

**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.

**Date:** 27 May 2020

## Afrimat – FY20 Results

**Key message:** High iron ore prices boosted results, but the Demaneng mine is now producing at full production. Acquisition opportunities are available, with the announcement post results of an offer for Unicorn Capital Partners – with the target asset the Nkomati Anthracite Mine.

### Analyst

Rowan Goeller  
082 801 2071

[rowan.goeller@chronux.co.za](mailto:rowan.goeller@chronux.co.za)

Price (27/05/2020): R29.90

Target Price: R34.00

- Afrimat announced FY20 results, with HEPS up 48.5% to 347.7c off a 11.4% increase in revenue and 27.5% increase in operating profit. Volume increases contributed 33% to the increased revenue, with price increases contributing 14%.
- Net cash from operations was R676.8m, resulting in the debt: equity ratio falling to 8.2% (from 23.8%). Net debt currently sits at R128m.
- **Bulk Commodities:** the Demaneng mine contributed at full production for a full year for the first time. Iron prices were favourable on the back of a 21% increase in iron ore sales.
- **Industrial Minerals:** new markets, increasing volumes, cost reductions and efficiency improvements helped to grow operating profit by 22.5% with a healthy increase in margins.
- **Construction Materials:** the division stabilised in a weak market, with the KZN business restructured during the prior year. The western Cape is holding up, but the Gauteng market continues to be weak.
- Management is investigating a number of near-term growth opportunities in bulk commodities and industrial minerals. Afrimat's investment proposition is weighted towards the management team finding more Demaneng-type opportunities - small to medium deposits that can be purchased at a good price.
- Afrimat announced an offer for Unicorn Capital Partners post the results announcement. The 60% held Nkomati Anthracite Mine is the target asset for this acquisition. It appears Afrimat has made another relatively cheap buy – R100m to buy UCP with another R100-150m of working capital required to get the mine fully operational (NAV of UCP R600m).

Market cap R4,284m

Shares in issue 139.3mn

### Financial summary

ZARmn (year to February)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2966	3304	3443	3703	3976
Ebitda	626	785	812	888	936
Net income	301	463	407	456	504
Headline EPS (diluted)	2.34	3.48	2.95	3.31	3.65
PE Ratio	13.5	8.3	9.9	8.9	8.0
Dividend	0.81	0.36	1.08	1.21	1.34
Dividend yield (%)	2.7	1.3	3.7	4.2	4.6

Source: Factset, Company data, Chronux Research estimates

Figure 1 Financial summary

Financial year to February	FY19	FY20	FY21E	FY22E	FY23E
ZAR/USD exchange rate	13.75	14.77	16.90	16.14	15.79
Iron ore 62% Fe - fines spot (N.China)	69.00	80.50	70.00	65.00	68.25
<b>Per share data</b>					
Earnings	2.29	3.39	2.95	3.31	3.65
<b>Headline earnings (diluted)</b>	<b>2.33</b>	<b>3.44</b>	<b>2.92</b>	<b>3.27</b>	<b>3.61</b>
NAV	10.30	12.46	15.35	17.49	19.86
Dividend	0.81	0.36	1.08	1.21	1.34
<b>Valuation ratios</b>					
P/E ratio	13.5	8.3	9.9	8.9	8.0
EV/EBITDA	7.0	5.1	5.0	4.6	4.3
P/B	2.89	2.29	1.89		
Dividend yield	2.7%	1.3%	3.7%	4.2%	4.6%
<b>Income Statement (ZARmn)</b>					
Sales	2,966	3,304	3,443	3,703	3,976
Operating costs	2,487	2,696	2,814	3,004	3,233
<b>EBIT</b>	<b>479</b>	<b>608</b>	<b>630</b>	<b>700</b>	<b>743</b>
Net interest expense	59	46	32	20	21
Non-operating expenses	34	24	24	35	62
<b>Pretax profit</b>	<b>387</b>	<b>538</b>	<b>574</b>	<b>644</b>	<b>659</b>
Tax	(117)	(108)	(175)	(201)	(220)
Minorities	(3)	(3)	(43)	(60)	(63)
<b>Net income</b>	<b>301</b>	<b>463</b>	<b>407</b>	<b>456</b>	<b>504</b>
<b>Cash flow statement (ZARmn)</b>					
Depreciation/amortisation	146	-	182	188	194
<b>Cash from operations</b>	<b>568</b>	<b>0</b>	<b>725</b>	<b>802</b>	<b>863</b>
Changes in working capital	(87)	-	(96)	(101)	(106)
Other non-cash items	(70)	677	0	0	0
<b>Available cash</b>	<b>410</b>	<b>#VALUE!</b>	<b>629</b>	<b>701</b>	<b>757</b>
Capital expenditure	(89)	#VALUE!	(228)	(166)	(176)
Acquisitions/disposals	(0)	6	0	0	0
<b>Investing cash flow</b>	<b>(89)</b>	<b>#VALUE!</b>	<b>(228)</b>	<b>(166)</b>	<b>(176)</b>
Changes in borrowings	(200)	(282)	(32)	(93)	7
Dividend paid	(86)	(136)	(93)	(199)	(222)
<b>Financing cash flow</b>	<b>(286)</b>	<b>(418)</b>	<b>(126)</b>	<b>(293)</b>	<b>(216)</b>
Change in cash	36	110	276	243	366
<b>Balance sheet (ZARmn)</b>					
<b>Total assets</b>	<b>2,687</b>	<b>2,795</b>	<b>3,245</b>	<b>3,490</b>	<b>3,863</b>
Cash and equivalents	192	168	444	686	1,052
Current assets	902	909	1,215	1,489	1,888
Fixed assets	1,470	1,572	1,635	1,701	1,770
<b>Total liabilities</b>	<b>1,277</b>	<b>1,106</b>	<b>1,107</b>	<b>1,047</b>	<b>1,090</b>
Long-term liabilities	591	507	484	399	415
Current liabilities	686	599	623	648	674
<b>Total shareholders' funds</b>	<b>1,410</b>	<b>1,689</b>	<b>2,138</b>	<b>2,442</b>	<b>2,774</b>
Net debt/(cash)	415	326	(180)	(516)	(875)
<b>Key ratios</b>					
Operating margin	16.2%	18.4%	18.3%	18.9%	18.7%
RoE	21%	27%	19%	19%	18%
RoIC	18%	22%	19%	20%	19%
Net debt/EBITDA	0.66	0.41	(0.22)	(0.58)	(0.94)
Net debt/equity	29%	19%	-8%	-21%	-32%

