export operation of Demaneng, where reserves are limited, and the current mine life is approx. 10 years.
- Coza has reserves 20mt of high-quality direct shipping ore (minimal beneficiation required). This deposit is earmarked for sale to AMSA. Further deposits are present for the future extension of iron ore exports when the Demaneng deposit is exhausted. Management believe that the resources will extend the LOM for exporting iron ore by at least 20 years.
- Arcelor Mittal South Africa (AMSA) is part of the selling group and a sales agreement to AMSA may be negotiated. This would entail AMSA purchasing 1.25mtpa of direct shipping ore. Should this occur the mine would be opened when all licenses are in place – expected by March 2021. Margins per ton are expected to be similar to export margins (AMSA will buy the product on an export parity pricing model).
- The purchase is conditional on the DMRE granting mining rights for iron ore and manganese on the three farms involved in the transaction.
- Working capital requirements of R50m is expected to start mining operations.
- While separate mining operations would be established, the proximity of the Coza reserves would allow the relatively easy transfer of mining assets as new reserves are exploited. The processing plant on the Demaneng property would be used for ongoing mineral processing.

## Unicorn Capital Partners acquisition

- Management believes that a further 250m (R170m for the open pit, R80m for the underground operation) of working capital is required to stabilise the operation, bringing the effective purchase price to R350m.
- The open pit mine requires overburden stripping to access reserves. The underground mine has collapsed, and a new decline shaft needs to be opened to access these reserves.
- Glencore is a key local customer, with anthracite prices set on an annual basis giving some stability to pricing. Current prices are approx. R1800/t.
- The mine should be able to generate approx. R135m PAT, according to our calculations (this assumes a net profit of R287/sales ton). The payback period for the purchase could be as short as 2-3 years.
- Management expects the mine to be cash flow positive from July/August 2021.

**Figure 8 Nkomati Model**

ZAR000's	1H22	2H22	FY22E	1H23	2H23	FY23E
Production ('000tpm)	35	35	35	70	70	70
Yield	56%	56%	56%	56%	56%	56%
Sales ('000tpm)	19.6	19.6	19.6	39.2	39.2	39.2
Sales ('000t)	117.6	117.6	235.2	235.2	235.2	470.4
Anthracite price (R/t)	1800	1800	1800	1800	1800	1800
Revenue	211680	211680	423360	423360	423360	846720
Operating profit	0	42336	42336	105840	105840	211680
<i>Operating margin</i>	<i>0%</i>	<i>20%</i>	<i>10%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Finance costs	12000	12000	24000	12000	12000	24000
PBT	-12000	30336	18336	93840	93840	187680
Tax	-3360	8494	5134	26275	26275	52550
PAT	-8640	21842	13202	67565	67565	135130
Profit/ton (ZAR/t)			56			287
Debt (Rm)			300			

Source: Company data, Chronux Research estimates

- Nkomati mines high grade anthracite, which is in high demand from South Africa's ferro alloy producers. The ferrous metals producers are dependent upon high grade anthracite with low impurities, such as low volatile matter (<9%), low sulphur (<1.0%) and low phosphorus (<0.03%) to produce quality ferro steel and ferro chrome.
- Nkomati's anthracite has the lowest sulphur impurities (<0.5%) of all anthracite producers in South Africa, while its phosphorus levels are on par (<0.03%) with the best producing mines. The combination of very low sulphur and phosphorous content of Nkomati's deposit makes it sought after and positions the mine as a key supplier to the local market.

