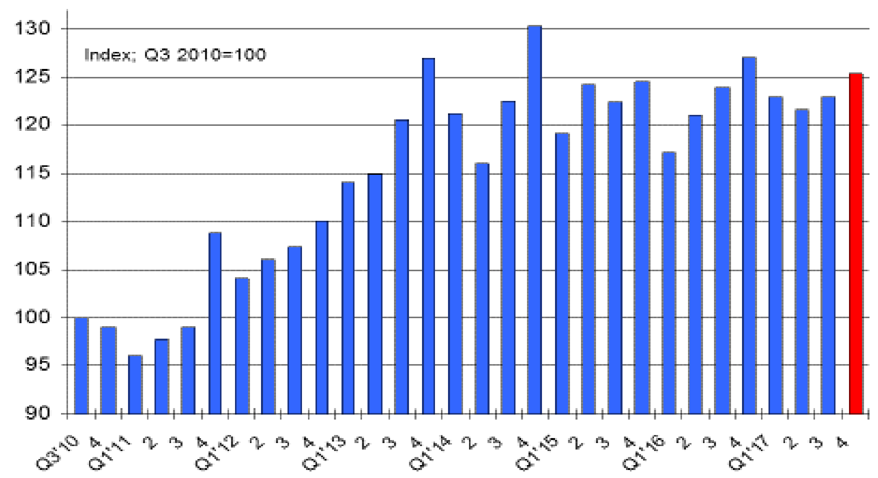
Afrimat Construction Index gathers steam in fourth quarter of 2017

Johannesburg, 15 January 2018 – Afrimat, a leading open pit mining company providing industrial minerals and construction materials, has released the findings of the Afrimat Construction Index ("ACI") for the fourth quarter of 2017.

For the three months between October and December 2017, the trend broadly followed the upward movement of South Africa's GDP. After reaching an eight-quarter high of 127 at the end of 2016, the ACI declined for two successive quarters before recovering in the third quarter. It increased again in the fourth quarter of 2017 by 1.9% to reach a level of 125.4 (see graph 1).

Graph 1: Afrimat Construction Index (ACI) – 4th quarter 2017

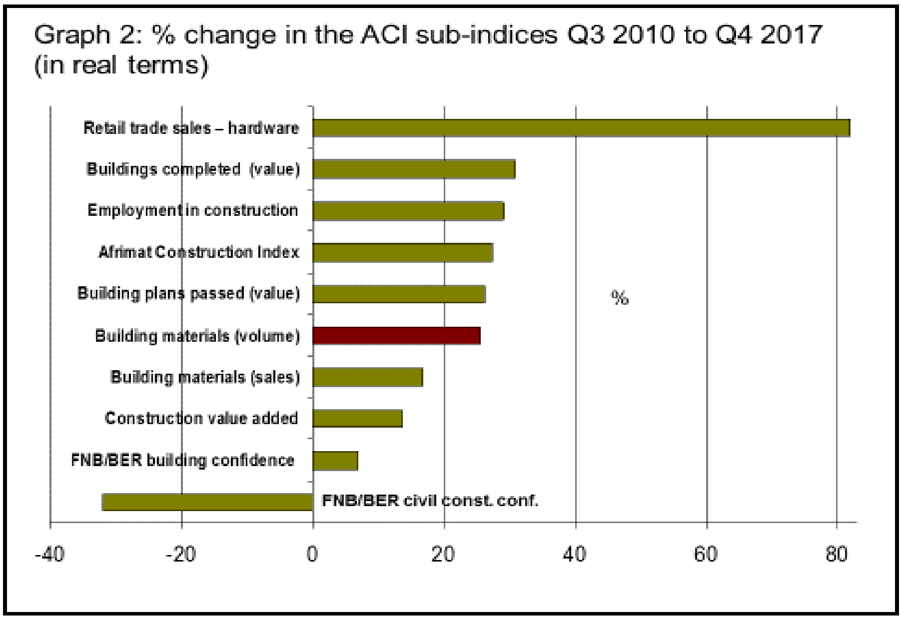


The construction sector at large continues to outperform the economy as a whole by a considerable margin, with the ACI having expanded by 25.4% since the third quarter of 2010 (the base period). This is substantially higher than the rate of growth of 15.8% for the economy over this period (in real terms).

