

**CONSISTENTLY  
DELIVERING**



**Annual General Meeting**

29 July 2020

# Core message



- **Diversification strategy proved its worth**
- **Very strong balance sheet enables growth**
- **Values based entrepreneurial culture is paying off**



# What makes Afrimat different?



**Company  
positioning**

**Strategic  
management**

**Company  
culture**



# Company positioning



- Primarily focused on mid-tier mining

- Unique competitive advantage

- Geographic location
- Unique metallurgy
- Structural cost advantage

→ Critical set of criteria used when potential acquisitions are being evaluated

- Highly entrepreneurial culture
- Hedged against economic volatility through wide diversification

# Company culture



- Strong operational efficiency – executing ability
- The right people in the right positions
- Synergistic teamwork
- Customer focus
- Values based entrepreneurial culture

**CONSISTENTLY  
DELIVERING**

# Strategic management



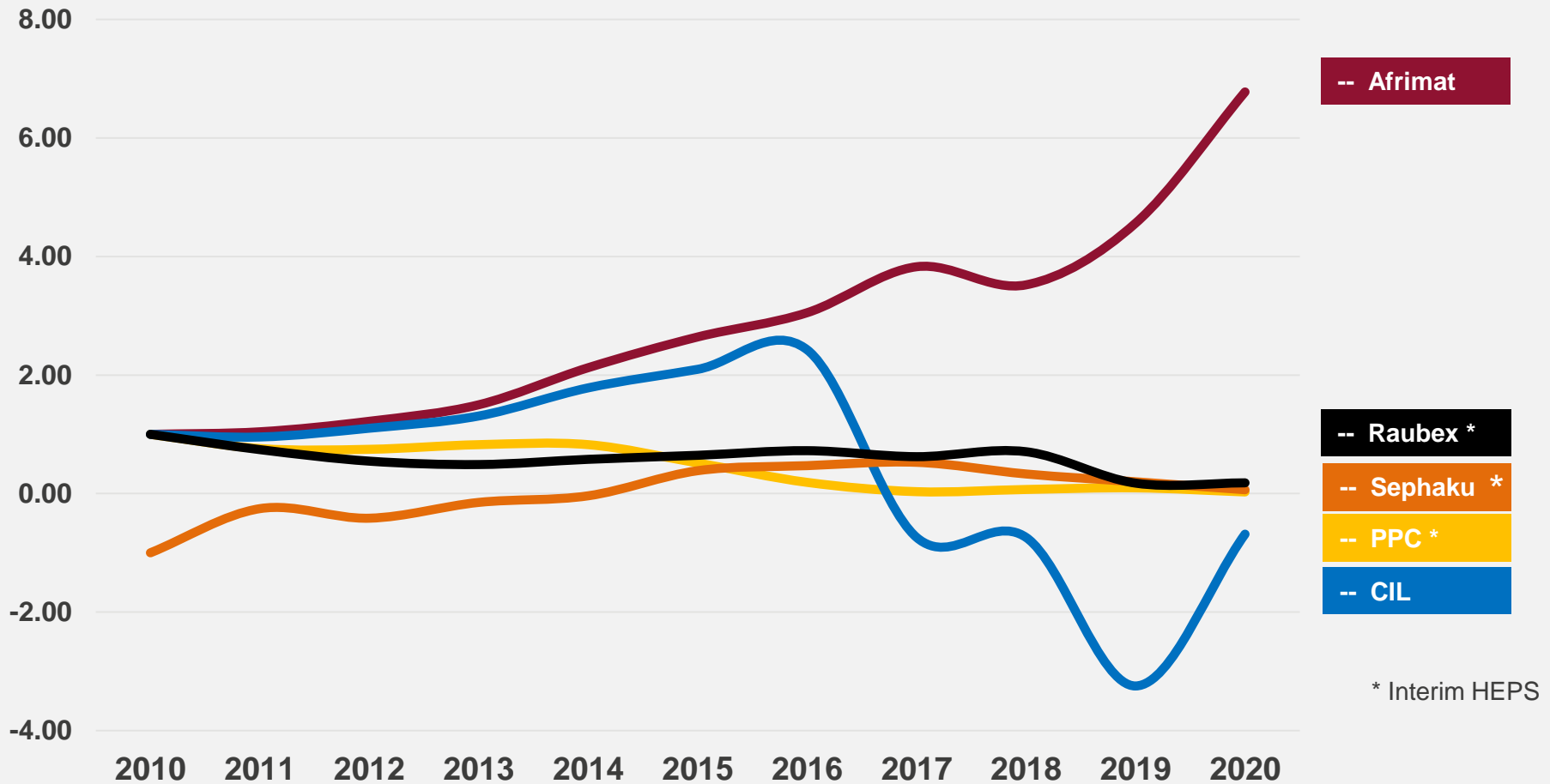
- Company-wide understanding of our desired ideal future
- Fundamental understanding of our market
- Good understanding of our own abilities
- Continuous research of the business environment
- Making the difficult decisions
- Meticulous strategy execution
- Financial discipline: making the returns





