PPC

Materials

Company Update Report

Hold

Macro environment pressures persist while PPC drives up price increases.

Analyst recommendation

Counter	Share price	Intrinsic value	Difference
PPC-ZA	R3.30	R3.4	3.0%

As of 06 May 2024

Executive summary

- Management's shake-up with the new group CEO Matias Cardarelli has strengthened the Executive Committee (Exco) with several new roles to improve the profitability and sustainable return on capital in South Africa.
- International businesses were resilient but South Africa and Botswana are experiencing challenges in a competitive market.
- Successful disposal of the company's 51% stake in CIMERWA (Rwanda) for $42.5 million as of 25 January 2024.
- Increase in revenue due to bi-annual increases of 8.8%, but cost pressures persist.
- Strong cash generation supportive of balance sheet.
- The share repurchase programme reached R200 million approved level.
- Outlook:
  a. PPC will focus its resources on Southern Africa.
  b. Operational efficiencies and cost containment measures have been identified.
  c. They will continue to implement bi-annual price increases to achieve margin recovery.
  d. The group intends to prioritise returning cash to shareholders: dividends or share repurchase program.
  e. We await more developments from the new management team before reviewing our thinking on this business, given how challenging and competitive the environment is.

Analyst thesis

- South Africa and Botswana: Play mainly in the premium cement segment and are market leaders.
  a. Price increases have been lower than required (below inflation) due to competitive pressure from imports (SA over supply and competition).
  b. Margin pressure as input cost (cost inflation) remains high.
  c. Deleveraged balance sheet, not only in the South African segment but at group level as well.
  d. The real opportunity lies in government intervention: government spend (infrastructure plan), import tariffs and SOE performance.
- International: operate in Zimbabwe.
  a. The company switched to hard currency; the dollar cleans up reporting with no more hyper-inflation items.
    i. Supply and demand dynamics more supportive of price increases and growth.
    ii. The group faced import issues in Namibia, however, it is marginal in the segment context.

iii. A net export to international markets in Zimbabwe cash repatriation, are favourable.
iv. They paid $4 million in dividends.

b. Rwanda (CIMERWA) owns 51% of the business.

i. Successfully concludes the agreement to dispose 51% of its shareholding. Purchaser: $42.5 Million
ii. Purchased by one of largest manufacturers of clinker and cement in East Africa with Operations in Kenya and Uganda.
iii. Book value reported to $38.5 (R275.2 m). Gain on sale of asset.

- Valuation
  a. We value the company on a discounted cash flow basis because of dividends received in international business.
  b. High discount rate due to inflationary pressure in Zimbabwe and uncertainty supply demand dynamics in the cement industry.
  c. Continued cost management and maintenance of margins.
  d. Upside is 3% and we recommend a hold.

Results

Metric (Million)	30 September 2022	30 September 2023	Y/y % change
EBITDA cement SA & Botswana	368	398	8.2%
EBITDA materials SA & Botswana	(14)	14	-
EBITDA PPC Zimbabwe $ million	10.6	23.0	117.0%
EBITDA PPC Rwanda	249	260	4.4%
Group net debt	677	381	-8.8%