## Divisional Forecast

Figure 9 Divisional Forecast

ZAR000's	1H20	2H20	FY20A	1H21	2H21	FY21E	1H22	2H22	FY22E	1H22	2H22	FY22E
<b>Revenue</b>	<b>1,719,802</b>	<b>1,584,574</b>	<b>3,304,376</b>	<b>1,558,629</b>	<b>2,357,340</b>	<b>3,915,969</b>	<b>2,040,523</b>	<b>2,331,324</b>	<b>4,371,847</b>	<b>2,196,016</b>	<b>2,390,495</b>	<b>4,586,511</b>
Construction Materials	922,917	791,263	1,714,180	651,965	976,506	1,628,471	749,760	1,122,982	1,872,742	809,741	1,212,820	2,022,561
Bulk Commodities	497,701	539,963	1,037,513	667,915	1,056,143	1,751,395	1,032,914	887,200	1,920,115	1,107,798	830,842	1,938,640
- Demaneng	497,701	539,963	1,037,513	667,915	1,056,143	1,751,395	821,234	675,520	1,496,755	684,438	407,482	1,091,920
- Nkomati							211,680	211,680	423,360	423,360	423,360	846,720
Industrial Minerals	299,184	253,499	552,683	238,749	297,354	536,103	257,849	321,142	578,991	278,477	346,833	625,310
<b>Revenue growth</b>	<b>19.9%</b>	<b>3.5%</b>	<b>11.4%</b>	<b>-9.4%</b>	<b>48.8%</b>	<b>18.5%</b>	<b>30.9%</b>	<b>-1.1%</b>	<b>11.6%</b>	<b>7.6%</b>	<b>2.5%</b>	<b>4.9%</b>
Construction Materials	6.1%	-9.0%	-1.5%	-29.4%	23.4%	-5.0%	15.0%	15.0%	15.0%	8.0%	8.0%	8.0%
Bulk Commodities	77.5%	34.4%	52.1%	34.2%	95.6%	68.8%	54.6%	-16.0%	9.6%	7.2%	-6.4%	1.0%
- Demaneng					95.6%	68.8%	23.0%	-36.0%	-14.5%	-16.7%	-39.7%	-27.0%
- Nkomati										100.0%	100.0%	100.0%
Industrial Minerals	5.2%	-2.6%	1.5%	-20.2%	17.3%	-3.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
<b>Operating profit</b>	<b>317,993</b>	<b>282,959</b>	<b>600,952</b>	<b>353,108</b>	<b>811,777</b>	<b>1,164,885</b>	<b>562,190</b>	<b>525,433</b>	<b>1,087,623</b>	<b>542,077</b>	<b>346,484</b>	<b>888,561</b>
Construction Materials	122,161	70,277	192,438	2,764	111,229	113,993	89,971	134,758	224,729	97,169	145,538	242,707
Bulk Commodities	138,191	182,944	321,665	325,829	660,369	986,198	433,463	341,792	775,256	402,852	147,952	550,804
- Demaneng	138,191	182,944	321,665	325,829	660,369	986,198	433,463	299,456	732,920	297,012	42,112	339,124
- Nkomati							0	42,336	42,336	105,840	105,840	211,680
Industrial Minerals	62,368	33,200	95,568	24,574	45,119	69,693	41,256	51,383	92,639	44,556	55,493	100,050
Other	-4,727	-3,992	-8,719	-59	-4,941	-5,000	-2,500	-2,500	-5,000	-2,500	-2,500	-5,000
<b>Margin</b>	<b>18.5%</b>	<b>17.9%</b>	<b>18.2%</b>	<b>22.7%</b>	<b>34.4%</b>	<b>29.7%</b>	<b>27.6%</b>	<b>22.5%</b>	<b>24.9%</b>	<b>24.7%</b>	<b>14.5%</b>	<b>19.4%</b>
Construction Materials	13.2%	8.9%	11.2%	0.4%	11.4%	7.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Bulk Commodities	27.8%	33.9%	31.0%	48.8%	62.5%	56.3%	42.0%	38.5%	40.4%	36.4%	17.8%	28.4%
- Demaneng	27.8%	33.9%	31.0%	48.8%	62.5%	56.3%	52.8%	44.3%	49.0%	43.4%	10.3%	31.1%
- Nkomati							0.0%	20.0%	10.0%	25.0%	25.0%	25.0%
Industrial Minerals	20.8%	13.1%	17.3%	10.3%	15.2%	13.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
<b>Operating profit growth</b>	<b>56.9%</b>	<b>5.4%</b>	<b>27.5%</b>	<b>11.0%</b>	<b>186.9%</b>	<b>93.8%</b>	<b>59.2%</b>	<b>-35.3%</b>	<b>-6.6%</b>	<b>-3.6%</b>	<b>-34.1%</b>	<b>-18.3%</b>
Construction Materials	6.5%	-6.8%	1.2%	-97.7%	58.3%	-40.8%	3155.1%	21.2%	97.1%	8.0%	8.0%	8.0%
Bulk Commodities	176.2%	20.9%	59.8%	135.8%	261.0%	206.6%	33.0%	-48.2%	-21.4%	-7.1%	-56.7%	-29.0%
- Demaneng	176.2%	20.9%	59.8%	135.8%	261.0%	206.6%	33.0%	-54.7%	-25.7%	-31.5%	-85.9%	-53.7%
- Nkomati											150.0%	400.0%
Industrial Minerals	50.4%	-9.1%	22.5%	-60.6%	35.9%	-27.1%	67.9%	13.9%	32.9%	8.0%	8.0%	8.0%