**WHAT THE  
DIVERSIFICATION  
STRATEGY IS  
DELIVERING**

# Headline earnings per share (HEPS) comparison

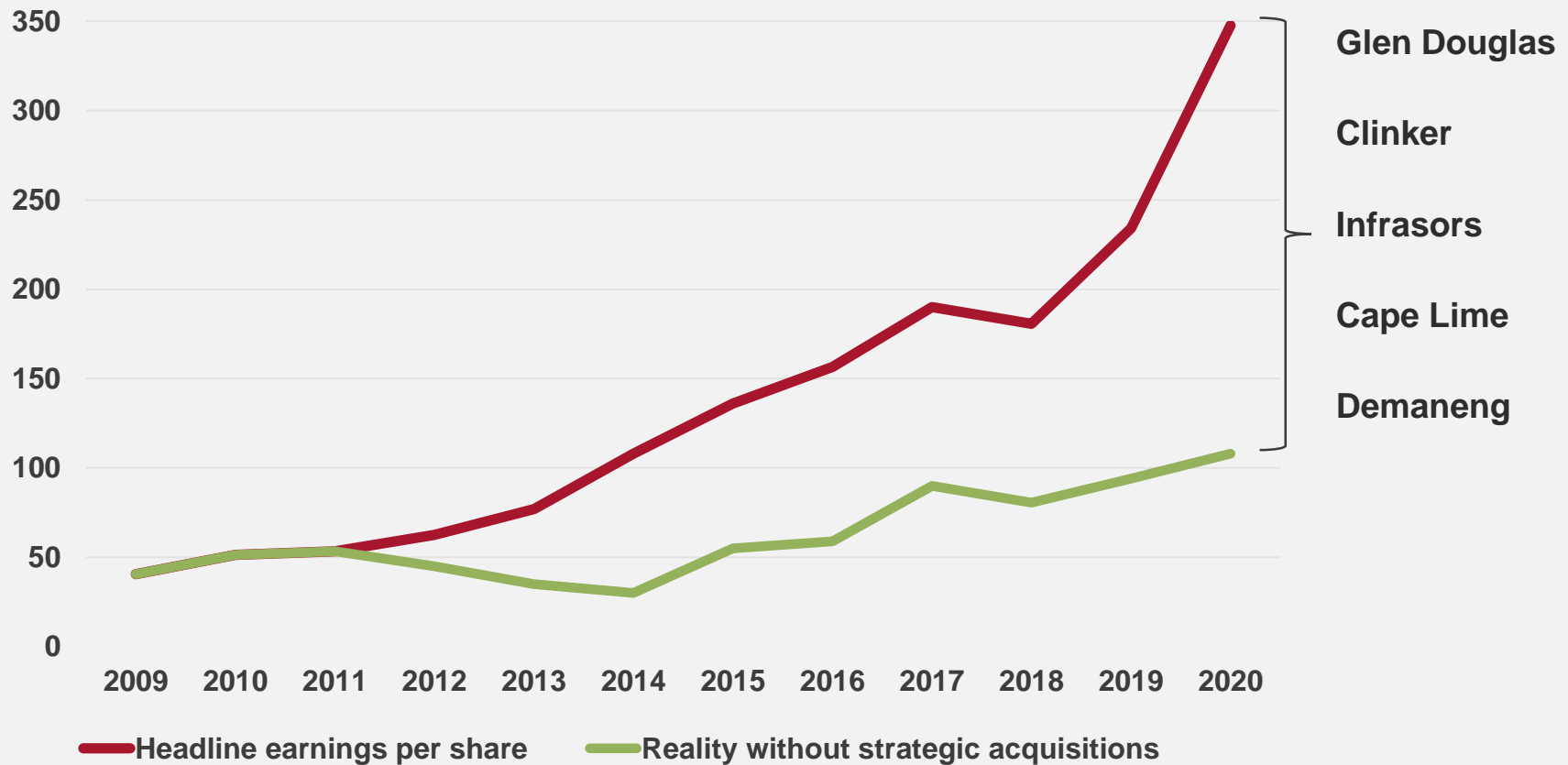




# Growth through diversification



## Profit history with and without acquisitions





# FINANCIAL REVIEW

# Financial overview



Exceptional cash generation



Strong quality of earnings across group



Continued focus on astute capital allocation

# Financial overview



**11,4%**

**Group revenue  
increased to  
R3,3bn**

**48,5%**

**HEPS increased to  
347,7 cps**

**18,2%**

**Operating profit  
margin**

**30,9%**

**Return on net  
operating assets**

**8,2%**

**Net debt:equity  
ratio improvement  
from 23,8%**



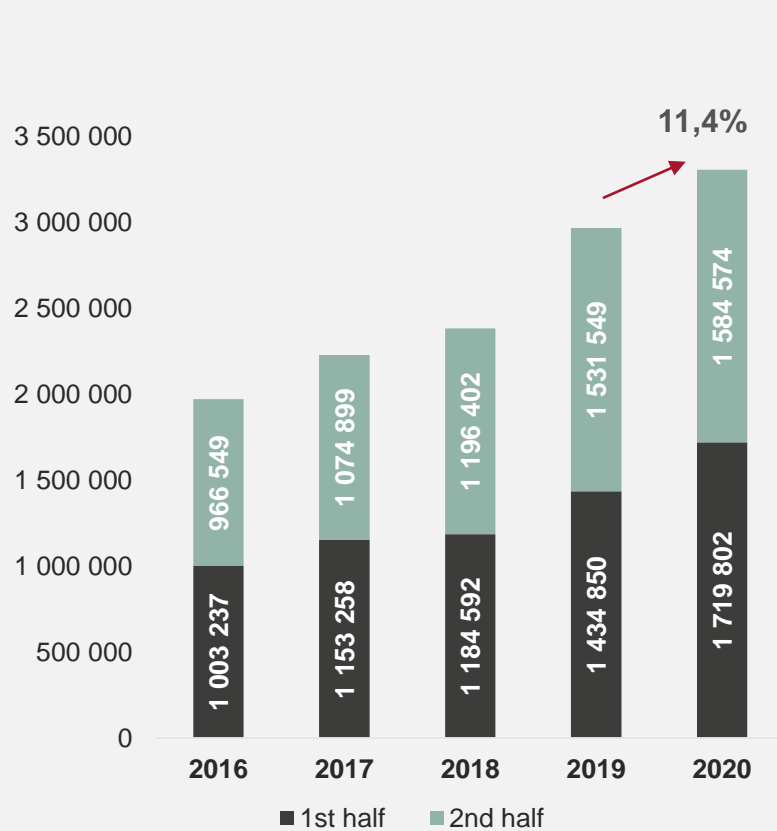
# Financial overview



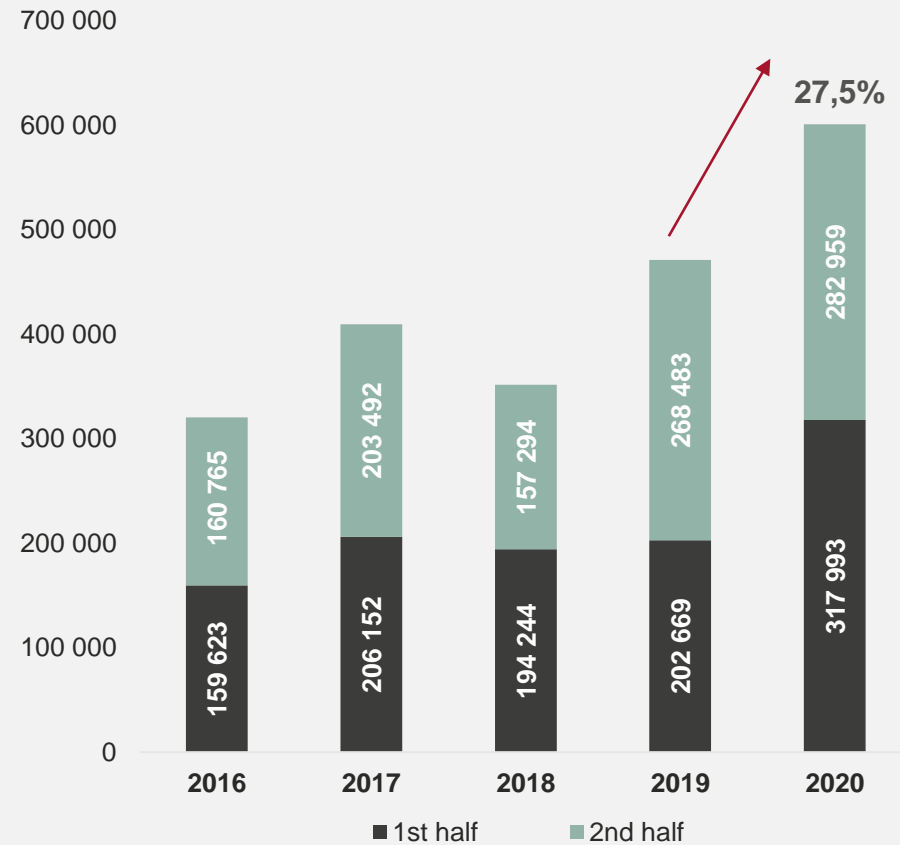
## Revenue and operating profit

Contribution from operations margin 18,2% (2019: 15,9%)

