

Staying ahead

Entrenching its capability, breaking new ground

It's just been over a year since Afrimat, a supplier of building and construction materials throughout southern Africa, listed on the JSE.

The success of the listing marked a pinnacle in the company's history — built on humble beginnings, the company has now entrenched itself as a leader and pioneer in the industry.

Afrimat CEO Andries van Heerden

says that the company's story is, in fact, the story of Prima and the Lancaster Group, two major players within SA's construction industry.

Established in 1963, Prima was the brainchild of Christiaan du Toit, a grader operator who identified a market opportunity for aggregates. Upon his

death, the Worcester-based crusher was taken over by his son Francois, and the younger Du Toit's driven principles continue to influence the company today.

In 1979, Du Toit was joined by his brother-in-law Theunis Jordaan, whose

administrative strengths were the perfect complement to Du Toit's technical expertise. The duo later became a trio

when, in 1985, civil engineer Peter Corbin came on board.

The company now entered into an interesting stage of development:

Prima established Mengbeton, a readymix cement company intended as a marketing channel for stone; and Boublok, which manufactured bricks from the quarry's waste products.

Prima also embarked on an acquisition drive that saw it consolidating its base

WHAT IT MEANS

- > Listing has been an apex in firm's history
- > Share price has been rising significantly



Andries van Heerden
and Loyiso Dotwana

through the purchase of quarries in Paarl, Caledon, Bredasdorp, Stanford and Robertson. Later, it set its sights on greenfields developments, establishing new quarries, including a site in Grabouw.

Though Prima was blazing a trail through the industry with a strategy which was, according to Van Heerden, "visionary for the time", the Lancaster Group was also notching up impressive growth. The group had its roots in a Vryheid stone mine that was established in 1965 by brothers Gordon and Desmond Lemmon-Warde. The quarry grew rapidly, spurred by the development of the Richards Bay coal line. On the back of this expansion, the brothers decided to establish a second quarry in Ulundi.

This led to the formation of the second company within the Lancaster group, Lancaster Precast. Van Heerden says that the latter was created in 1973 to manufacture precast blocks from the quarry's waste products in Vryheid.

Though Lancaster Quarries continued to enjoy significant growth — going on to purchase additional quarries in Harrismith, QwaQwa and Hluhluwe — the expansion of Lancaster Precast outstripped its sister company, with the result that it boasted twice the revenue and profit of the quarry business during the previous financial year. This success prompted Lancaster Precast to purchase factories in Harrismith, Ladysmith and QwaQwa. Additional factories were opened in Mkuze and Ulundi and four readymix plants were commissioned.

The link between Prima and the Lancaster Group was forged by Van Heerden. He had joined Prima as operations director in 2001 and was appointed managing director in 2003.

Chief among his achievements during this period was the empowerment transaction concluded between Prima and Mega Oils in 2003. The transaction saw Mega Oils acquire a 25,1% stake in Prima, and has been described by both sides as tremendously successful. "We have been blessed to find a partner who adds enormous value," Van Heerden says.

Mega Oils' Loyiso Dotwana, who is now a director at Afrimat, agrees that the transaction unlocked significant shareholder value. "At the time the transaction was made, Mega Oils was well aware of the impending boom in the construction

industry, spurred by government's extensive planning with regard to infrastructure," he says, explaining the value he recognised in the potential partnership between the two companies. His insights were on target: Dotwana says that the basic principles of good business practice and corporate governance, coupled with a comprehensive knowledge of Afrimat's business environment, have contributed to the partnerships' ongoing success, while a team of industry leaders and empowerment shareholders that add real value continue to ensure that Afrimat stands out from competitors.

In spite of his passion and commitment to Prima, Van Heerden resigned in 2005, following a decision not to list the company on the JSE. But his dream was far from forgotten: later that year, he brought together a consortium, including empowerment partners Kwezi Mining (Pty) Ltd, and purchased the Lancaster Group. In May 2006 an agreement was reached to merge Lancaster Group with Prima Quarries to form Afrimat, and by November that year, Van Heerden realised his listing ambitions.