Source: Factset, Company data, Chronux Research estimates

## Valuation

- We value Afrimat using a Sum-of-the-Parts methodology. We value the iron ore asset (Demaneng) using a DCF for the life-of-mine.
- 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	313	5.0x	1,565
Iron ore - Demaneng		DCF @ WACC			2,068
Anthracite - Nkomati (60%)	5X	PE			406
Industrial Minerals	4-6x	Mid range multiple	124	4.0x	496
					<b>4,535</b>
Other assets		From balance sheet			75
Minorities		From balance sheet			(57)
Net (debt)/cash		From balance sheet			180
<b>Equity value</b>					<b>4,733</b>
Number of shares ('m)					139,256
<b>Valuation (ZAR per share)</b>					<b>33.99</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 over the assumed 12-year life of mine (official life 10 years). We use a R200m residual value for the value of assets on the mine. It is likely that Afrimat will develop or purchase new resources (iron ore and/or manganese) in the region, but we do not ascribe any value to potential growth at present.
- 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

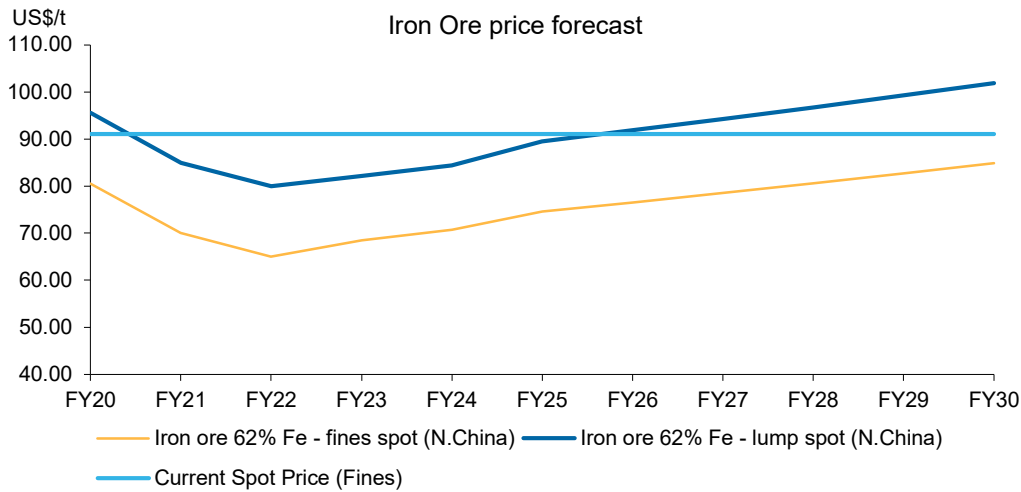
- We use a 4 times EBITDA multiple to value this division. Afrimat has well-placed quarries close to market with high-grade material.
- However, reliance on large industrial customers (Arcelor Mittal South Africa) does pose a potential risk – AMSA accounts for approx. 12-15% of revenue in this division.

### Overall Valuation

- Nkomati adds R3-4 to our valuation of Afrimat, and we value Afrimat at R34 at present.

## Valuation using Spot Prices

Figure 3 Iron Ore Price Forecasts



Source: Company data, Chronux Research

- Should we use spot iron ore prices for Demaneng (US\$91/tonne for iron ore fines), our valuation increases to R41.75 per share.