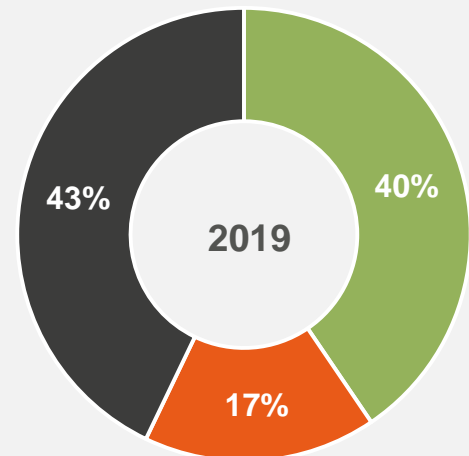
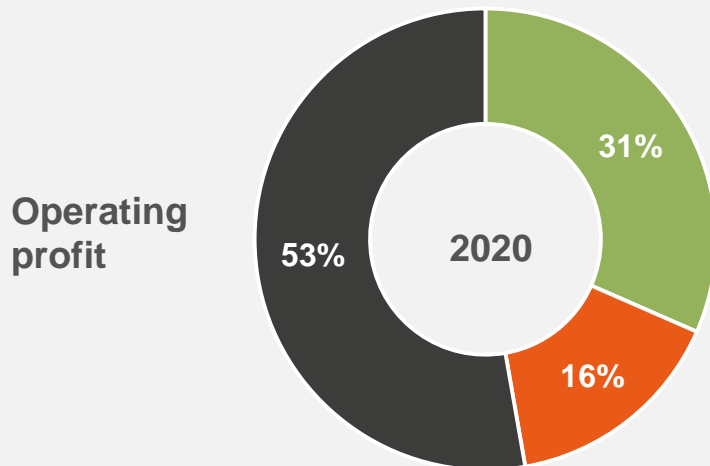
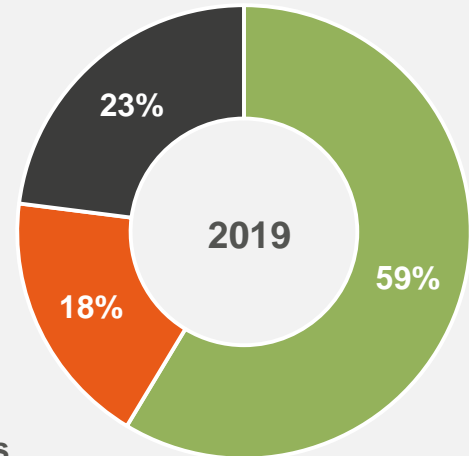
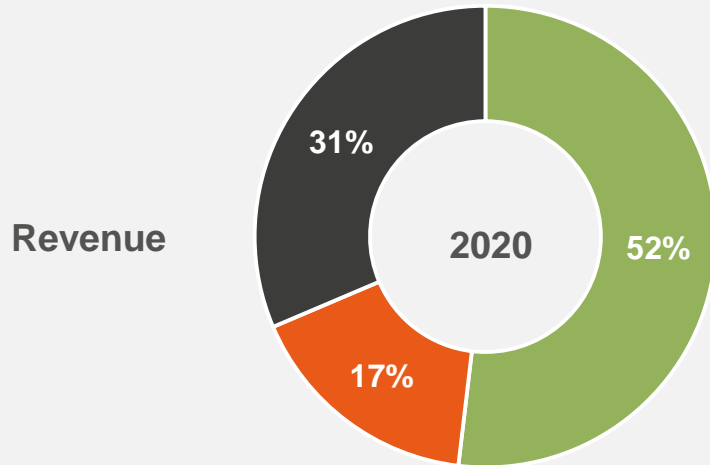
Revenue (R'000)



Operating profit (R'000)