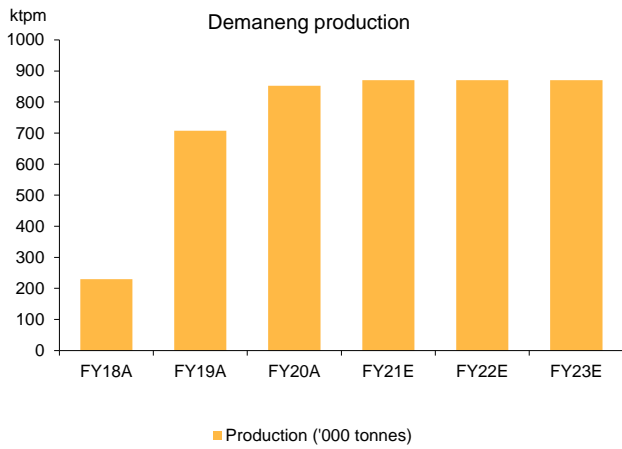
Source: Company data, Chronux Research estimates



**Demaneng forecasts**

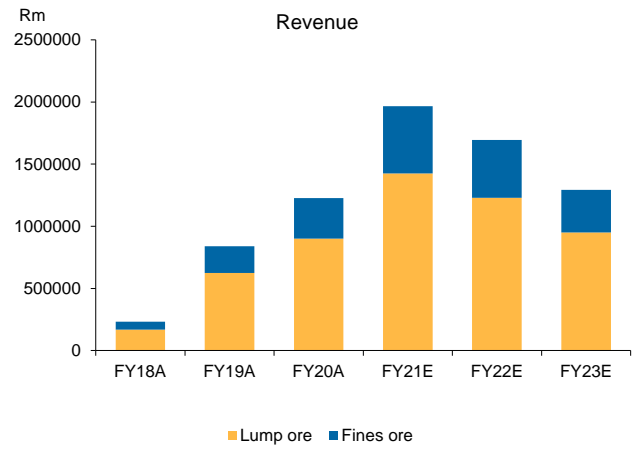
■ Our forecasts for Demaneng are shown in the following charts.