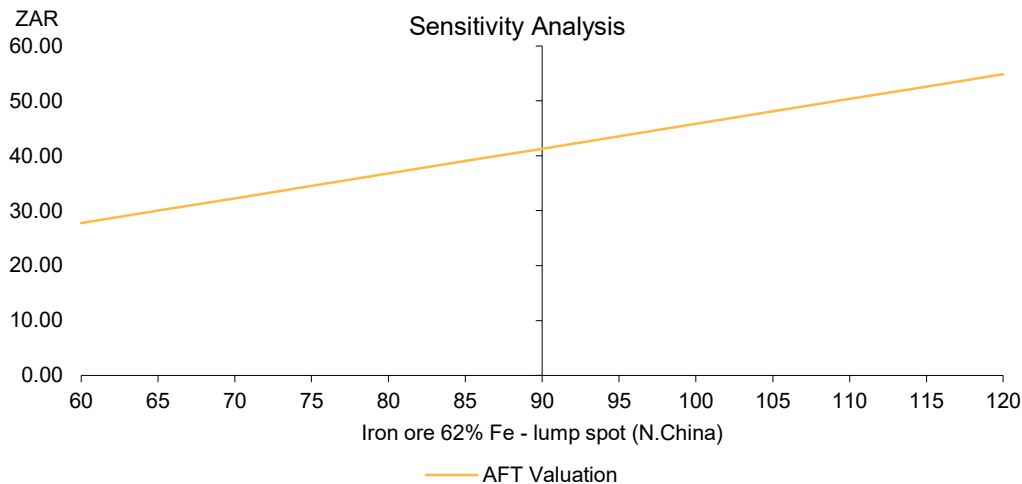
Figure 4 Sum-of-the-Parts Valuation – FY22 EBITDA (Spot Iron Ore Price)

ZARm	Multiple range	Comment	FY22 EBITDA	EV/EBITDA Multiple	Enterprise Value
Construction Materials	4-6x	Mid range multiple	313	5.0x	1,565
Bulk Commodities		DCF @ WACC			3,149
Anthracite - Nkomati (60%)		PE			406
Industrial Minerals	4-6x	Mid range multiple	124	4.0x	496
					<b>5,616</b>
Other assets		From balance sheet			75
Minorities		From balance sheet			(57)
Net (debt)/cash		From balance sheet			180
<b>Equity value</b>					<b>5,814</b>
Number of shares ('m)					139,256
<b>Valuation (ZAR per share)</b>					<b>41.75</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 5 Sensitivity Analysis**

Source: Company data, Chronux Research

## Unicorn Capital Partners acquisition

- Afrimat has announced the acquisition of the remaining 72.73% Unicorn Capital Partners (UCP) shares that it does not own.
- A 27.27% stake was previously purchased for R16m at 5c/share. The remaining stake will be purchased by issuing 1 Afrimat share for every outstanding 280 UCP shares, which values the offer at approx. R85m at R29/Afrimat share. Afrimat will issue 3.02m shares, approx. 2.2% of shares in issue.
- This means that Afrimat will be purchasing the full share capital of UCP for approx. R100m, of which only R16m is cash.
- Management believe that a further R100-150m of working capital is required to stabilise the operation, bringing the effective purchase price to R200-250m.
- The mine should be able to generate approx. R135m PAT, according to our calculations (this assumes an operating profit of R400/sales ton). The payback period for the purchase could be as short as 2-3 years.
- Nkomati Anthracite Mine consists of an opencast and underground operation, with a second opencast mine planned. The resource estimate is 41.3mt, giving a life of well over 20 years.
- 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.
- Glencore is a key local customer, with anthracite prices set on an annual basis giving some stability to pricing.
- Management may look to offload the remaining businesses in UCP (Ritchie Crane Hire, JEF Drill & Blast, Geosearch Group) in the medium-term.

## Divisional Forecast

Figure 6 Divisional Forecast

	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>1,969,786</b>	<b>2,228,157</b>	<b>2,481,231</b>	<b>2,966,399</b>	<b>3,304,376</b>	<b>3,443,255</b>	<b>3,703,255</b>	<b>3,975,774</b>
Construction Materials	1,409,937	1,553,285	1,745,489	1,739,496	1,714,180	1,542,762	1,774,176	1,951,594
Bulk Commodities			175,985	682,198	1,037,513	1,375,444	1,362,026	1,411,763
Industrial Minerals	559,849	674,872	559,757	544,705	552,683	525,049	567,053	612,417
<b>Revenue growth</b>		<b>13.1%</b>	<b>11.4%</b>	<b>19.6%</b>	<b>11.4%</b>	<b>4.2%</b>	<b>7.6%</b>	<b>7.4%</b>
Construction Materials		10.2%	12.4%	-0.3%	-1.5%	-10.0%	15.0%	10.0%
Bulk Commodities				287.6%	52.1%	32.6%	-1.0%	3.7%
Industrial Minerals		20.5%	-17.1%	-2.7%	1.5%	-5.0%	8.0%	8.0%
<b>Operating profit</b>	<b>321,688</b>	<b>405,601</b>	<b>350,399</b>	<b>471,152</b>	<b>600,952</b>	<b>629,736</b>	<b>699,563</b>	<b>742,708</b>
Construction Materials	281,838	374,986	274,580	190,182	192,438	77,138	212,901	234,191
Bulk Commodities			-33,443	201,329	321,665	494,592	400,933	415,530
Industrial Minerals	40,878	39,238	88,393	78,012	95,568	63,006	90,728	97,987
Other	-1,028	-8,623	20,869	1,629	-8,719	-5,000	-5,000	-5,000
<b>Margin</b>	<b>16.3%</b>	<b>18.2%</b>	<b>14.1%</b>	<b>15.9%</b>	<b>18.2%</b>	<b>18.3%</b>	<b>18.9%</b>	<b>18.7%</b>
Construction Materials	20.0%	24.1%	15.7%	10.9%	11.2%	5.0%	12.0%	12.0%
Bulk Commodities			-19.0%	29.5%	31.0%	36.0%	29.4%	29.4%
Industrial Minerals	7.3%	5.8%	15.8%	14.3%	17.3%	12.0%	16.0%	16.0%
<b>Operating profit growth</b>		<b>26.1%</b>	<b>-13.6%</b>	<b>34.5%</b>	<b>27.5%</b>	<b>4.8%</b>	<b>11.1%</b>	<b>6.2%</b>
Construction Materials		33.1%	-26.8%	-30.7%	1.2%	-59.9%	176.0%	10.0%
Bulk Commodities				-702.0%	59.8%	53.8%	-18.9%	3.6%
Industrial Minerals		-4.0%	125.3%	-11.7%	22.5%	-34.1%	44.0%	8.0%