The ACI is a composite index of the level of activity within the building and construction sectors, compiled by renowned economist Dr Roelof Botha on behalf of Afrimat. Botha says the composite index provides a balanced and realistic view of the level of activity in the construction sector as it evens out the contradictory trends of conditions in the sector often portrayed by the individual indicators that comprise the index.

The ACI is calculated from nine different constituent indicators. The real percentage change in the values for these indicators since the base period (third quarter 2010) is reflected in graph 2. The improvement in the ACI between the third and fourth quarters of 2017 was driven mainly by the following:

- Value of buildings completed by major municipalities
- Retail sales values for hardware, glass and paint
- Sales value of building materials produced



Five of the nine indicators included in the ACI recorded improvements during the fourth quarter, with two others declining marginally (by less than 0.5%).

“A proxy for the improvement in the index can be found in the latest national accounts data, released by Statistics SA in March” says Botha. “During the fourth quarter of 2017, remuneration of employees and gross profitability in the construction sector both increased their year-on-year growth rates from the previous quarter’s figures (6.8% and 5%, respectively).”

According to Botha, the improvement in the ACI bodes well for the sector’s growth prospects in 2018, particularly due to the change in the country’s political leadership. South Africa’s new president has managed to instill a mood of optimism in the country, with his maiden State of the Nation address aptly titled “hope and renewal”.

President Ramaphosa has announced that a jobs summit would be convened in the coming months to ensure, *inter alia,* that the economy becomes more productive and economic infrastructure is expanded. Furthermore, a Presidential Economic Advisory Council would also be appointed to assist with greater coherence and consistency in the implementation of economic policy.

Botha warns, however, that the decision by Parliament to pass a motion for the Constitutional Review Committee to consider whether to amend the Constitution to allow expropriation of land without compensation may place a damper on the revival of business confidence and construction activity related to land improvements.

“Another vexed issue that government will have to address with some urgency is late payments on both the revenue and expenditure side of municipal finances. National Treasury has identified this problem area as a threat to the financial stability of several municipalities. At the end of last year, municipal creditors totaled R41.2 billion, of which 39.3% was owed to Eskom and 17.7% to water boards. On the debtors’ side, National Government and the Provinces owed municipalities a combined R6.6 billion. Any threats to the financial viability of local governments undermines progress with housing and infrastructure projects.”

Andries van Heerden, Afrimat CEO, says that the results of the ACI fourth quarter numbers are encouraging and that he is hopeful that the positive trend will flow into the first quarter of 2018.

"We witnessed a reduction in sales volumes during the last quarter of 2017, with the slow-down exacerbated in November and December in construction material products. This was felt more strongly in KwaZulu-Natal and southern Gauteng, where our Glen Douglas and Clinker operation experienced reduced volumes. We nevertheless are optimistic about the change in leadership of the country – there is no doubt that the political uncertainly of the last few months of 2017 worsened the situation," said van Heerden.

He added that it was heartening that President Ramaphosa is directly addressing issues the people of South Africa face in a manner that incorporates public private partnerships as well as addressing failings within certain State Owned Enterprises, where various bottlenecks make service delivery a problem for the people.

"By delving into the constituents of the ACI, like Professor Botha does, we are also able to check and benchmark that the areas that we are involved in are returning the necessary value to shareholders, and this does seem to align. A prime example is that as a direct result of much improved commodity prices, it was decided to accelerate the ramp-up of Demaneng mine (previously called Diro mine), which is expected to reach its design production capacity of 1 million tonnes per annum at the end of February 2018," concluded van Heerden.

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