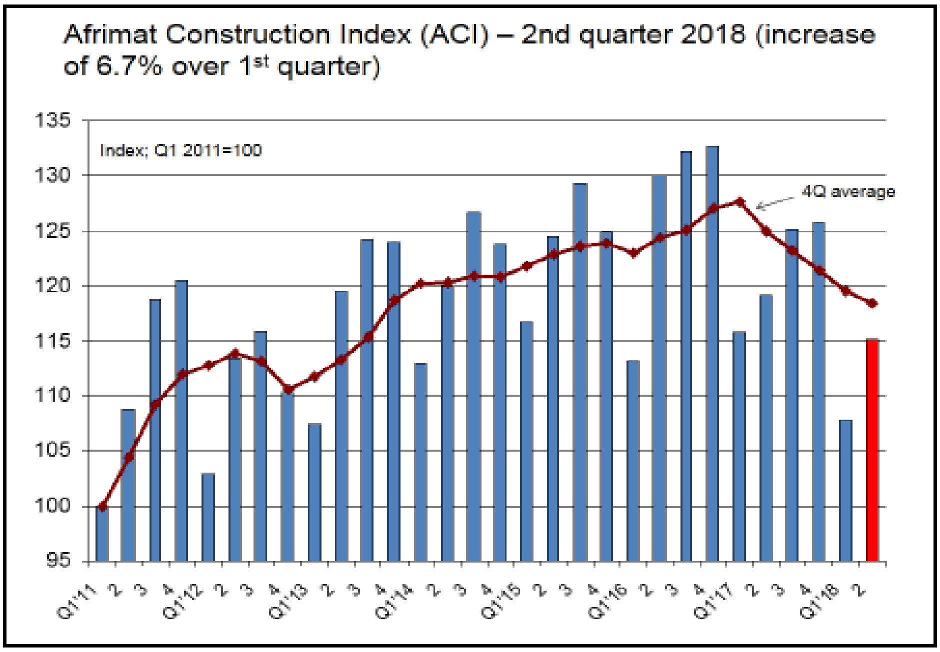
Afrimat Construction Index for the second quarter of 2018 signals welcome improvement in construction activity

Johannesburg, 20 September 2018 – Afrimat, the JSE-listed open-pit mining company providing industrial minerals and construction materials, today released the findings of the Afrimat Construction Index ("ACI") for the second quarter of 2018. The ACI is a composite index of the level of activity within the building and construction sectors, compiled by respected economist Dr Roelof Botha on behalf of Afrimat.

According to Botha, the index level recorded in the second quarter of the year improved by almost 7% over the first quarter figure, signifying a welcome recovery in the level of activity in the South African construction sector. Seven of the eight indicators recorded gains from the first quarter of 2018. "It's also encouraging that the overall Index has improved by 15.1% since the first quarter of 2011, the base year, which is marginally higher than the increase in the country's real GDP of 13.8% over this same period."



The star performers during the second quarter were the value of buildings completed in the country's larger municipalities, labour remuneration in construction, and both the value and volume of building materials produced.

Looking ahead to prospects for the third quarter, Botha notes that preliminary data for July confirms a further upward trend for the volume of building materials produced, whilst the sales value hovered close to the R1 billion mark. "Construction activity nevertheless remains constrained due to high interest rates and policy uncertainty, especially regarding the possibility of land reform. The latter has resulted in a drop in the value of agricultural land, whilst residential property values on average also declined further in real terms during 2018."

Botha commented that the role of greater cooperation between the state and the private sector in the areas of mining and construction cannot be overstated, particularly given the need to reduce unemployment. "According to a recent survey amongst members of the Minerals Council of South Africa, greater policy certainty and pragmatic incentives could lead to an increase of more than 80% over the next four years in capital expenditure by the mining sector, which is currently projected at R145 billion. This could add another R122 billion of capex.

“Fortunately, the election of Cyril Ramaphosa as South Africa’s new president has already resulted in a commitment by government to enhance the level of engagement with the private sector, as witnessed by a more business-friendly review of the Mining Charter.”

Botha believes that a major overhaul of dysfunctional local authorities can be expected after next year’s elections, with government already having hinted at the need for an infusion of more technical and management skills in bankrupt municipalities. “This has become imperative for the sake of maintaining and expanding the infrastructure that is required for basic service delivery.”

According to Botha, it is a misconception to suggest that the construction sector is on its knees, despite sluggish growth during the first half of 2018. Total output for the sector’s contractors amounted to R89 billion during the first six months of 2018, representing an increase of 7.2% over the first half of last year (in nominal terms). Some examples of construction and mining projects that are in the pipeline include:

- Transnet’s R7 billion megaproject to create deeper berths at the Durban Container Terminal is expected to start in October. It represents one of the first projects to be funded by the Brics Development Bank.
- The development of 300 affordable housing units on the valuable Somerset Precinct in Cape Town’s CBD (near the V&A Waterfront). The property is owned by the state.
- A mixed-use property development at the Wanderers Golf Club in Illovo, Johannesburg (between Sandton and Rosebank). This is a partnership with Investec Property, valued at around R2 billion and will include high-end commercial space and luxury residential apartments.

“It is also encouraging that South Africa’s leading business cycle indicator has improved by almost 9% since the first quarter of 2016. The country’s GDP expanded by R156 billion during the first six months of 2018, representing a growth rate of 6.9% over the same period last year in nominal terms. Based on year-on-year comparisons, therefore, South Africa is not in a recession.”

Botha says the ACI provides a balanced and realistic view of the level of activity in the construction sector as it evens out the contradictory trends that are often portrayed by the individual components that comprise the Index, which is calculated from eight different constituent indicators.

Andries van Heerden, Afrimat’s CEO, is also optimistic, saying that opportunities are still available, both within the construction sector and outside of it. “Despite the prevailing economic headwinds, there are still nuggets of growth within our operating environment. Even though these are relatively small, they may well be working through the system, to be reflected in future results.”

With a keen focus on unlocking shareholder value, Afrimat constantly seeks out such opportunities, driving its diversification strategy and entrepreneurial culture hard to ensure this happens. A prime example of this is the Demaneng iron ore mine, which is outperforming expectations. “One needs to have a relatively clear vision of the future to determine the way forward, and the Index does help confirm alignment. Furthermore, I am a massive protagonist of encouraging government and business to think about a joint vision of what we want the mining sector to look like and produce for our nation.”

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