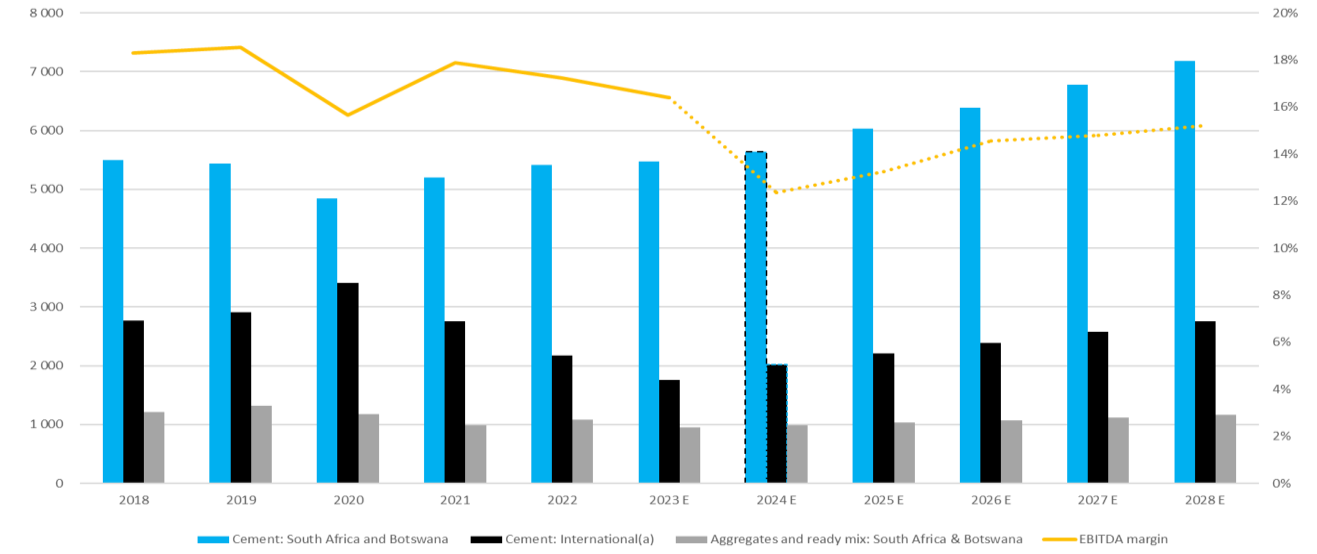
Source: PSG Wealth research

Key thoughts and the recent trading statement:

- South Africa and Botswana:
  - The market continues to be imbalanced as supply is greater than demand. The company struggles to implement pricing and volume growth to more than offset cost inflation.
  - Evident in the recent trading statement: PPC was able to continue to increase its selling prices on a bi-annual basis and achieved an average selling price increase of 8.8%, volumes down 4.7%.
- Overall, total costs increased by 3.6% compared to the prior period. Therefore, EBITDA margin increased to 12.6% as margins stabilised when compared to the comparable period.

- International (Zimbabwe)
  - Increased cash dividends were received from both Zimbabwe and CIMERWA (Rwanda) during the period under review.
    - PPC Zimbabwe volumes increased 44% as this resulted in growth residential construction and government funded projects.
    - PPC Zimbabwe's average dollar selling price increased by 12% ($ parallel rate) during the period. The improved volumes and pricing allowed for a meaningful improvement in EBITDA margins to 24.6%, a significant improvement from 17.3% in the comparable period, when there was a planned shutdown.
    - PPC received a US$ 4 million dividend and declared a further US$ 7.0 million November 2023.

Graph1: Revenue and EBITDA margin



Source: PSG Wealth research

Valuation

Table 2: Discounted cash flow method

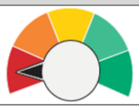
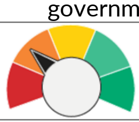
Discounted cash flow valuation	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28
EBITDA	1 238	1 446	1 569	1 718
Tax at 27%	(88)	(127)	(142)	(163)
Change in networking capital	140	(20)	65	92
Cash from operating activites	1 290	1 299	1 492	1 646
Less:capex	(798)	(720)	(695)	(630)
FCFF	493	579	797	1 016
Terminal Value	3 790			
Sum of DCF	1 816			
EV	5 606			
Less:net debt	(381)			
Less:minorities				
Equity Value	5 225			
Shares outstanding	1 535			
Instrinstic value	R3.4			
Share price	R3.3			
Upside %	3%			
Key assumptions				
Weighted Avg Cost of Capital (WACC)	19.5%			
Terminal Growth(g)	5.40%			
Tax rate	27.0%			

Source: PSG Wealth research as of 06 March 2024

Table 3: Valuation

Metric: key assumptions	Bear case	Base case	Bull case	Prob weighted intrinc
Revenue FY22-27	3.4%	1.1%	7.1%	
EBITDA FY22-27	4.5%	1.0%	9.0%	
Terminal growth rate	5.1%	5.4%	5.8%	
Wacc	20.0%	19.5%	18.8%	
Intrinsic value	2.2	3.4	4.0	
Share price	R3.3	R3.3	R3.3	3.2
Upside/(downside)	-34.7%	3.1%	21.2%	-3%
Probability	30%	40%	30%	100%