More than meeting his expectations, the listing was something of a triumph for Afrimat. "The shares were oversubscribed 27,5 times, and we raised R125m," he recalls. Initially priced at R5, the share price has since shown significant growth. Afrimat has also enjoyed significant growth in earnings per share,

"We have been blessed to find a partner who adds enormous value"

— ANDRIES VAN HEERDEN



Progress Various construction services are on offer

while the company's balance sheet remains extremely strong.

This has placed Afrimat in a position for further expansion, which it has achieved through its acquisition of Malan's and Denver quarries. The acquisition is doubly attractive, Van Heerden says. Not only does it grant Afrimat increased access to the Cape Town metropolitan area, but through a transaction between Malan's and Denver quarries shortly before the acquisition, Afrimat now also holds assets formerly belonging to the latter in the mushrooming Port Elizabeth node.

The acquisitions and mergers that have taken place over the 40 years leading to Afrimat's formation have placed the company in a particularly strong position. Today, Afrimat operates 22 quarries, two gravel mines, six sand mines, 19 readymix concrete plants, eight precast concrete bricks and blocks factories and a fleet of mobile crushing equipment. The company also offers transport, drilling and blasting services, with a fleet of 280 vehicles including earthmoving equipment, its own readymix trucks, contracted readymix trucks, tipper trucks, brick delivery trucks and cement tankers.

These resources have enabled Afrimat to entrench itself as a dominant player in the Western and Eastern Cape, KwaZulu Natal, the eastern Free State and Namibia. ■

QUALITY ASSURANCE

Building on a concrete foundation

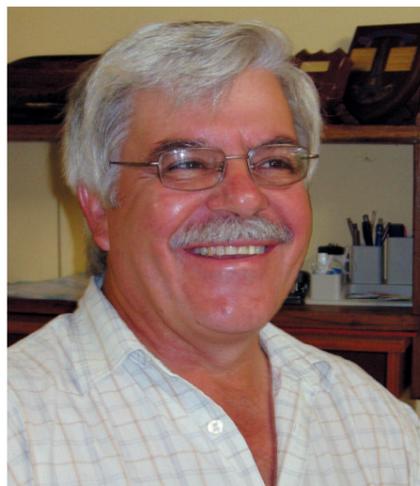
Offering aggregates, concrete manufactured products and readymix concrete, Afrimat's insistence on quality ensures it remains a leader in its field.

Afrimat CEO Andries van Heerden says that the company's product range within the aggregates sector includes stone, sand, mobile crushing, drilling and blasting. In the arena of concrete manufactured products, Afrimat offers concrete building blocks, concrete bricks and moulded products, while readymix concrete is also available. Transport is a further service provided by the company.

"Aggregates contribute 57% to our revenue and 80% to operating profit, while readymix concrete contributes 28% and 10% respectively," he says. Concrete manufactured products round off the complement, generating 15% of revenues and 10% of operating profits.

However, Van Heerden says that aggregates potentially stand to make a greater contribution. He says stone revenue growth has been 24% for the past year, and concrete manufactured products have grown by 14%. This figure stands at 12% for readymix concrete.

"Major areas of development will push demand for these products, including demand from the roads sector, low cost housing and the need for ballast for railroads," he says.



Piet de Wet



Hylton Hale

The sum of their parts

Afrimat comprises four subdivisions: Prima, Lancaster Quarries, Lancaster Precast and Malan's Quarries.

Prima stands out as one of the company's most significant forebears, possibly because the past leaders of the parent company (including Francois du Toit, Theunis Jordaan, Peter Corbin and Andries van Heerden) have left an indelible mark on the company's culture. Says executive director Peter Corbin: "Most of our managers have been part of this industry for more than 20 years, and we've weathered many challenges as a result."

Another strength in the company's favour, he adds, is its geographic spread. This nullifies the effect of regional economic cycles, and mitigates the effects of weather on the quarries. Prima has further distinguished itself from rival players by its focus on the top end of the market. "The strategy of providing ballast for railways and stone for road surfaces has added significant returns to our business," Corbin says. As a result, Prima boasts one of the best profits on turnover in the industry, standing at 24%.