**Figure 10 Demaneng - Production**



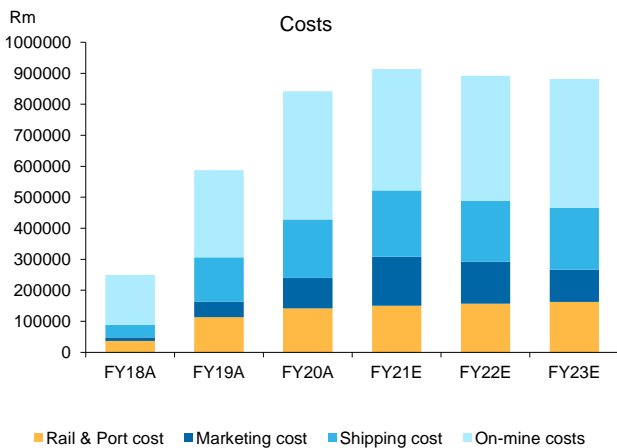
Source: Company data, Chronux Research

**Figure 11 Demaneng - Revenue**



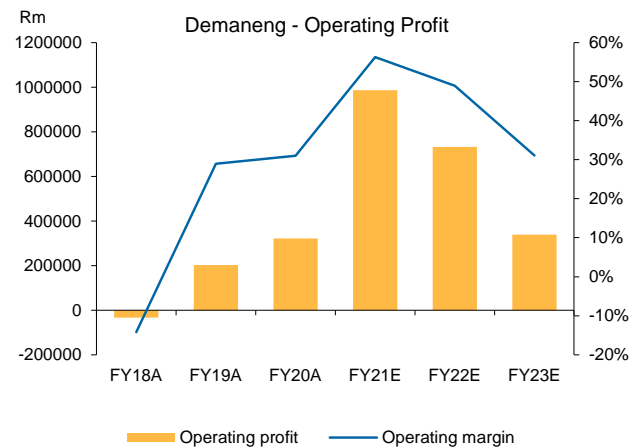
Source: Company data, Chronux Research

**Figure 12 Demaneng - Cost breakdown**



Source: Company data, Chronux Research

**Figure 13 Demaneng - Operating Profit**



Source: Company data, Chronux Research

## Demaneng DCF Valuations

Figure 14 Demaneng DCF Model

Life of mine			1	2	3	4	5	6	7	8	9	10	11	12
	FY18A	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	
Production (ktpm)	40	53	71.0166667	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	
Production ('000 tonnes)	320	636	852.2	870	870	870	870	870	870	870	870	870	870	
Lump ore ('000 tonnes)	224	445	596.54	609	609	609	609	609	609	609	609	609	609	
Fine ore ('000 tonnes)	96	191	255.66	261	261	261	261	261	261	261	261	261	261	
Lump ore %	70%	70%	0.7	0.7	0.7	70%	70%	70%	70%	70%	70%	70%	70%	
Fine ore %	30%	30%	0.3	0.3	0.3	30%	30%	30%	30%	30%	30%	30%	30%	
ZAR/USD		13.75	14.77	16.43	15.10	15.70	16.33	16.99	17.66	18.37	19.11	19.87	20.67	
Iron ore 62% Fe - fines spot (N.China)	US\$/t	69.00	80.50	118.00	110.00	68.47	70.74	74.56	76.51	78.52	80.59	82.70	84.87	
Lump premium		16.60	15.00	15.00	15.00	13.69	13.69	14.91	15.30	15.70	16.12	16.54	16.97	
Iron ore 62% Fe - lump spot (N.China)	US\$/t	85.60	95.50	133.00	125.00	82.16	84.42	89.47	91.82	94.23	96.70	99.24	101.85	
Fines premium		3%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
Lump premium		5%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
Adjusted fines - 62% Fe and other (Si)	US\$/t	71.07	86.14	126.26	117.70	73.26	75.69	79.78	81.87	84.02	86.23	88.49	90.81	
Adjusted lump - 65.3% Fe and other (Si)	US\$/t	89.88	102.19	142.31	133.75	87.91	90.33	95.73	98.24	100.82	103.47	106.19	108.98	
Sth Africa to China		14.70	15.00	15.00	15.00	12.88	16.07	16.49	16.92	17.37	17.82	18.29	18.77	
Western Australia to North China	US\$/t	5.65	7.54	7.73	7.93	7.93	9.89	10.15	10.41	10.69	10.97	11.26	11.55	
Brazil to North China	US\$/t	14.32	16.98	17.40	17.83	17.83	22.25	22.83	23.43	24.05	24.68	25.33	25.99	
Rail & port cost	ZAR/t	160	166.4	173	180	187	195	202	211	219	228	237	246	
Transport & siding costs	ZAR/t	70	72.8	76	79	82	85	89	92	96	100	104	108	
One mine costs	ZAR/t	398	485	450	464	487	511	537	563	592	621	652	685	
	Fixed (60%)		291	270	278	292	307	322	338	355	373	391	411	
	Variable (40%)		194	180	185	195	204	215	225	237	248	261	274	
<b>Sales</b>														
Via Kumba		456	852.2	870	870	870	870	870	870	870	870	870	870	
AMSA		180	0	0	0	0	0	0	0	0	0	0	0	
<b>Revenue</b>	R'000	736,724	1,225,598	1,965,861	1,693,808	1,141,060	1,221,106	1,343,914	1,434,367	1,530,907	1,633,945	1,743,918	1,861,293	
Lump ore		550,254	900,343	1,424,293	1,229,944	840,784	898,471	990,253	1,056,902	1,128,037	1,203,960	1,284,992	1,371,479	
Fines ore		186,470	325,255	541,568	463,865	300,277	322,634	353,662	377,465	402,870	429,986	458,926	489,814	
Rail & Port cost		101,760	141,806	150,559	156,581	162,844	169,358	176,132	183,178	190,505	198,125	206,050	214,292	
Transport & siding costs		44,520	62,040	65,869	68,504	71,244	74,094	77,058	80,140	83,346	86,680	90,147	93,753	
Marketing cost		42,257	98,048	157,269	135,505	91,285	97,688	107,513	114,749	122,473	130,716	139,513	148,903	
Shipping cost		128,564	188,805	214,465	197,054	175,982	228,303	243,669	260,069	277,573	296,255	316,194	337,476	
On-mine profit		419,623	734,898	1,377,698	1,136,165	639,705	651,662	739,542	796,231	857,011	922,170	992,014	1,066,869	
On-mine costs		253,128	413,317	391,500	403,245	423,407	444,578	391,500	490,147	514,654	403,245	567,406	595,777	
Operating profit		166,495	321,581	986,198	732,920	216,297	207,085	348,042	306,084	342,357	518,925	424,607	471,092	
Operating margin		23%	26%	50%	43%	19%	17%	26%	21%	22%	32%	24%	25%	
On-mine profit (ZAR/t)		660	862	1,584	1,306	735	749	850	915	985	1,060	1,140	1,226	
On-mine profit (USD/t)		48	58	96	86	47	46	50	52	54	55	57	59	
Off-mine costs (USD/t)		36	39	41	42	37	40	41	42	42	43	43	44	
On-mine costs (USD/t)		29	33	27	31	31	31	26	32	32	24	33	33	
<b>Free cash flow</b>														
Operating profit		166,495	321,581	986,198	732,920	216,297	207,085	348,042	306,084	342,357	518,925	424,607	471,092	
Tax		-32,444	-75,868	-261,961	-191,043	-46,388	-43,809	-83,277	-71,529	-81,685	-131,124	-104,715	-117,731	
Depreciation & Amortisation		32,656	34,289	36,003	37,803	39,694	41,678	43,762	45,950	48,248	50,660	53,193	55,853	
Maintenance capex	3%	-22,102	-36,768	-58,976	-50,814	-34,232	-36,633	-40,317	-43,031	-45,927	-49,018	-52,318	-55,839	
FCF		144,605	243,235	701,265	528,866	175,371	168,321	268,210	237,475	262,993	389,443	320,768	353,376	
DCF @ WACC (Rm)	2,774,480													
Terminal value (present value)	200,000													
WACC	12.8%													