Table 4: Qualitative summary

Factor review	Rating	Description
Growth		Expected 3Y sales CAGR of -60.1%. Expected 3Y earnings CAGR of -86.8%.
Valuation		Upside to intrinsic value 3%. Further upside is if government intervenes in import dumping in South Africa.
Dividend yield		The dividend policy is unclear as of yet, as the company returns to profitability.
Issuance		Repurchase programme reached R 200 million approved level.
Catalyst		• Government intervention in South Africa to support the industry through introduction of import tariffs to create a level playing field for domestic producers. • Balance sheet strong after several years of de-gearing; looking to initiate shareholder returns. • Demand and capacity dynamics look good in Zimbabwe.
Quality of earnings		Earnings distorted by the Covid period. Zimbabwe setting dollar standard helps with volatility. Clearer outlook ahead.
Moat		No significant peer comparison. Imports from Pakistan create cost of sales and margin pressures.
Management and governance		Appointment of Chief Executive Officer: Matias Cardarelli and the creation of multiple new positions in an effort to increase profitability.
Balance sheet		Deleveraged balance sheet, not only in South Africa but at group level as well.
Risks		• Currency exposure to Zimbabwe and Rwanda (alleviated by Zim dollarisation and Rwanda sale). To be seen. • Downtime from plant optimization (affects production =volumes). • Importing and dumping from international market and continued lack of intervention from government especially from South Africa.
Regulation		Government is going to introduce import tariffs to create a level playing field for domestic producers, however, management states that these remain "elusive".
ESG		No material concerns on the ESG front and pursing ongoing decarbonisation program.

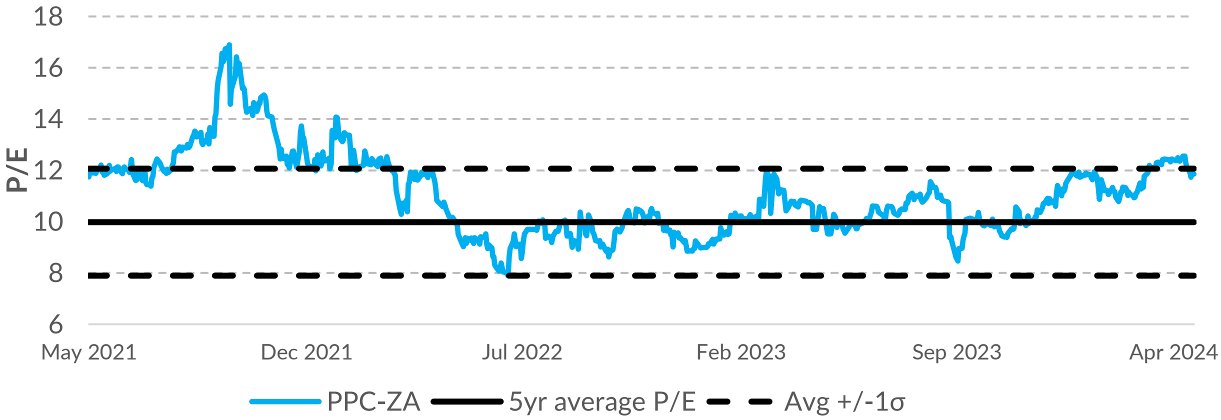
Momentum price		Price momentum is negative.
Momentum earnings		No sell side coverage on FactSet.

Source: PSG Wealth research

Table 5: Company data

52-week high	R4.02
52-week low	R2.15
Market value (bn)	R5.1
Price momentum	Negative
3m earnings revision	-166.7%
Fiscal year end	2024/03/31

Graph 2: Price to earnings



Source: FactSet

Source: FactSet

Table 6: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
PPC Limited	-17.3%	1.2%	-12.0%	18.7%	18.3%	-18.7%	1.9%	-34.0%	-84.0%
JSE Capped SWIX	-0.7%	0.4%	2.9%	5.5%	-0.5%	5.8%	12.2%	15.8%	32.1%

Source: FactSet

Table 7: Key competitors

Company	Price (local)	Market Cap (Rbn)	Sales FY0 (Rbn)	EBIT FY0 (Rbn)	Net Income FY0 (Rbn)	EV/EBIT	P/E	Price % (3mo)	Price % (1YR)
PPC Limited	3.3	5.1	9.9	0.5	-0.2	18.2x	8.4x	-12.0%	18.3%
Raubex Group Limited	30.5	5.5	14.8	1.2	0.7	4.0x	5.8x	5.0%	24.5%