The Lancaster Group, comprising Lancaster Quarries and Lancaster Precast, is

another of Afrimat's auspicious 'ancestors'.

Lancaster Quarries MD Piet de Wet says that the company contributes 12% of Afrimat's profit, generating a turnover of R65m annually. Most of this is aggregate, sold to contractors, however, the company also supplies ballast to railways. He anticipates that Lancaster Quarries' output will expand in the coming months, thanks to Afrimat's recent acquisition of quarries in Scottburgh and Pietermaritzburg. A mobile plant at Pietermaritzburg is soon to be converted into a stationery plant, and this too will positively affect production. "In addition to these operations, Lancaster Quarries has sites in Harrismith, QwaQwa, Vryheid, Ulundi and Hluhluwe," says De Wet.

Lancaster Precast, meanwhile, enjoys a large share of the market, and contributes 15% to Afrimat's total profits. "We operate seven precast factories in KwaZulu Natal and the Free State; and four readymix plants in KwaZulu Natal and the Free State," says Lancaster Precast MD Jan van Heerden. The company's main clients include government, contractors for shopping centres and industrial buildings and small scale builders. "Our business is not as cyclical as other building materials suppliers, so our main challenges are to assist the new generation of building contractors and to ensure the efficient supply of our products to remote areas." He says growth opportunities will be created by government's growing spend on infrastructure and low cost housing.

Malan's Quarries is one of Afrimat's recent acquisitions. According to sales and distribution director Hylton Hale, the company is the largest sand supplier to the construction industry in Cape Town, traditionally holding 40% of the market. The company has also established itself as a pioneer in the area of recycling builders' rubble.

"Unfortunately, a number of smaller players with slack quality control have called the quality of this material into question," Hale says. Though this is a challenge, he says that there is a concurrent trend towards sustainable building methods, which means a significant market for recycled materials is developing. ■

PROSPECTS

Rooted in simplicity

There is no doubt that an exciting future lies ahead for Afrimat. However, the company's management team is determined to hold on to the lessons of the past.

Afrimat financial director Hendrik Verreynne points out that the company's enviable track record and long standing in the industry rank among its greatest assets. Professionalism and skilled management is an offshoot of this, and with it comes efficient mining practices, high equipment maintenance standards and, most importantly, minimising environmental effects. "As a result, our cost structures are lower than those of our competitors," says Verreynne.

Another factor in the company's favour, according to CEO Andries van Heerden, is its people and the culture that they jointly form. "Our aim is to become the most admired construction materials supplier in SA. This means being efficient, responsible and innovative, while keeping an eye on sustainability," he says, adding that to his pride, this goal has given rise to a series of lived values — and it's this that sets Afrimat apart.

Going forward, Van Heerden reveals that strategic priorities include organically growing existing operations, adding capacity where necessary and identifying geographic areas that have traditionally been neglected, but have great potential. Further acquisitions are also part of Afrimat's strategy, but only if there are sound synergies between the companies.

"We're realistic about the challenges



Hendrik Verreynne

that face us in the future," says Verreynne. "The single biggest obstacle facing the building industry is skills capacity limitations, an issue which is exacerbated by big projects — like the construction for the 2010 soccer World Cup — coming on board. It is therefore vital that we manage our skills capacity."

He is confident that this is possible — and indeed, Afrimat is well positioned to supply any future demand. The company's recent acquisition of Malan's Quarries means that it is now able to serve a rural and urban base, with access to the Cape Town market. The Eastern Cape location of Denver Quarries ensures it can service the rapidly growing Port Elizabeth region. Moreover, new plants in Scottburgh and Pietermaritzburg cater to KwaZulu Natal's construction industry.

Though these sprawling operations mean that Afrimat has the clout and infrastructure of an industry giant, Van Heerden's insistence that the company maintains its small-town values ensures that it will face its future with a solid heart, as well as a sound balance sheet. ■

Corporate Report written by
Lisa Witepski
Advertising executive: Kay Naidoo