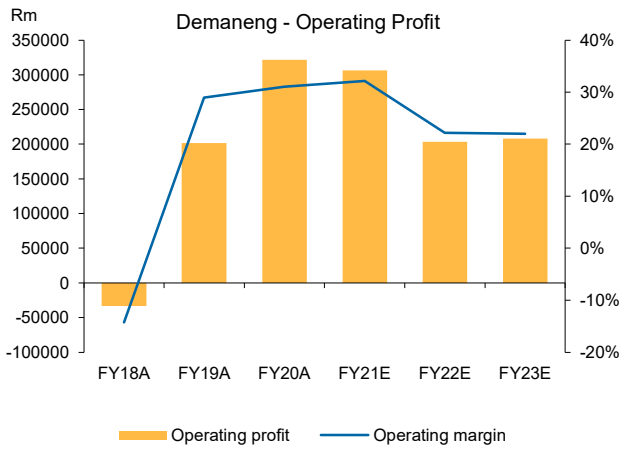
Source: Company data, Chronux Research estimates

- The lockdown in South Africa has had the following impacts incorporated into our forecasts:
- **Construction Materials:** operations were largely shut completely during the lockdown, with a gradual easing in Level 4 (up to 50% of operation) as construction material producers can start up again. A focus on public road projects highlighted as a feature of construction in Level 4 should assist the KZN and Free State quarries to see some demand returning quickly.
- We have assumed 2 months of lost revenue for this division in 1H FY21. Production in 2H FY21 is unaffected by restrictions but may face reduced demand.
- **Industrial Minerals:** products used for water and sanitation (lime and derivative products) were deemed essential and we assume this division fell to 50% of output during the lockdown.
- We have assumed 1 month of lost revenue for this division in 1H FY21. Production in 2H FY21 is unaffected by restrictions but may face reduced demand.
- **Bulk Commodities:** production fell to 50% during the lockdown but will return to 100% in Level 4.
- We have assumed 1 months of lost revenue for this division in 1H FY21. Production in 2H FY21 is unaffected by restrictions but may face reduced demand.
- Iron ore prices are expected to peak in FY20 and gradually decline to FY22, resulting in profitability falling over the forecast period. FY20 earnings should be seen as a cyclical peak, with earnings normalising thereafter.

**Demaneng forecasts**

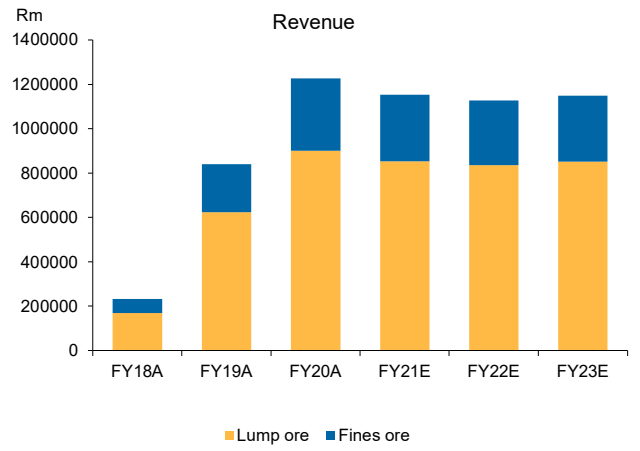
■ Our forecasts for Demaneng are shown in the following charts.