# Contribution from operations



# Total dividend

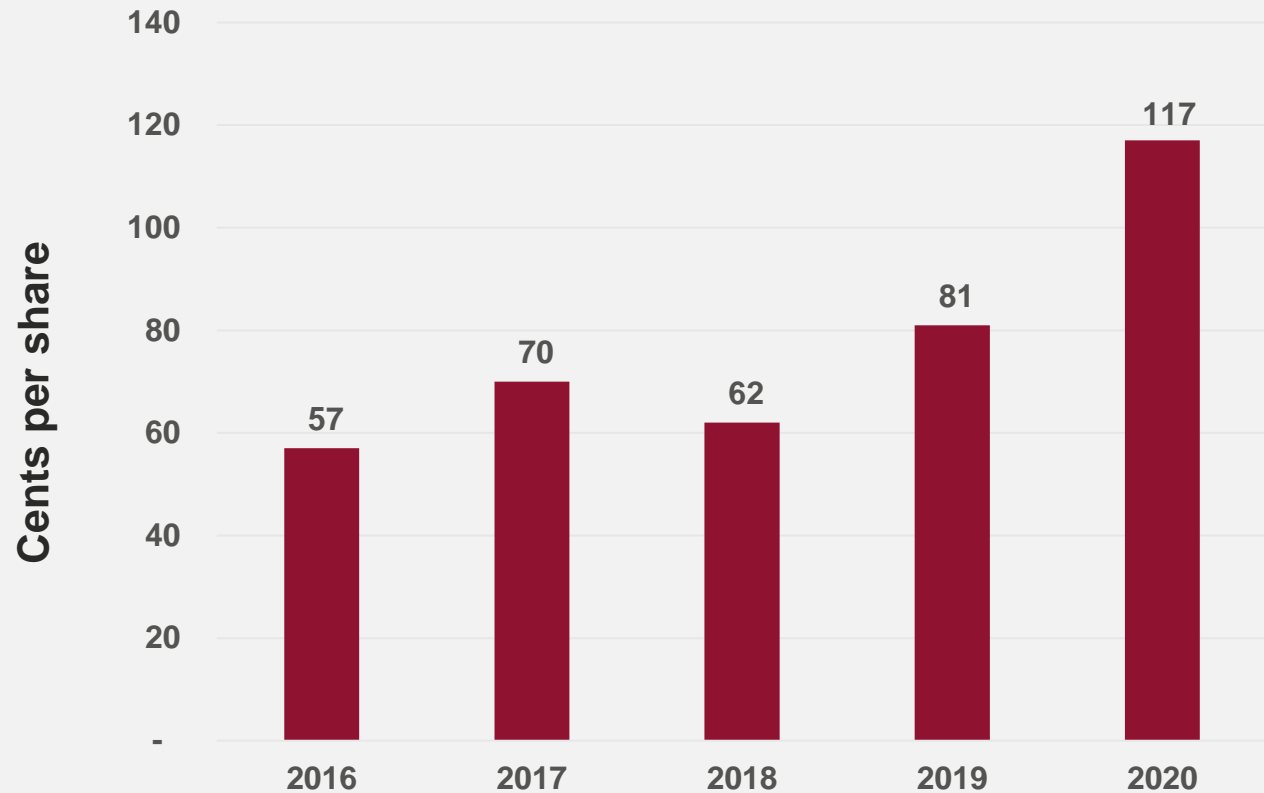


**Dividend – 2.7x cover**

CAGR of 19,7%  
2016 - 2020

Record date:  
Friday, 4 Sept. 2020

Dividend payable:  
Monday, 7 Sept. 2020



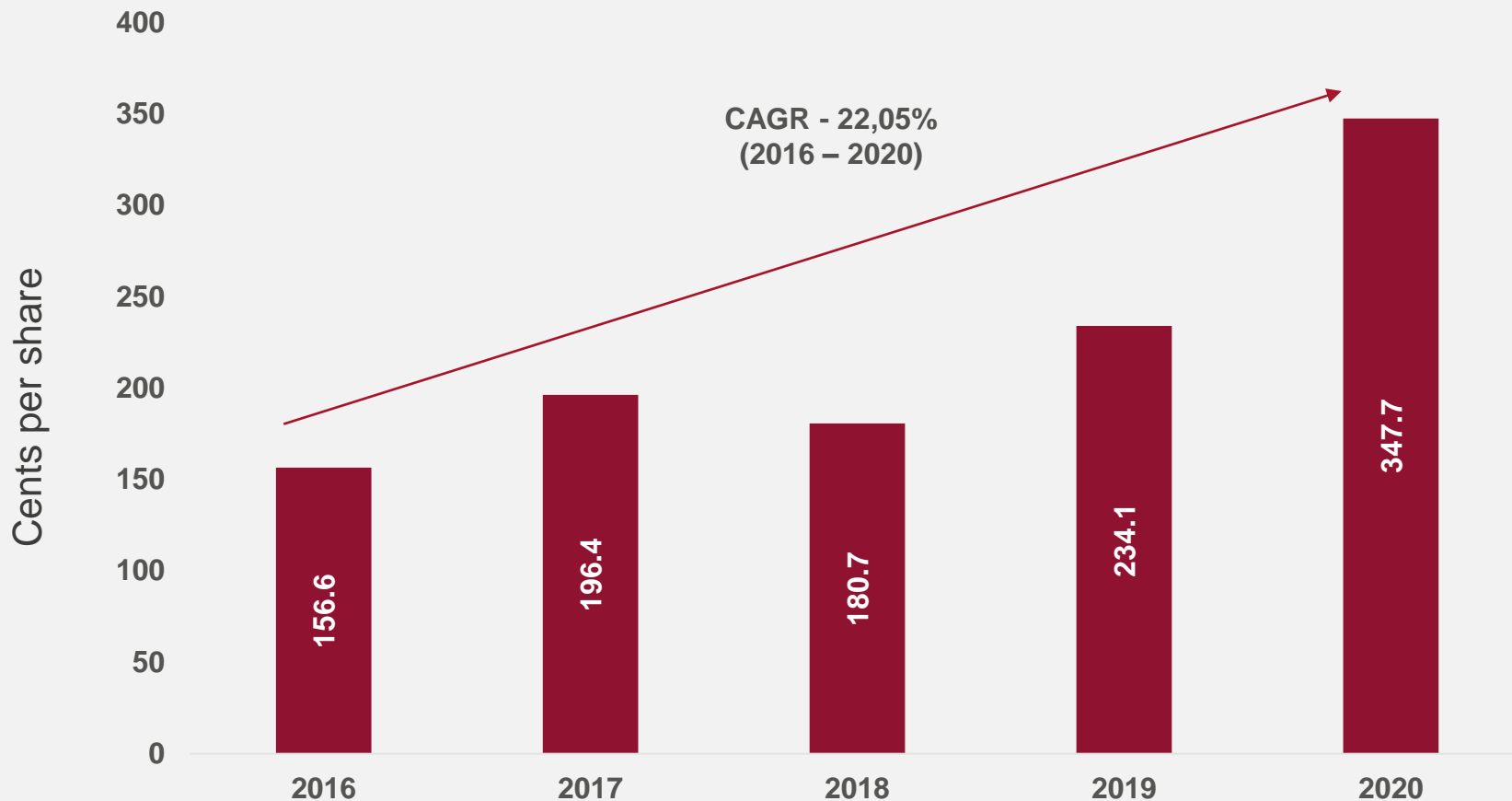
# Margin improvements

Operating profit margin (%)	FY2020	FY2019
Construction Materials	11,2%	10,9%
Bulk Commodities	31,0%	29,5%
Industrial Minerals	17,3%	14,3%
Overall	18,2%	15,9%





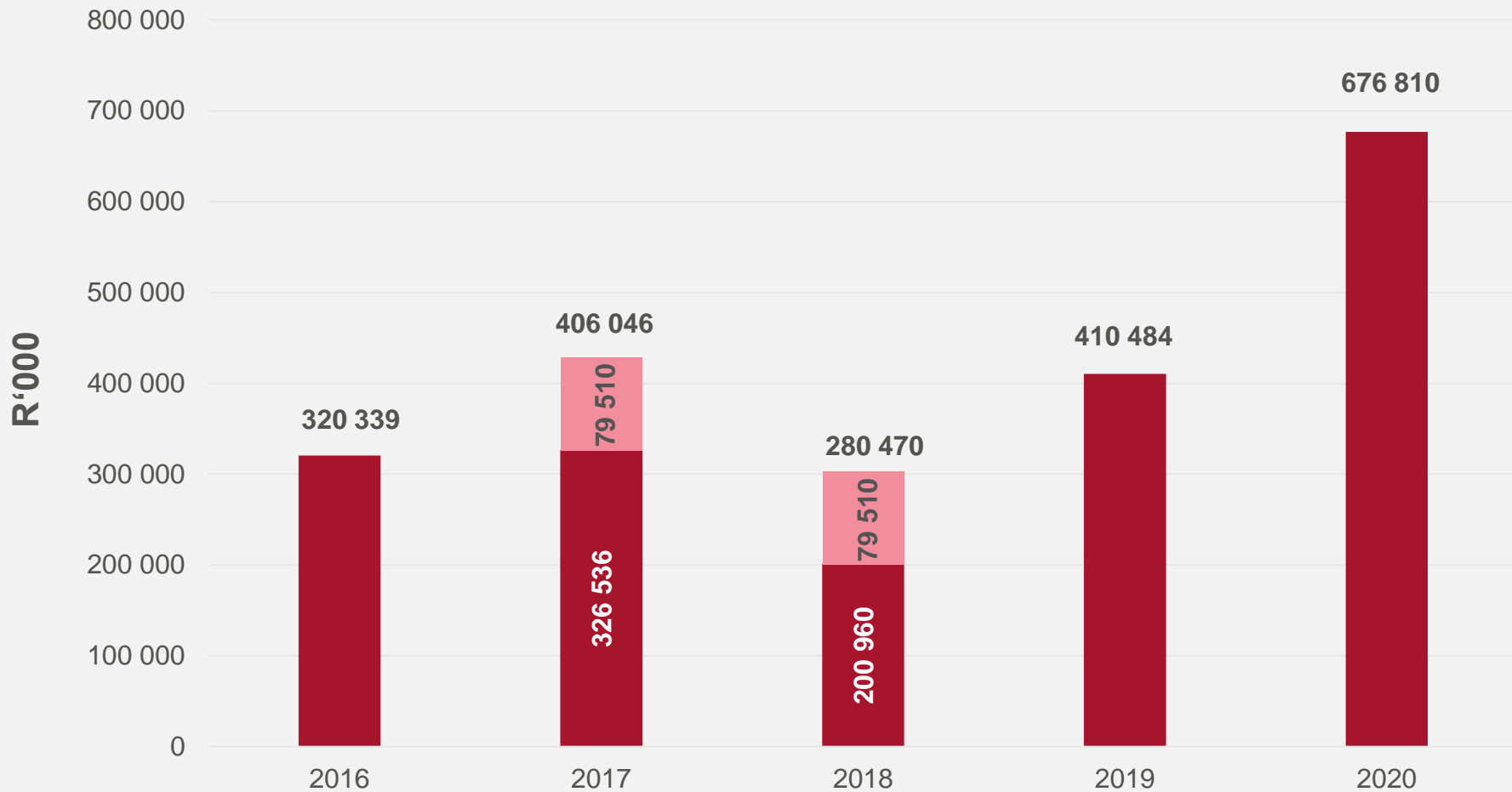
# Headline earnings per share – full year



# Net cash from operation activities – full year



CAGR of 20,56% (2016 – 2020)



# Statement of financial position

## - assets



<b>R'000</b>	<b>Audited Feb 2020</b>	<b>Audited Feb 2019</b>
Property, plant and equipment	1 571 519	1 469 837
Intangible assets	210 226	221 873
Inventories	260 526	261 249
Trade and other receivables	476 356	435 458
Cash	167 533	191 763
Other assets / deferred tax	109 102	106 832
	<b>2 795 262</b>	<b>2 687 012</b>

# Statement of financial position – equities & liabilities



R'000	Audited Feb 2020	Audited Feb 2019
Total equity	1 688 907	1 409 517
Borrowings	295 832	383 546
Provisions	152 748	141 080
Overdraft	20	134 153
Trade and other liabilities	421 072	390 517
Other liabilities / deferred tax	236 683	228 199
	<b>2 795 262</b>	<b>2 687 012</b>