Source: Company data, Chronux Research estimates

Figure 15 Demaneng DCF Model (Spot)

Life of mine		FY18A	1 FY19	2 FY20	3 FY21	4 FY22	5 FY23	6 FY24	7 FY25	8 FY26	9 FY27	10 FY28	11 FY29	12 FY30
Production (ktpm)		40	53	71.0166667	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5
Production ('000 tonnes)		320	636	852.2	870	870	870	870	870	870	870	870	870	870
Lump ore ('000 tonnes)		224	445	596.54	609	609	609	609	609	609	609	609	609	609
Fine ore ('000 tonnes)		96	191	255.66	261	261	261	261	261	261	261	261	261	261
Lump ore %		70%	70%	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Fine ore %		30%	30%	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
ZAR/USD			13.75	14.77	16.43	15.10	15.70	16.33	16.99	17.66	18.37	19.11	19.87	20.67
Iron ore 62% Fe - fines spot (N.China)	US\$/t		69.00	165.00	165.00	165.00	165.00	165.00	165.00	165.00	165.00	165.00	165.00	165.00
Lump premium			16.60	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Iron ore 62% Fe - lump spot (N.China)	US\$/t		85.60	180.00	180.00	180.00	180.00	180.00	180.00	180.00	180.00	180.00	180.00	180.00
Fines premium			3%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Lump premium			5%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Adjusted fines - 62% Fe and other (Si)	US\$/t		71.07	176.55	176.55	176.55	176.55	176.55	176.55	176.55	176.55	176.55	176.55	176.55
Adjusted lump - 65.3% Fe and other (Si)	US\$/t		89.88	192.60	192.60	192.60	192.60	192.60	192.60	192.60	192.60	192.60	192.60	192.60
Sth Africa to China			14.70	15.00	15.00	15.00	12.88	16.07	16.49	16.92	17.37	17.82	18.29	18.77
Western Australia to North China	US\$/t		5.65	7.54	7.73	7.93	7.93	9.89	10.15	10.41	10.69	10.97	11.26	11.55
Brazil to North China	US\$/t		14.32	16.98	17.40	17.83	17.83	22.25	22.83	23.43	24.05	24.68	25.33	25.99
Rail & port cost	ZAR/t		160	166.4	173	180	187	195	202	211	219	228	237	246
Transport & siding costs	ZAR/t		70	72.8	76	79	82	85	89	92	96	100	104	108
One mine costs	ZAR/t		398	485	450	464	487	511	537	563	592	621	652	685
	Fixed (60%)			291	270	278	292	307	322	338	355	373	391	411
	Variable (40%)			194	180	185	195	204	215	225	237	248	261	274
<b>Sales</b>														
Via Kumba			456	852.2	870	870	870	870	870	870	870	870	870	870
AMSA			180	0	0	0	0	0	0	0	0	0	0	0
<b>Revenue</b>	R'000		736,724	2,363,653	2,684,891	2,466,916	2,565,593	2,668,216	2,774,945	2,885,943	3,001,381	3,121,436	3,246,293	3,376,145
Lump ore			550,254	1,696,981	1,927,614	1,771,119	1,841,964	1,915,643	1,992,268	2,071,959	2,154,837	2,241,031	2,330,672	2,423,899
Fines ore			186,470	666,671	757,277	695,797	723,629	752,574	782,677	813,984	846,543	880,405	915,621	952,246
Rail & Port cost			101,760	141,806	150,559	156,581	162,844	169,358	176,132	183,178	190,505	198,125	206,050	214,292
Transport & siding costs			44,520	62,040	65,869	68,504	71,244	74,094	77,058	80,140	83,346	86,680	90,147	93,753
Marketing cost			42,257	189,092	214,791	197,353	205,247	213,457	221,996	230,875	240,110	249,715	259,703	270,092
Shipping cost			128,564	188,805	214,465	197,054	175,982	228,303	243,669	260,069	277,573	296,255	316,194	337,476
On-mine profit			419,623	1,781,909	2,039,207	1,847,424	1,950,274	1,983,004	2,056,091	2,131,681	2,209,847	2,290,662	2,374,199	2,460,533
On-mine costs			253,128	413,317	391,500	403,245	423,407	444,578	391,500	490,147	514,654	403,245	567,406	595,777
Operating profit			166,495	1,368,592	1,647,707	1,444,179	1,526,867	1,538,427	1,664,591	1,641,534	1,695,193	1,887,417	1,806,793	1,864,756
Operating margin			23%	58%	61%	59%	60%	58%	60%	57%	56%	60%	56%	55%
On-mine profit (ZAR/t)			660	2,091	2,344	2,123	2,242	2,279	2,363	2,450	2,540	2,633	2,729	2,828
On-mine profit (USD/t)			48	142	143	141	143	140	139	139	138	138	137	137
Off-mine costs (USD/t)			36	46	45	47	45	48	49	49	50	50	50	51
On-mine costs (USD/t)			29	33	27	31	31	31	26	32	32	24	33	33
<b>Free cash flow</b>														
Operating profit			166,495	1,368,592	1,647,707	1,444,179	1,526,867	1,538,427	1,664,591	1,641,534	1,695,193	1,887,417	1,806,793	1,864,756
Tax			-32,444	-369,031	-447,183	-390,195	-413,348	-416,584	-451,910	-445,455	-460,479	-514,302	-491,727	-507,957
Depreciation & Amortisation			32,656	34,289	36,003	37,803	39,694	41,678	43,762	45,950	48,248	50,660	53,193	55,853
Maintenance capex	3%		-22,102	-70,910	-80,547	-74,007	-76,968	-80,046	-83,248	-86,578	-90,041	-93,643	-97,389	-101,284
FCF			144,605	962,941	1,155,980	1,017,780	1,076,245	1,083,474	1,173,194	1,155,451	1,192,920	1,330,132	1,270,870	1,311,368
DCF @ WACC (Rm)		8,686,792												
Terminal value (present value)		200,000												
WACC		12.8%												