Source: FactSet

Table 8: Income statement

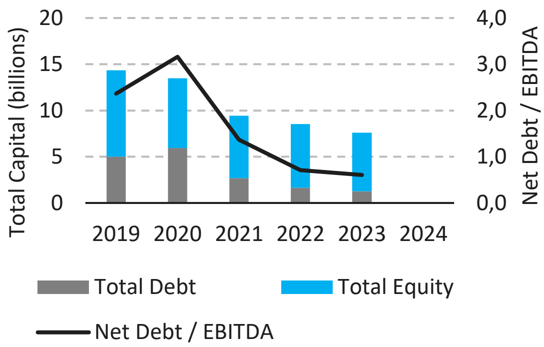
Income Statement (ZAR bn)	2017	2018	2019	2020	2021	2022	2023	2024E	5Yr CAGR
Sales	9.6	10.2	10.4	-	8.9	9.8	9.9	11.0	-0.6%
Y/Y growth (%)	-	6.3	2.0	-	-	10.1	1.0	11.1	
Gross income	2.1	2.2	1.8	-	1.9	1.5	1.4	1.5	-8.86%
Y/Y growth (%)	-	-	-	-	-	-21.1	-6.7	7.1	
EBITDA	2.0	1.8	1.9	-	1.6	1.4	1.3	1.8	-6.3%
Y/Y growth (%)	-	-10.0	5.6	-	-	-12.5	-7.1	38.5	
EBIT	1.2	1.0	0.8	-	1.0	0.5	0.4	1.0	-16.7%
Y/Y growth (%)	-	-16.7	-20.0	-	-	-50.0	-20.0	150.0	
Net income	0.09	0.3	0.3	-	0.1	-0.08	-0.2	0.5	N/A
Y/Y growth (%)	-	233.3	0.0	-	-	-180.0	150.0	N/A	
EPS	0.2	0.3	-	-0.1	-0.1	-0.1	-	-	
Y/Y growth (%)	-	50.0	-	-	0.0	0.0	-	-	
Balance sheet and cash flow (ZAR bn)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**5Yr CAGR**	**2024E**
Capex	0.9	#N/A	#N/A	0.383	0.571	0.433	0.6	-14.01%	0.5
Cash from Operations	0.8	1.4	1.2	1.4	1.0	0.8	1.5	1.00%	1.8
Free Cash Flow	0.8	0.8	0.4	1.0	0.5	0.4	0.7	-11.84%	1.4
Y/Y growth (%)	-	0.0	-50.0	149.3	-50.7	-13.4	71.1	-	94.2
Cash and ST Investments	0.8	0.8	0.4	0.5	0.6	0.4	1.1	-11.92%	2.1
Total Assets	18.0	16.2	17.9	15.8	14.9	10.5	11.1	-10.24%	12.0
ST Debt	0.6	0.9	5.1	1.7	0.5	0.4	0.0	-9.58%	0.0
LT Debt	4.1	4.1	0.9	1.0	1.2	0.9	1.2	-26.20%	1.2

Ratios (ZAR bn)	2017	2018	2019	2020	2021	2022	2023
Gross margin (%)	22.4	22.1	19.2	22.0	15.5	14.8	14.84
EBIT margin (%)	9.8	8.6	-	12.1	5.3	4.8	9.1
Net income margin (%)	3.3	3.7	2.24	2.1	-0.9	-2.4	-2.52
Current ratio	1.4	1.1	0.5	0.9	1.5	1.6	1.6
Total debt to equity	60.4	56.2	76.2	39.1	22.4	22.0	21.99
Total debt to assets	28.9	28.3	34.7	17.0	10.7	12.0	12.01