**Figure 7 Demaneng - Production**



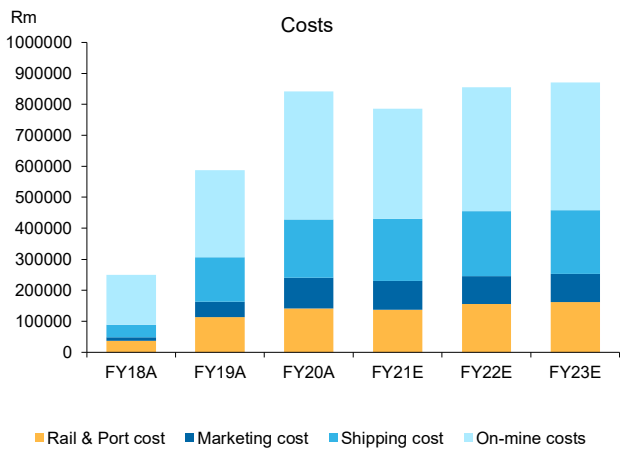
Source: Company data, Chronux Research

**Figure 8 Demaneng - Revenue**



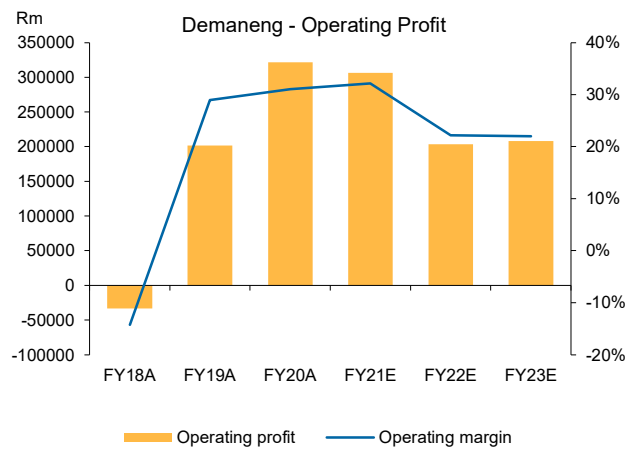
Source: Company data, Chronux Research

**Figure 9 Demaneng - Cost breakdown**



Source: Company data, Chronux Research

**Figure 10 Demaneng - Operating Profit**



Source: Company data, Chronux Research

## Demaneng DCF Valuations

Figure 11 Demaneng DCF Model

<b>Demaneng Model</b>		4.5mt contracted to Kumba over LOM 5/25/2020 17.6725												
		<b>FY18A</b>	<b>1 FY19</b>	<b>2 FY20</b>	<b>3 FY21</b>	<b>4 FY22</b>	<b>5 FY23</b>	<b>6 FY24</b>	<b>7 FY25</b>	<b>8 FY26</b>	<b>9 FY27</b>	<b>10 FY28</b>	<b>11 FY29</b>	<b>12 FY30</b>
<b>Life of mine</b>														
Production (ktpm)		40	53	71.016667	72	72	72	72	72	72	72	72	72	72
Production ('000 tonnes)		320	636	852.2	792	864	864	864	864	864	864	864	864	864
Lump ore ('000 tonnes)		224	445	596.54	554.4	604.8	605	605	605	605	605	605	605	605
Fine ore ('000 tonnes)		96	191	255.66	237.6	259.2	259	259	259	259	259	259	259	259
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	16.90	16.14	16.79	17.46	18.16	18.88	19.64	20.43	21.24	22.09	22.90
Iron ore 62% Fe - fines spot (N.China)	US\$/t	69.00	80.50	70.00	65.00	68.47	70.74	74.56	76.51	78.52	80.59	82.70	84.87	87.04
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	17.40
Iron ore 62% Fe - lump spot (N.China)	US\$/t	85.60	95.50	85.00	80.00	82.16	84.42	89.47	91.82	94.23	96.70	99.24	101.85	104.44
Fines premium		3%	7%	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%	7%
Adjusted fines - 62% Fe and other (Si)	US\$/t	71.07	86.14	74.90	69.55	73.26	75.69	79.78	81.87	84.02	86.23	88.49	90.81	93.17
Adjusted lump - 65.3% Fe and other (Si)	US\$/t	89.88	102.19	90.95	85.60	87.91	90.33	95.73	98.24	100.82	103.47	106.19	108.98	111.81
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	19.25
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	11.84
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	26.65
Rail & port cost	ZAR/t	160	166.4	173	180	187	195	202	211	219	228	237	246	255
Transport & siding costs	ZAR/t	70	72.8	76	79	82	85	89	92	96	100	104	108	112
One mine costs	ZAR/t	398	485	450	464	487	511	537	563	592	621	652	685	719
	Fixed (60%)		291	270	278	292	307	322	338	355	373	391	411	431
	Variable (40%)		194	180	185	195	204	215	225	237	248	261	274	288
<b>Sales</b>														
Via Kumba		456	852.2	792	864	864	864	864	864	864	864	864	864	864
AMSA		180	0	0	0	0	0	0	0	0	0	0	0	0
<b>Revenue</b>	R'000	<b>736,724</b>	<b>1,225,598</b>	<b>1,152,846</b>	<b>1,126,702</b>	<b>1,211,416</b>	<b>1,296,397</b>	<b>1,426,778</b>	<b>1,522,808</b>	<b>1,625,301</b>	<b>1,734,692</b>	<b>1,851,446</b>	<b>1,976,057</b>	<b>2,101,111</b>
Lump ore		550,254	900,343	852,104	835,700	892,625	953,870	1,051,310	1,122,069	1,197,590	1,278,194	1,364,223	1,456,042	1,552,861
Fines ore		186,470	325,255	300,743	291,003	318,791	342,527	375,468	400,739	427,711	456,498	487,223	520,015	548,250
Rail & Port cost		101,760	141,806	137,060	155,501	161,721	168,190	174,918	181,914	189,191	196,759	204,629	212,814	221,306
Transport & siding costs		44,520	62,040	59,964	68,032	70,753	73,583	76,526	79,588	82,771	86,082	89,525	93,106	96,812
Marketing cost		42,257	98,048	92,228	90,136	96,913	103,712	114,142	121,825	130,024	138,775	148,116	158,085	168,570
Shipping cost		128,564	188,805	200,763	209,204	186,833	242,379	258,693	276,104	294,687	314,521	335,690	358,284	382,433
On-mine profit		419,623	734,898	662,832	603,829	695,196	708,533	802,499	863,377	928,627	998,555	1,073,485	1,153,769	1,239,502
On-mine costs		253,128	413,317	356,400	400,464	420,487	441,512	388,800	486,766	511,105	400,464	563,493	591,668	620,118
Operating profit		166,495	321,581	306,432	203,365	274,709	267,021	413,699	376,611	417,522	598,091	509,992	562,101	619,384
Operating margin		23%	26%	27%	18%	23%	21%	29%	25%	26%	34%	28%	28%	29%
On-mine profit (ZAR/t)		660	862	837	699	805	820	929	999	1,075	1,156	1,242	1,335	1,433
On-mine profit (USD/t)		48	58	50	43	48	47	51	53	55	57	58	60	63
Off-mine costs (USD/t)		36	39	37	37	36	39	40	40	41	42	42	43	44
On-mine costs (USD/t)		29	33	27	29	29	29	25	30	30	23	31	31	32
<b>Free cash flow</b>														
Operating profit		166,495	321,581	306,432	203,365	274,709	267,021	413,699	376,611	417,522	598,091	509,992	562,101	619,384
Tax		-32,444	-75,868	-71,626	-42,767	-62,743	-60,591	-101,661	-91,276	-102,731	-153,290	-128,623	-143,213	-158,853
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	58,613
Maintenance capex	3%	-22,102	-36,768	-34,585	-33,801	-36,342	-38,892	-42,803	-45,684	-48,759	-52,041	-55,543	-59,282	-63,171
FCF		<b>144,605</b>	<b>243,235</b>	<b>236,224</b>	<b>164,600</b>	<b>215,316</b>	<b>209,217</b>	<b>312,997</b>	<b>285,601</b>	<b>314,280</b>	<b>443,420</b>	<b>379,019</b>	<b>415,459</b>	<b>451,161</b>
DCF @ WACC (Rm)	1,485,276													
Terminal value (present value)	200,000													
WACC	12.8%													
<b>Value of rail access</b>														
% of revenue	5%	36,836	61,280	57,642	56,335	60,571	64,820	71,339	76,140	81,265	86,735	92,572	98,803	105,433
DCF @ WACC (Rm)	382,646													
WACC	12.8%													