Source: Company data, Chronux Research estimates

Figure 16 Income Statement - Forecast

Afrimat Limited	02/2011	02/2012	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023
<b>Sales</b>	854	996	1338	1901	1999	1970	2228	2457	2966	3304	3916	4372	4587
Cost of Goods Sold (COGS) incl. D&A	649	750	1026	1450	1483	1363	1476	1709	2055	2260	2337	2806	3193
<b>Gross Income</b>	206	246	312	451	516	607	752	748	912	1044	1579	1566	1394
SG&A Expense	-	124	157	221	247	290	346	392	439	458	590	658	691
Other Operating Expense	100	0	0	0	0	0	5	0	-7	-8	-7	-8	-8
<b>EBIT (Operating Income)</b>	106	123	155	230	269	317	401	356	479	594	996	915	711
Nonoperating Income - Net	13	17	8	15	24	23	40	27	16	24	27	43	56
Interest Expense	10	9	14	23	19	18	36	53	59	37	67	56	32
Unusual Expense - Net	1	0	5	1	-1	2	3	6	18	8	0	0	0
Income Taxes	32	39	41	58	73	91	123	79	117	108	315	301	255
Equity in Earnings of Affiliates	0	0	0	0	-1	-4	1	0	2	0	0	0	0
<b>Consolidated Net Income</b>	77	91	104	163	200	224	279	245	304	465	641	601	479
Minority Interest	0	1	1	8	2	2	2	0	3	3	3	5	23
<b>Net Income</b>	76	90	103	155	198	222	278	246	301	463	638	596	456
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income available to Common	76	90	103	155	198	222	278	246	301	463	638	596	456
<b>Per Share</b>													
EPS (recurring)	0.55	0.64	0.72	1.06	1.36	1.55	1.96	1.82	2.29	3.42	6.00	5.58	4.60
EPS (diluted)	0.54	0.64	0.70	1.06	1.36	1.54	1.94	1.79	2.20	3.38	5.91	5.51	4.54
Earnings Persistence	90.13	95.44	77.71	81.32	85.54	93.24	72.97	80.23	90.93	89.56			
Dividends per Share	0.17	0.19	0.28	0.39	0.50	0.57	0.70	0.62	0.81	0.36	2.19	2.04	1.68
<b>EBITDA</b>													
EBITDA	152	169	213	329	349	403	502	480	626	771	1178	1103	905

All figures in millions of South African Rand except per share items.

Afrimat Limited	02/2011	02/2012	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023
Rental Expense	41	50	58	61	74	63	82	77	138	176			
Stock Option Comp Exp (Net of Tax)	0	2	2	3	8	3	5	4	5	11			
Foreign Currency Translation Gains/Losses	0	0	0	-	-	-	-	-	1	6			
Tax Rate	29.3	30.0	28.2	26.3	26.6	28.5	30.6	24.2	28.0	18.9	28.0	28.0	28.0
Headline EPS	0.53	0.63	0.77	1.09	1.36	1.57	1.96	1.81	2.34	3.48	5.99	5.58	4.60
Headline EPS (diluted)	0.53	0.61	0.75	1.06	1.33	1.54	1.94	1.79	2.33	3.44	5.91	5.51	4.54

All figures in millions of South African Rand except per share items.