→ Debt:equity ratio improved to 8,2% (2019: 23,8%) at year-end

Debt:equity ratio improved further during F2021 Q1 – enabling dividend payment



# Lessons learned



- Value determined by the weakest link in value chain
- Expect the unexpected (e.g. COVID-19)
- Only the best people are good enough
- Don't trust the spreadsheet or the budget
- Don't sail too close to the wind
- Cash is king – make it soon
- DO NOT OVERPAY FOR ACQUISITIONS



# OUR MARKET

# Bulk commodities

- Iron ore



# Iron ore market overview



- World production of usable ore: 2.5 billion tons
- World seaborne trade about 1.467 billion tons p.a.
- China's imports about 72% of seaborne trade
- South African production: about 70 million tons p.a.
- Production of 1 ton of crude steel requires 1.4 ton of iron ore and 0.8 ton of metallurgical coal
- World steel production: 1.87 billion tons
  - China: 996.3 million tons
  - India: 111.2 million tons
  - Japan: 99.3 million tons



# Impact of COVID-19



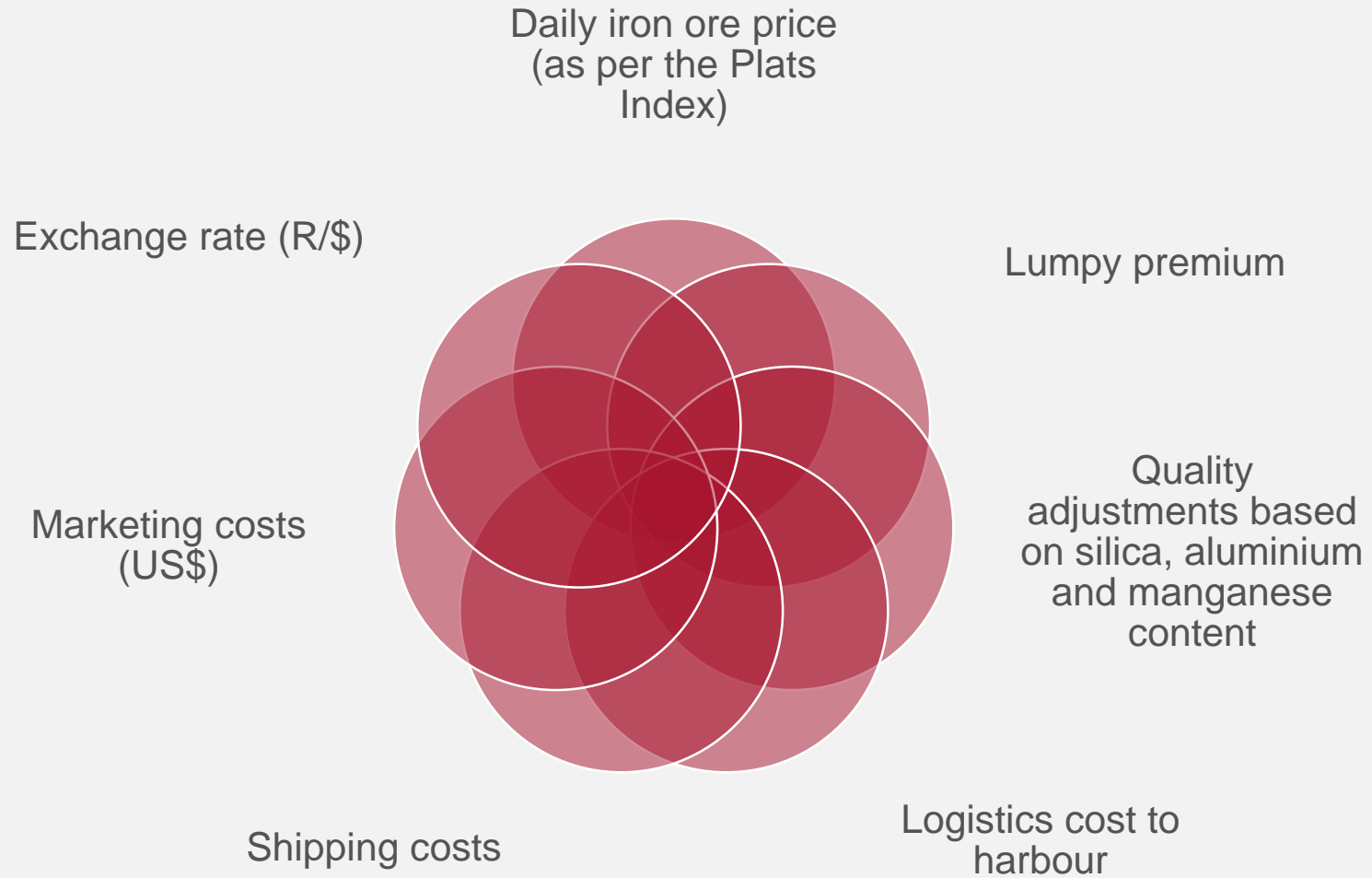
- Hard lockdown in China January/February
  - Increased imports due to domestic travel ban
  - Market tilted towards Construction and Infrastructure
- Significant impact in Europe
  - Construction and automotive about 50% of steel consumption
  - All major European car manufacturers halted in March 2020 – withdrawing 61 000 vehicles per day
- IMF warned that global economy could endure steepest decline since the Great Depression
  - Global GDP could shrink by 3% in 2020
- Iron ore price remains remarkably strong

# Iron ore pricing



- Seaborne pricing driven by Chinese production of pig iron
- Grew in 2019 from \$75/t to \$125/t: Average \$93/t
- Currently trending higher: Average for July \$107,7 ton against \$83,84/t in April
- Record levels in Rand terms
- Fitch forecast average of \$90/t in 2021
- Realized price influenced by various quality premiums