Source: Company data, Chronux Research estimates



Figure 12 Demaneng DCF Model (Spot)

<b>Demaneng Model</b>		4.5mt contracted to Kumba over LOM												
		5/25/2020			17.6725									
		1	2	3	4	5	6	7	8	9	10	11	12	
<b>Life of mine</b>		FY18A	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Production (ktpm)		40	53	71.0166667	72	72	72	72	72	72	72	72	72	72
Production ('000 tonnes)		320	636	852.2	792	864	864	864	864	864	864	864	864	864
Lump ore ('000 tonnes)		224	445	596.54	554.4	604.8	605	605	605	605	605	605	605	605
Fine ore ('000 tonnes)		96	191	255.66	237.6	259.2	259	259	259	259	259	259	259	259
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	16.90	16.14	16.79	17.46	18.16	18.88	19.64	20.43	21.24	22.09
Iron ore 62% Fe - fines spot (N.China) US\$/t			69.00	91.00	91.00	91.00	91.00	91.00	91.00	91.00	91.00	91.00	91.00	91.00
Lump premium US\$/t			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	106.00	106.00	106.00	106.00	106.00	106.00	106.00	106.00	106.00	106.00	106.00
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	97.37	97.37	97.37	97.37	97.37	97.37	97.37	97.37	97.37	97.37	97.37
Adjusted lump - 65.3% Fe and other (Si) US\$/t			89.88	113.42	113.42	113.42	113.42	113.42	113.42	113.42	113.42	113.42	113.42	113.42
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	792	864	864	864	864	864	864	864	864	864
AMSA			180	0	0	0	0	0	0	0	0	0	0	0
<b>Revenue</b>														
Lump ore R'000			736,724	1,367,013	1,453,589	1,514,705	1,575,294	1,638,305	1,703,838	1,771,991	1,842,871	1,916,586	1,993,249	2,072,979
Fines ore			550,254	999,334	1,062,624	1,107,302	1,151,594	1,197,658	1,245,564	1,295,387	1,347,202	1,401,090	1,457,134	1,515,419
Total Revenue			186,470	367,679	390,965	407,404	423,700	440,648	458,274	476,604	495,669	515,495	536,115	557,560
Rail & Port cost			101,760	141,806	137,060	155,501	161,721	168,190	174,918	181,914	189,191	196,759	204,629	212,814
Transport & siding costs			44,520	62,040	59,964	68,032	70,753	73,583	76,526	79,588	82,771	86,082	89,525	93,106
Marketing cost			42,257	109,361	116,287	121,176	126,023	131,064	136,307	141,759	147,430	153,327	159,460	165,838
Shipping cost			128,564	188,805	200,763	209,204	186,833	242,379	258,693	276,104	294,687	314,521	335,690	358,284
On-mine profit			419,623	865,000	939,515	960,792	1,029,963	1,023,088	1,057,394	1,092,626	1,128,792	1,165,897	1,203,945	1,242,936
On-mine costs			253,128	413,317	356,400	400,464	420,487	441,512	388,800	486,766	511,105	400,464	563,493	591,668
Operating profit			166,495	451,683	583,115	560,328	609,476	581,577	668,594	605,859	617,687	765,433	640,452	651,269
Operating margin			23%	33%	40%	37%	39%	35%	39%	34%	34%	40%	32%	31%
On-mine profit (ZAR/t)			660	1,015	1,186	1,112	1,192	1,184	1,224	1,265	1,306	1,349	1,393	1,439
On-mine profit (USD/t)			48	69	70	69	71	68	67	67	67	66	66	65
Off-mine costs (USD/t)			36	40	38	40	38	41	41	42	42	43	43	43
On-mine costs (USD/t)			29	33	27	29	29	29	25	30	30	23	31	31
<b>Free cash flow</b>														
Operating profit			166,495	451,683	583,115	560,328	609,476	581,577	668,594	605,859	617,687	765,433	640,452	651,269
Tax			-32,444	-112,296	-149,097	-142,717	-156,478	-148,666	-173,031	-155,466	-158,777	-200,146	-165,151	-168,180
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	-41,010	-43,608	-45,441	-47,259	-49,149	-51,115	-53,160	-55,286	-57,498	-59,797	-62,189
FCF			144,605	332,665	426,413	409,974	445,432	425,439	488,209	443,184	451,871	558,449	468,696	476,752
DCF @ WACC (Rm)		2,480,087												
Terminal value (present value)		200,000												
WACC		12.8%												
<b>Value of rail access</b>														
% of revenue		5%	36,836	68,351	72,679	75,735	78,765	81,915	85,192	88,600	92,144	95,829	99,662	103,649
DCF @ WACC (Rm)		468,482												
WACC		12.8%												