Afrimat Limited	02/2011	02/2012	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023
Price / Sales	0.5	0.8	0.9	1.0	1.2	1.8	2.0	1.6	1.4	1.2	1.5	1.4	1.3
Price / Earnings	6.0	8.8	11.7	11.9	11.9	15.5	15.5	16.1	13.5	8.3	7.4	8.0	9.7
Price / Book Value	0.7	1.2	1.6	2.2	2.5	3.4	3.5	3.3	2.9	2.3	2.7	2.3	2.0
Price / Tangible Book Value	0.9	1.4	2.0	2.7	3.0	3.9	3.9	4.3	3.4	2.6	2.9	2.5	2.1
Price / Cash Flow	3.5	5.5	7.3	7.7	9.2	10.9	10.7	19.8	10.0	5.8			
Price / Free Cash Flow	5.5	10.9	14.3	15.4	24.3	18.5	16.0	48.6	12.9	7.5			
Dividend Yield (%)	5.2	3.3	3.3	3.0	3.0	2.4	2.3	2.1	2.7	1.3	5.0	4.6	3.8
Enterprise Value / EBIT	4.6	6.2	8.0	8.6	9.2	10.9	10.8	12.3	9.1	6.7	6.1	6.6	8.5
Enterprise Value / EBITDA	3.2	4.5	5.9	6.0	7.1	8.6	8.7	9.1	7.0	5.2	5.1	5.5	6.7
Enterprise Value / Sales	0.6	0.8	0.9	1.0	1.2	1.8	2.0	1.8	1.5	1.2	1.5	1.4	1.3
EBIT / Interest Expense (Int. Coverage)	10.5	13.5	10.9	9.9	14.0	17.2	11.1	6.8	8.2	15.9	14.9	16.4	21.9