# Pricing influences

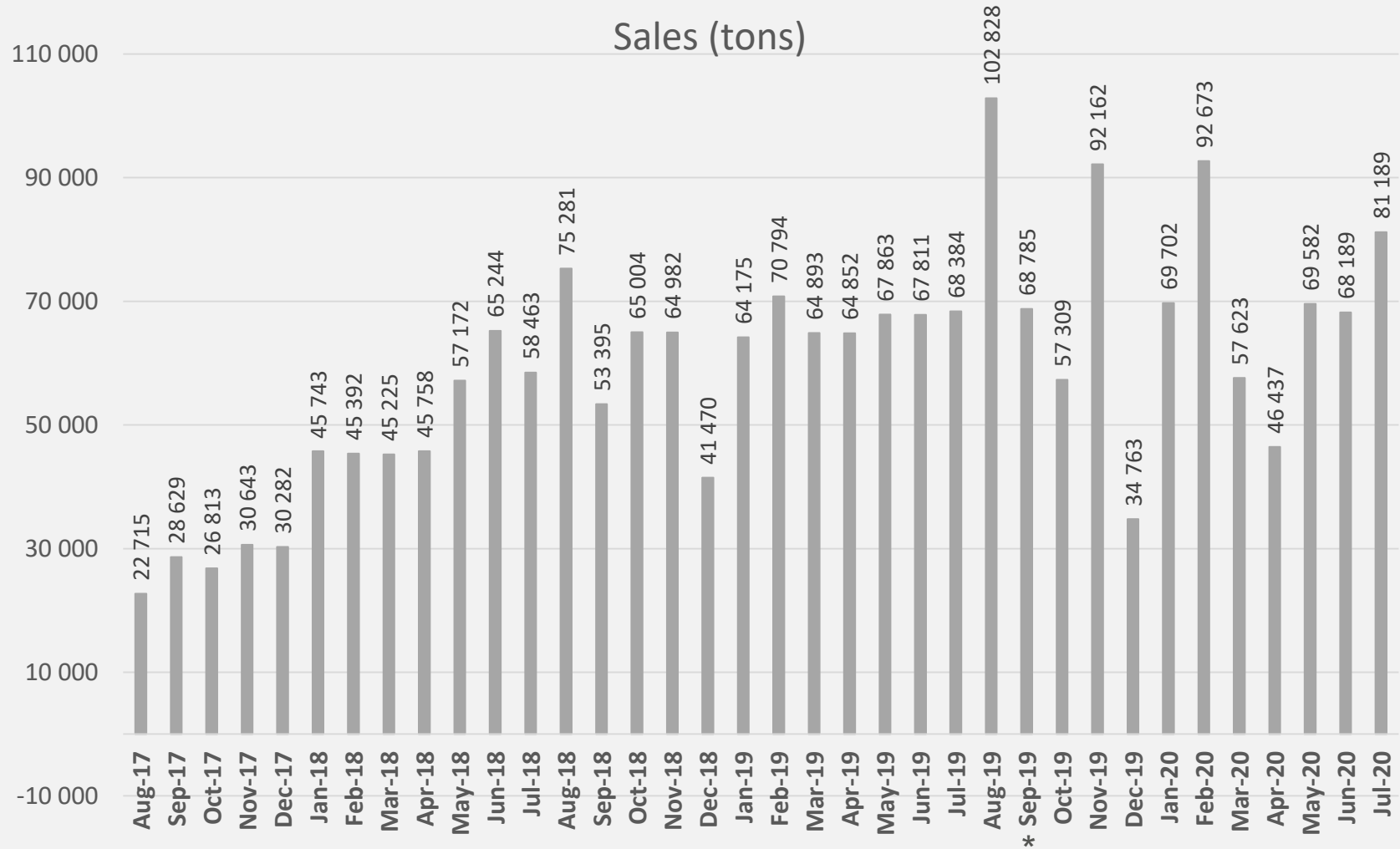


# Payment arrangements



1. Preliminary payment when delivered to Saldanha
2. Final price determined after 3 months (arrival in China)
3. Difference on final price adjusted to subsequent preliminary payment