Source: Company data, Chronux Research estimates

Figure 13 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	3443	3703	3976
Cost of Goods Sold (COGS) incl. D&A	649	750	1026	1450	1483	1363	1476	1709	2055	2239	2386	2484	2659
<b>Gross Income</b>	206	246	312	451	516	607	752	748	912	1065	1057	1219	1317
SG&A Expense	-	124	157	221	247	290	346	392	439	478	493	508	523
Other Operating Expense	100	0	0	0	0	0	5	0	-7	-22	-65	12	52
<b>EBIT (Operating Income)</b>	106	123	155	230	269	317	401	356	479	608	630	700	743
Nonoperating Income - Net	13	17	8	15	24	23	40	27	16	21	24	35	62
Interest Expense	10	9	14	23	19	18	36	53	59	46	32	20	21
Unusual Expense - Net	1	0	5	1	-1	2	3	6	18	3	0	0	0
Income Taxes	32	39	41	58	73	91	123	79	117	108	175	201	220
Equity in Earnings of Affiliates	0	0	0	0	-1	-4	1	0	2	0	3	3	3
<b>Consolidated Net Income</b>	77	91	104	163	200	224	279	245	304	465	450	516	567
Minority Interest	0	1	1	8	2	2	2	0	3	3	43	60	63
<b>Net Income</b>	76	90	103	155	198	222	278	246	301	463	407	456	504
Discontinued Operations	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	407	456	504
<b>Per Share</b>													
EPS (recurring)	0.55	0.64	0.72	1.06	1.36	1.55	1.96	1.82	2.29	3.39	2.95	3.31	3.65
EPS (diluted)	0.54	0.64	0.70	1.06	1.36	1.54	1.94	1.79	2.20	3.38	2.92	3.27	3.61
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	1.08	1.21	1.34
<b>EBITDA</b>													
EBITDA	152	169	213	329	349	403	502	480	626	785	812	888	936

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	-			
Stock Option Comp Exp (Net of Tax)	0	2	2	3	8	3	5	4	5	7			
Foreign Currency Translation Gains/Losses	0	0	0	-	-	-	-	-	1	-			
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	2.95	3.31	3.65
Headline EPS (diluted)	0.53	0.61	0.75	1.06	1.33	1.54	1.94	1.79	2.33	3.44	2.92	3.27	3.61

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	1.1	1.1	1.0
Price / Earnings	6.0	8.8	11.7	11.9	11.9	15.5	15.5	16.1	13.5	8.3	9.9	8.9	8.0
Price / Book Value	0.7	1.2	1.6	2.2	2.5	3.4	3.5	3.3	2.9	2.3	1.9	1.7	1.5
Price / Tangible Book Value	0.9	1.4	2.0	2.7	3.0	3.9	3.9	4.3	3.4	2.6	2.1	1.8	1.6
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	3.7	4.2	4.6
Enterprise Value / EBIT	4.6	6.2	8.0	8.6	9.2	10.9	10.8	12.3	9.1	6.5	6.4	5.8	5.4
Enterprise Value / EBITDA	3.2	4.5	5.9	6.0	7.1	8.6	8.7	9.1	7.0	5.1	5.0	4.6	4.3
Enterprise Value / Sales	0.6	0.8	0.9	1.0	1.2	1.8	2.0	1.8	1.5	1.2	1.2	1.1	1.0
EBIT / Interest Expense (Int. Coverage)	10.5	13.5	10.9	9.9	14.0	17.2	11.1	6.8	8.2	13.2	19.9	34.3	35.0