Source: Factset, Company data, Chronux Research estimates

Figure 17 Balance Sheet and Cash Flow - Forecast

	02/2011	02/2012	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023
<b>Assets</b>													
Cash & Short-Term Investments	87	133	134	92	79	118	245	112	192	168	564	715	780
Short-Term Receivables	156	161	199	310	288	298	335	401	449	481	542	564	587
Inventories	76	72	89	113	127	133	163	242	261	261	292	304	317
Other Current Assets	7	6	2	4	9	6	7	-	-	-	43	44	46
<b>Total Current Assets</b>	<b>325</b>	<b>371</b>	<b>425</b>	<b>519</b>	<b>503</b>	<b>554</b>	<b>750</b>	<b>755</b>	<b>902</b>	<b>909</b>	<b>1440</b>	<b>1627</b>	<b>1729</b>
Net Property, Plant & Equipment	404	426	504	662	725	763	1058	1418	1470	1572	1940	2018	2100
Total Investments and Advances	14	13	14	28	17	19	33	54	60	72	17	18	18
Long-Term Note Receivable	70	70	102	110	144	141	247	8	0	-	0	0	0
Intangible Assets	115	114	154	156	153	150	148	300	222	210	214	222	231
Deferred Tax Assets	5	5	3	5	25	21	30	55	34	32	40	41	43
Other Assets	21	0	0	0	0	0	0	0	0	0	48	167	218
<b>Total Assets</b>	<b>953</b>	<b>1000</b>	<b>1201</b>	<b>1479</b>	<b>1568</b>	<b>1648</b>	<b>2266</b>	<b>2591</b>	<b>2687</b>	<b>2795</b>	<b>3699</b>	<b>4093</b>	<b>4340</b>
<b>Liabilities &amp; Shareholders' Equity</b>													
ST Debt & Curr. Portion LT Debt	67	55	112	128	119	105	351	255	282	157	157	164	170
Accounts Payable	75	77	78	174	155	164	145	202	181	194	476	496	516
Income Tax Payable	3	10	3	6	6	3	9	11	4	11	29	30	31
Other Current Liabilities	42	40	73	91	109	119	250	282	219	237	9	9	10
<b>Total Current Liabilities</b>	<b>187</b>	<b>182</b>	<b>266</b>	<b>399</b>	<b>388</b>	<b>391</b>	<b>754</b>	<b>751</b>	<b>686</b>	<b>599</b>	<b>672</b>	<b>699</b>	<b>727</b>
Long-Term Debt	52	45	59	95	57	47	95	272	236	139	400	300	100
Provision for Risks & Charges	29	31	34	56	67	76	96	130	141	153	161	167	174
Deferred Tax Liabilities	69	70	81	92	106	108	114	208	215	216	208	202	196
Other Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>337</b>	<b>328</b>	<b>439</b>	<b>641</b>	<b>618</b>	<b>623</b>	<b>1059</b>	<b>1361</b>	<b>1277</b>	<b>1106</b>	<b>1441</b>	<b>1368</b>	<b>1197</b>
Common Equity	613	668	758	824	937	1018	1199	1219	1398	1682	2250	2716	3135
Total Shareholders' Equity	613	668	758	824	937	1018	1199	1219	1398	1682	2250	2716	3135
Accumulated Minority Interest	3	4	4	14	12	7	8	10	11	7	8	8	8
Total Equity	616	672	762	838	949	1025	1207	1229	1410	1689	2258	2725	3143
<b>Total Liabilities &amp; Shareholders' Equ</b>	<b>953</b>	<b>1000</b>	<b>1201</b>	<b>1479</b>	<b>1568</b>	<b>1648</b>	<b>2266</b>	<b>2591</b>	<b>2687</b>	<b>2795</b>	<b>3699</b>	<b>4093</b>	<b>4340</b>
<b>Per Share</b>													
Book Value per Share	4.43	4.87	5.29	5.79	6.56	7.20	8.81	8.93	10.30	12.46	16.55	19.52	22.51
Tangible Book Value per Share	3.60	4.03	4.22	4.70	5.49	6.15	7.73	6.73	8.67	10.90	14.98	17.92	20.86
	02/2011	02/2012	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023
<b>Operating Activities</b>													
Net Income / Starting Line	108	130	144	221	273	315	402	324	422	573	906	874	762
Depreciation, Depletion & Amortization	46	46	58	97	77	82	101	124	146	177	182	188	194
Other Funds	-30	-28	-37	-69	-87	-78	-134	-114	-70	-42	0	0	0
<b>Funds from Operations</b>	<b>124</b>	<b>149</b>	<b>165</b>	<b>249</b>	<b>263</b>	<b>319</b>	<b>368</b>	<b>334</b>	<b>498</b>	<b>709</b>	<b>1088</b>	<b>1062</b>	<b>956</b>
Changes in Working Capital	6	-2	5	-5	-1	1	38	-133	-87	-32	-96	-101	-106
<b>Net Operating Cash Flow</b>	<b>131</b>	<b>146</b>	<b>170</b>	<b>244</b>	<b>262</b>	<b>320</b>	<b>406</b>	<b>201</b>	<b>410</b>	<b>677</b>	<b>992</b>	<b>962</b>	<b>850</b>
<b>Investing Activities</b>													
Capital Expenditures	-46	-72	-83	-121	-162	-131	-135	-119	-94	-154	-535	-312	-275
Net Assets from Acquisitions	-36	-	-87	-70	-8	-4	-280	-38	-9	-27	-240	-60	0
Sale of Fixed Assets & Businesses	7	17	7	17	34	14	27	27	14	34	35	34	34
Purchase/Sale of Investments	-5	0	-32	9	-18	-2	-116	-68	0	6	0	0	0
Other Funds	0	0	0	-1	0	0	0	0	0	0	-52	0	0
<b>Net Investing Cash Flow</b>	<b>-80</b>	<b>-54</b>	<b>-194</b>	<b>-166</b>	<b>-155</b>	<b>-123</b>	<b>-504</b>	<b>-197</b>	<b>-89</b>	<b>-141</b>	<b>-792</b>	<b>-338</b>	<b>-241</b>
<b>Financing Activities</b>													
Cash Dividends Paid	-22	-24	-30	-45	-59	-76	-88	-96	-86	-136	-49	-379	-350
Change in Capital Stock	-6	-4	-7	-27	-15	-60	-18	-14	-31	-29	-12	0	0
Issuance/Reduction of Debt, Net	12	-19	32	-50	-47	-23	293	180	-165	-250	261	-94	-193
Other Funds	0	0	0	0	0	0	38	-25	-3	-3	-66	0	0
<b>Net Financing Cash Flow</b>	<b>-16</b>	<b>-47</b>	<b>-5</b>	<b>-122</b>	<b>-121</b>	<b>-158</b>	<b>225</b>	<b>45</b>	<b>-286</b>	<b>-426</b>	<b>134</b>	<b>-473</b>	<b>-544</b>
Exchange Rate Effect	-	-	-	-	-	-	-	-	0	-	0	0	0
Net Change in Cash	34	45	-29	-44	-14	39	127	49	36	110	334	151	66
<b>Free Cash Flow</b>	<b>85</b>	<b>74</b>	<b>87</b>	<b>123</b>	<b>99</b>	<b>189</b>	<b>272</b>	<b>82</b>	<b>317</b>	<b>523</b>	<b>457</b>	<b>649</b>	<b>575</b>
Free Cash Flow per Share	0.60	0.53	0.59	0.84	0.68	1.31	1.90	0.60	2.31	3.82	3.35	4.65	4.12
Free Cash Flow Yield (%)	18.3	9.2	7.0	6.5	4.1	5.4	6.2	2.1	7.7	13.4	7.6	10.6	9.4

Source: Factset, Company data, Chronux Research estimates

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