ROA (%)	0.9	1.4	-3.8	6.0	-0.5	-1.9	-1.9
ROE (%)	1.9	2.8	-7.8	13.4	-1.0	-3.8	-3.8

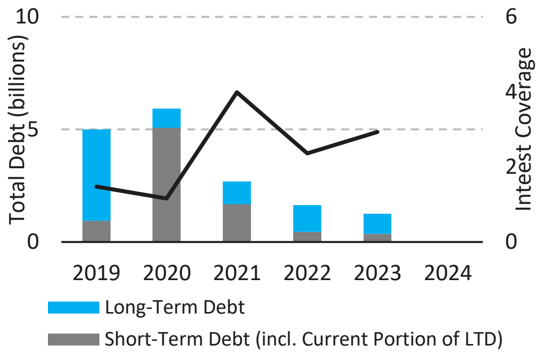
Source: FactSet

Graph 3: Capital structure and net debt/EBITDA



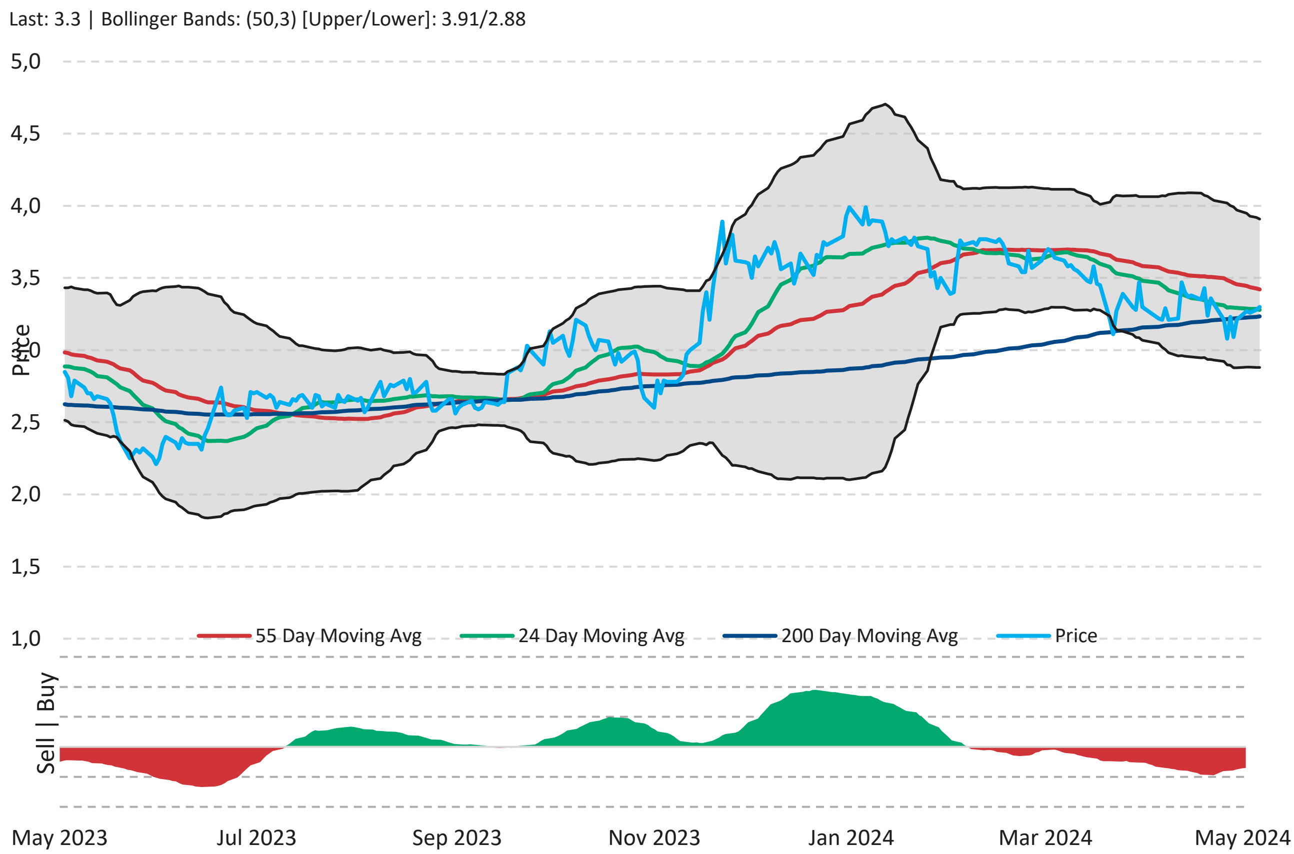
Source: FactSet

Graph 4: Total debt and interest coverage



Source: FactSet

Graph 5: Price momentum



Source: FactSet

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