Source: Factset, Company data, Chronux Research estimates

Figure 14 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	444	686	1052
Short-Term Receivables	156	161	199	310	288	298	335	401	449	481	501	521	542
Inventories	76	72	89	113	127	133	163	242	261	261	271	282	293
Other Current Assets	7	6	2	4	9	6	7	-	-	-	0	0	0
<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>1215</b>	<b>1489</b>	<b>1888</b>
Net Property, Plant & Equipment	404	426	504	662	725	763	1058	1418	1470	1572	1635	1701	1770
Total Investments and Advances	14	13	14	28	17	19	33	54	60	72	20	21	22
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	219	228	237
Deferred Tax Assets	5	5	3	5	25	21	30	55	34	32	33	34	36
Other Assets	21	0	0	0	0	0	0	0	0	0	122	16	-89
<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>3245</b>	<b>3490</b>	<b>3863</b>
<b>Liabilities &amp; Shareholders' Equity</b>													
ST Debt & Curr. Portion LT Debt	67	55	112	128	119	105	351	255	282	157	163	170	177
Accounts Payable	75	77	78	174	155	164	145	202	181	421	438	456	474
Income Tax Payable	3	10	3	6	6	3	9	11	4	11	12	12	13
Other Current Liabilities	42	40	73	91	109	119	250	282	219	10	10	10	11
<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>623</b>	<b>648</b>	<b>674</b>
Long-Term Debt	52	45	59	95	57	47	95	272	236	139	100	0	0
Provision for Risks & Charges	29	31	34	56	67	76	96	130	141	153	159	165	172
Deferred Tax Liabilities	69	70	81	92	106	108	114	208	215	216	225	234	243
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>1107</b>	<b>1047</b>	<b>1090</b>
Common Equity	613	668	758	824	937	1018	1199	1219	1398	1682	2081	2385	2717
Total Shareholders' Equity	613	668	758	824	937	1018	1199	1219	1398	1682	2081	2385	2717
Accumulated Minority Interest	3	4	4	14	12	7	8	10	11	7	57	57	57
Total Equity	616	672	762	838	949	1025	1207	1229	1410	1689	2138	2442	2774
<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>3245</b>	<b>3490</b>	<b>3863</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	15.35	17.49	19.86
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	13.78	15.86	18.17
	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	-	543	614	669
Depreciation, Depletion & Amortization	46	46	58	97	77	82	101	124	146	-	182	188	194
Other Funds	-30	-28	-37	-69	-87	-78	-134	-114	-70	677	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>677</b>	<b>725</b>	<b>802</b>	<b>863</b>
Changes in Working Capital	6	-2	5	-5	-1	1	38	-133	-87	-	-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>629</b>	<b>701</b>	<b>757</b>
<b>Investing Activities</b>													
Capital Expenditures	-46	-72	-83	-121	-162	-131	-135	-119	-94	-154	-262	-200	-210
Net Assets from Acquisitions	-36	-	-87	-70	-8	-4	-280	-38	-9	-27	-	-	-
Sale of Fixed Assets & Businesses	7	17	7	17	34	14	27	27	14	34	34	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	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>-228</b>	<b>-166</b>	<b>-176</b>
<b>Financing Activities</b>													
Cash Dividends Paid	-22	-24	-30	-45	-59	-76	-88	-96	-86	-136	-93	-199	-222
Change in Capital Stock	-6	-4	-7	-27	-15	-60	-18	-14	-31	-29	0	0	0
Issuance/Reduction of Debt, Net	12	-19	32	-50	-47	-23	293	180	-165	-250	-32	-93	7
Other Funds	0	0	0	0	0	0	38	-25	-3	-3	0	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>-126</b>	<b>-293</b>	<b>-216</b>
Exchange Rate Effect	-	-	-	-	-	-	-	-	0	-	0	0	0
Net Change in Cash	34	45	-29	-44	-14	39	127	49	36	110	276	243	366
<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>367</b>	<b>501</b>	<b>547</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	2.64	3.59	3.92
Free Cash Flow Yield (%)	18.3	9.2	7.0	6.5	4.1	5.4	6.2	2.1	7.7	13.4	9.1	12.4	13.5

Source: Factset, Company data, Chronux Research estimates

**Disclaimer:**

This report is not investment, financial, accounting or tax advice and is provided for information purposes only. In preparing this report we did not take your specific needs and investment objectives into account. Any prices or quotations provided are indicative only and may not be used or relied on for any purposes, including valuation purposes. Opinions expressed in this communication may change without any notice. This communication is not a solicitation to buy or sell any product. To the extent permitted by the law, Chronux Research Pty. Ltd. and/or the author(s) accept no responsibility or liability (in negligence or otherwise) for loss or damage resulting from the use of or relating to any error in the information provided. This information has been prepared in good faith and is based on information obtained from third party sources. Any modelling, scenario analysis past or simulated past performance (including back-testing) contained in this information is no indication of future performance. This product may not be eligible for distribution in all jurisdictions and is directed at institutional investors who have professional experience as defined by the applicable law and/or regulation in the relevant jurisdiction. It is not for retail investors and may not be distributed into any jurisdiction where the information is not permitted. This communication is for the intended recipient only and if you have received this communication in error or in an unlawful manner the report must be destroyed, and the author notified immediately. These disclaimers and exclusions shall be governed and construed in accordance with South African law. If any provisions of these disclaimers and exclusions shall be unlawful, void or for any reason unenforceable then that provision shall be deemed severable and shall not affect the validity and enforceability of the remaining provisions. © Chronux Research Pty. Ltd. All rights of Chronux Research Pty. Ltd are reserved.