# Iron ore sales by rail



Stable monthly sales expected to settle at 72,500

(\*) Planned Transnet maintenance shut down

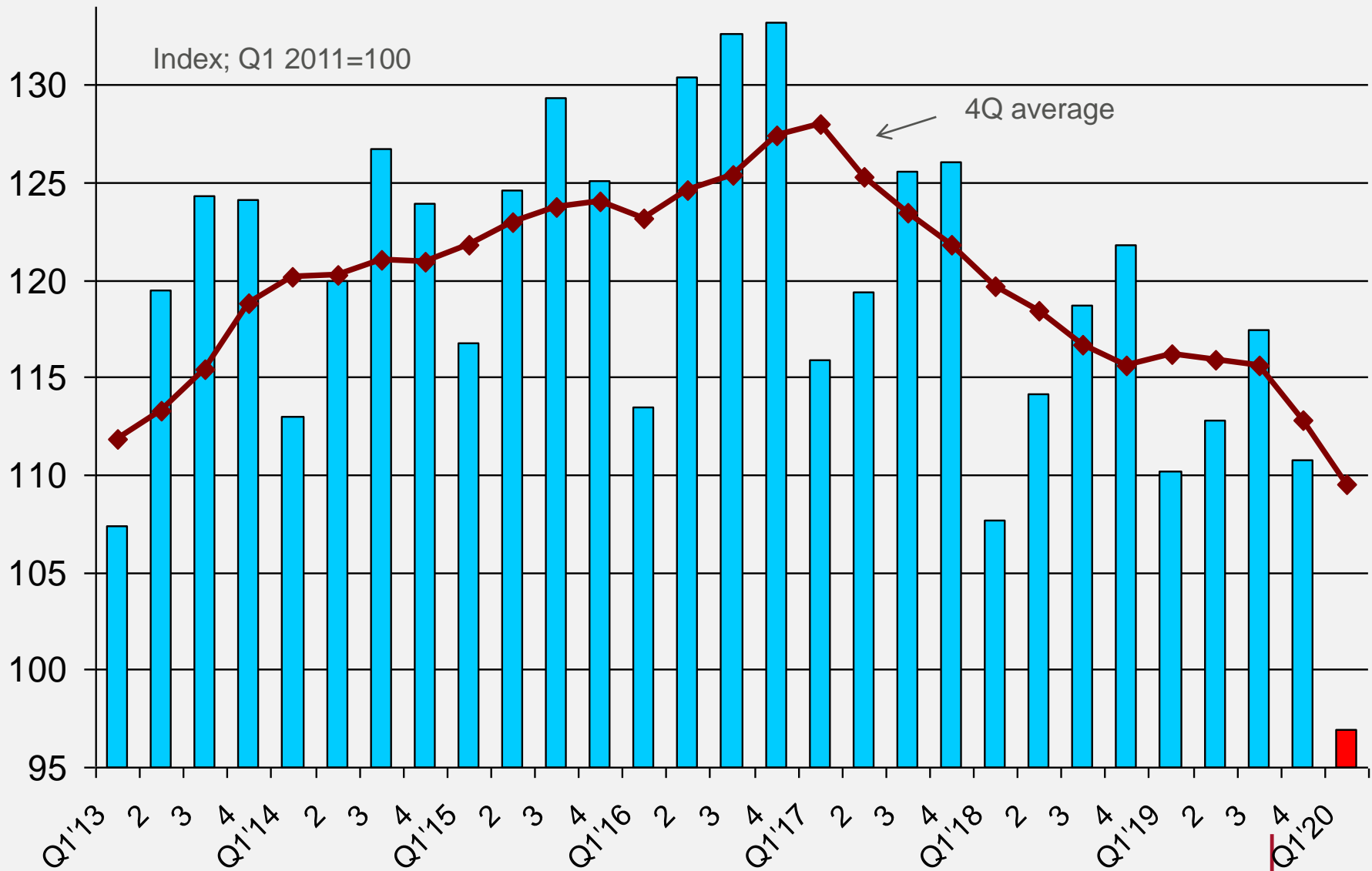


# Construction materials

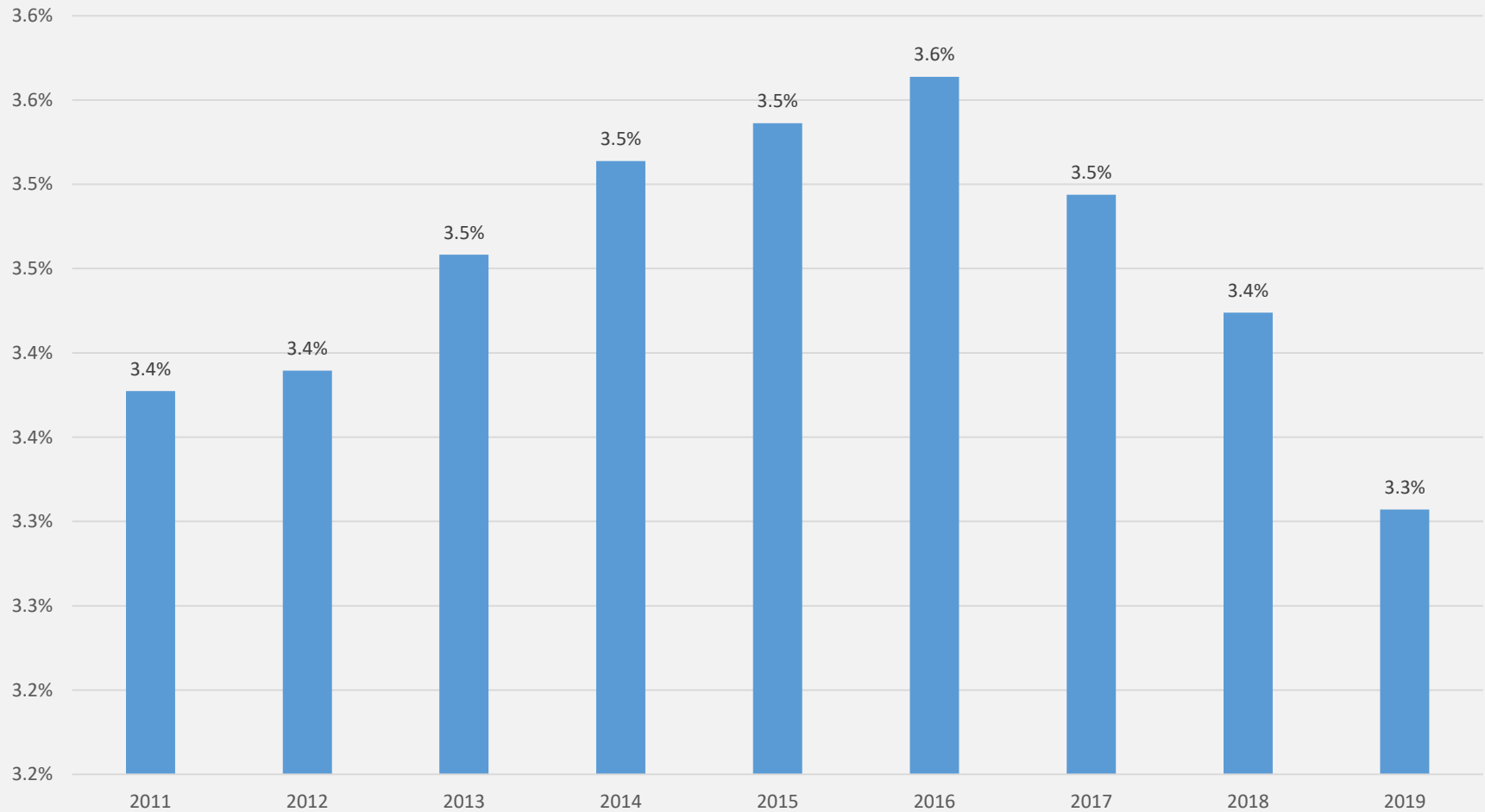
- **Aggregates**
- **Bricks & blocks**
- **Readymix concrete**



# Afrimat Construction Index – Q1 2020

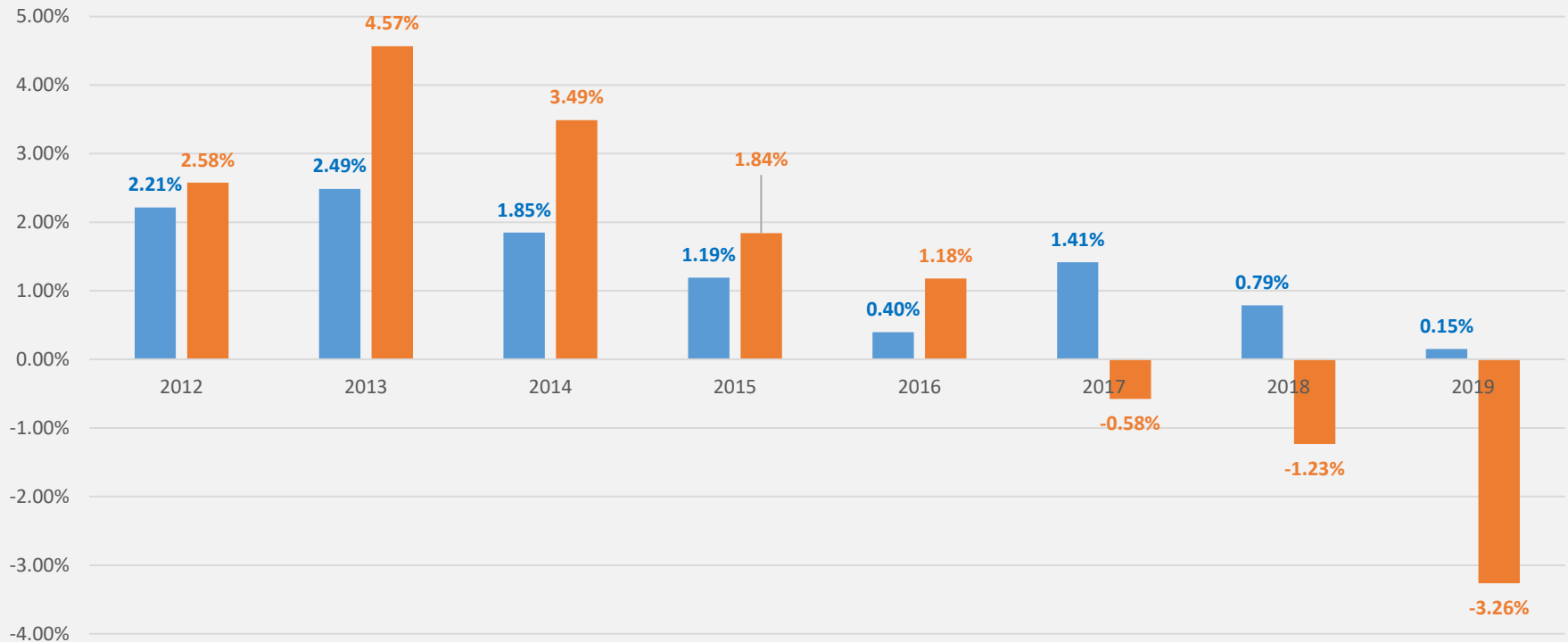


# Contribution of construction to GDP (both at 2010 prices)



(Source: Stats SA, P0441, 5 March 2019 and 3 March 2020).

# Growth rate of GDP and the growth rate of Construction (both at 2010 prices)



(Source: Calculated from Stats Sa, P0441).

■ GDP ■ Construction

# Construction materials: COVID-19 impact



- Complete lockdown under level 5 – no revenue for April 2020 (painful)
- Partial re-opening under level 4 – sales volumes around 40% of previous year (still painful)
- Gradual recovery under level 3 – activity levels approaching F2020 levels
- Demand spike in some areas – contractors catching up after lockdown and “Post-COVID-19” start-up delays
- Good volumes expected for H2



# Presidential Infrastructure Coordinating Commission Council



## Strategic Integrated Projects

Gazetted: 24 July 2020 – projects identified:

- Water and sanitation (R106bn)
- Energy (R58bn)
- Roads (R47bn)
- Human settlements (R138bn)

***“...recovery should be led by infrastructure development and maintenance” - Cyril Ramaphosa***

# Industrial minerals

- Limestone
- Dolomite



# Industrial minerals: COVID-19 impact



- Minimal activity under level 5 – only water purification and fire retardant markets (painful)
- Partial re-opening under level 4 – sales volumes remained disappointing
- Gradual recovery under level 3 – activity levels remain below F2020 levels
- Glass bottle market impacted by alcohol ban

# Industrial minerals: Prospects



- Specialised and niche applications are gaining traction (lime based paint, resin lime, fluid lime, fillers)
- Increased demand for oxide and hydrated materials (e.g. fluid lime for heavy minerals industry)
- Steel, chemical and plate glass markets expected to return gradually from August
- Import replacement products gaining traction
- Return to reasonable margins expected in H2

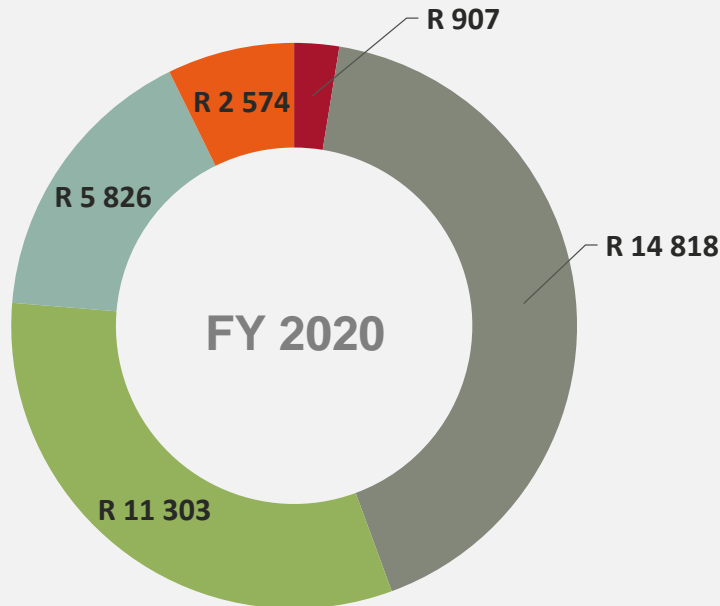




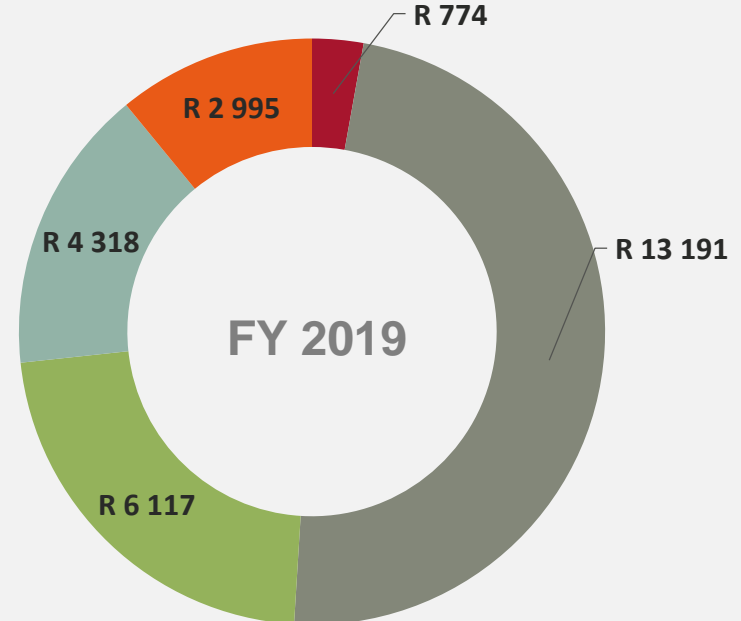
# SUSTAINABILITY

# Human resource development

Categorization spend (R'000)



- Bursary/study loans
- Training costs
- Skills development department cost
- Learnerships
- Internship remuneration



- Bursary/study loans
- Training costs
- Skills development department cost
- Learnerships
- Internship remuneration

R35,4 million (2019: R27,4 million) spent on skills development, bursaries, learnerships and internships for the year  
78,4% of this expenditure was in respect of historically disadvantaged employees

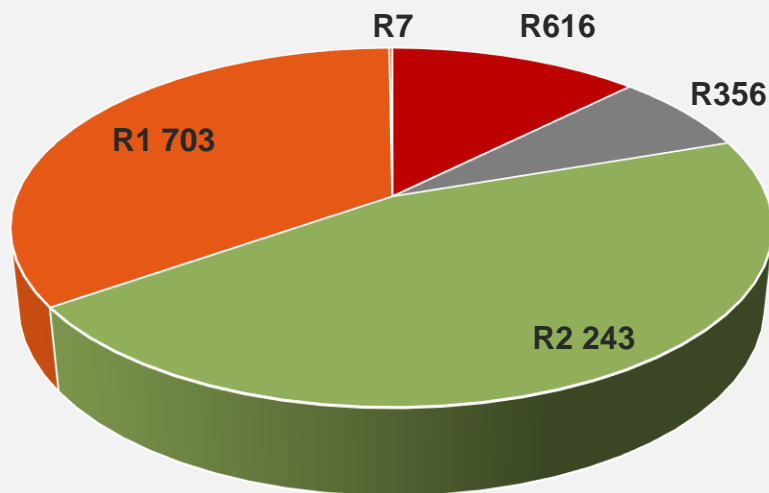


# Community development

Categorization spend (R'000)

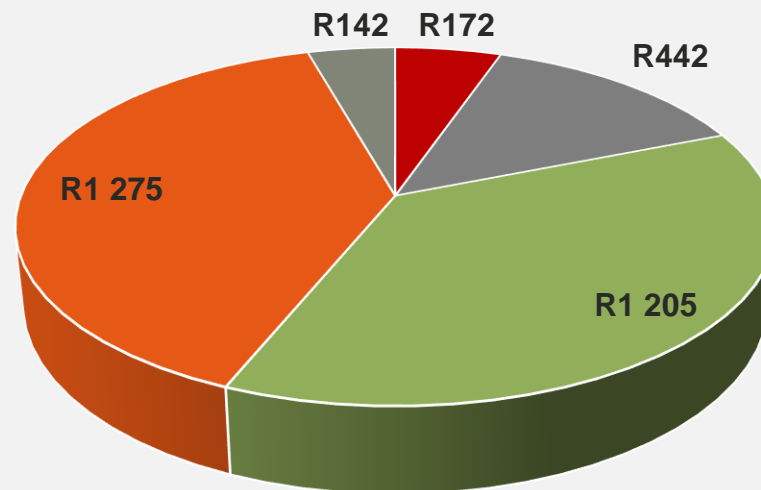


### FY 2020



- Art, Sports & Culture (12,5%)
- Basic Needs (7,2%)
- Education projects (45,5%)
- Uplifting community (34,6%)
- Skills development (0,2%)

### FY 2019



- Art, Sports & Culture (5,3%)
- Basic Needs (13,7%)
- Education projects (37,2%)
- Uplifting community (39,4%)
- Skills development (4,4%)

**R4 925 (R3 236) spend towards LED projects during the year**

# Afrimat culture



**CARING ENVIRONMENT**



**IMPORTANT RELATIONSHIPS**



**RESULTS DRIVEN**



**TEAMWORK**



**SKILLS AND COMPETENCE**



**EMPOWERING**



**ENTREPRENEURIAL DRIVE**



**WINNING ATTITUDE**



**HUMILITY AND BELIEF**



**THE FUTURE**

# Unicorn Capital Partners



- Conditional final offer made for remaining 73%
- Short term focus to meet conditions in terms of approvals and agreements
- Implementation expected by Q3 of F2021
- Medium term focus to turn business around:
  - Nkomati ramp-up to reliably sell 40 000 tpm
  - Evaluate other business in terms of potential and strategic fit
- Excited about Nkomati's strategic fit

# Prospects



- Iron Ore expect to remain good contributor
- Average iron ore price expected around \$85/t for H2, good quality premiums expected
- Construction Materials expect good volumes for H2
- Industrial Minerals expect marginally lower volumes in H2 compared to H2 F2020
- Strong cash
- Implementation of UCP transaction
- Expansion of iron ore resource base



# Core message



- **Diversification strategy proved its worth**
- **Very strong balance sheet enables growth**
- **Values based entrepreneurial culture is paying off**

**Thank you for your attendance and participation**

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