

An African Cement & Building Materials Opportunity

Opportunity and Investment Briefing

SMADA

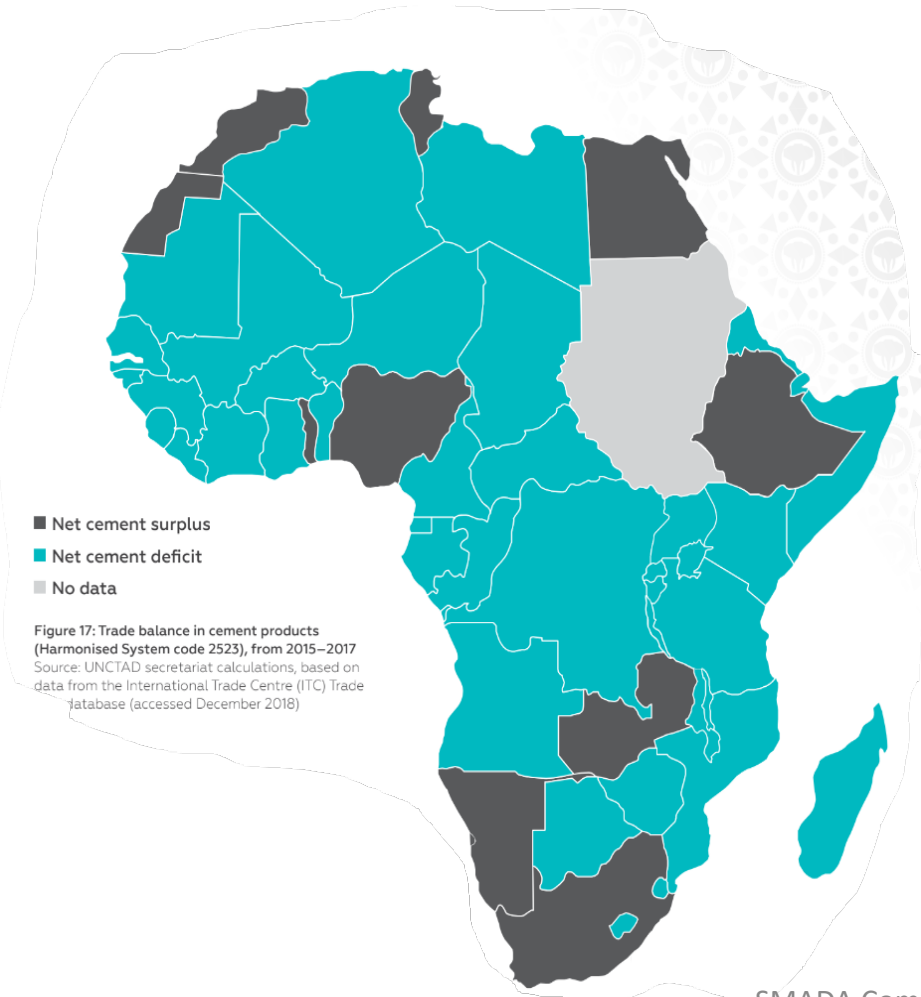
Commercial Confidential & Private

The opportunity to enter the African cement and building materials market through a strategic acquisition

- I. The African cement & building materials market opportunity
- II. The target profile
- III. The approach to the transaction
- IV. The next steps

The African cement and building materials opportunity

An emerging opportunity



Sub-Saharan Africa Cement Supply-Demand 2007-2025



Figure 4: Cement Supply and Demand in Sub-Saharan Africa
 Source: Global Cement Report (14th Edition)

From a global perspective, there is certainly the potential for higher cement demand in the region. Sub-Saharan Africa per capita cement consumption significantly lags the global average of 554kg per capita, with Ethiopia, Kenya, Nigeria and Tanzania all sitting below 150kg, and the DRC consuming as little as 35kg of cement per person. It's interesting to note that South Africa consumes 220kg per capita, above the SSA average of 100kg but still well below the global average.

In summary, long-term trends in SSA are positive: per capita cement consumption should trend upwards, supported by strong GDP growth and improving GDP per capita. Population growth, urbanisation and the growing middle class are all catalysts for greater cement demand. Demand for infrastructure, housing and commercial buildings will all drive the region's consumption. In fact, despite the headwinds mentioned above, cement consumption in SSA has grown by a compound annual growth rate of 7.2% between 2010 and 2017, well in excess of the global average of 2.7%. Based on the historic underinvestment in infrastructure in many African nations, we expect this trend to continue as governments attempt to close the infrastructure gap.

**Institutional
 Private
 Investment
 Manager**
 (shareholder of target)

The competitive landscape

(Sub Sahara Africa cement producers profile source Albarka Africa International Analysis)

	Companies	Countries
Major MNCs	Holciem (formerly Lafarge Holcim)	Nigeria, Cameroon, Kenya, South Africa, Benin, Guinea-Bissau, Ghana, Ivory Coast, Madagascar, Zimbabwe
	Heidelberg Cement (Scanchem)	Benin, DRC, Guinea –Bissau, Sierra Leone, Mozambique, Tanzania, Togo
	Intercement (Cimpor)	Mozambique, South Africa
	Vicat	Senegal, Mali, Mauritania
Regionals	Dangote	Nigeria, Cameroon, Congo, Ethiopia, Tanzania, Senegal, Ghana, Ivory Coast, Gabon, Niger, South Africa, Zambia
	PPC	South Africa, Botswana, Zimbabwe, DRC, Ethiopia, Rwanda
	CIMAF	Burkina Faso, Congo, Gabon, Ghana, Guinea-Bissau, Ivory Coast, Mali
	WACEM	Burkina Faso, Ghana, Guinea, Ivory Coast, Mali, Niger, Togo
	Afrisam	South Africa, Tanzania

The competitive landscape

(Sub Sahara Africa cement producers profile source Albarka Africa International Analysis)

	Companies	Countries
Nationals	BUA	Nigeria
	National Group (Deuki Group)	Kenya, Uganda
Chinese MNCs	West International	Mozambique, Ethiopia, DRC, Congo
	Huaxim	Zambia, Malawi, Tanzania
	Jidong	South Africa
Other International	Turkey – Limak	Ivory Coast, Mozambique
	Pakistan- Lucky	DRC

The African cement and building materials opportunity

An emerging opportunity



After more than a decade of effective supply exceeding effective demand the trend is shifting to demand exceeding supply.

The industry has consolidated with the entry of multi-national and regional players. There are significant Chinese multi-nationals in the market.

The competition, market share and margin are driven by a combination of economies of scale, operational and technical efficiency, and product solutions.

The ability to operate local, national and regional distribution networks and manage stakeholders are critical success factors.

The Entry opportunity

Market cycle change (timing) plus favourable valuations

After decades of underspending on infrastructure there is pent up demand.

There is a cyclical shift from excess effective supply to excess effective demand

The sector is trading at a discount with assets being marked down due economic and political uncertainty, and historic underperformance.
(Risks are priced in and growth is discounted)

The Target

Key considerations of the potential acquisition:

the acquired portfolio in terms of geographic and product mix,


the operational capacity and

the possible financial structure of an acquisition

The Target- PPC a significant player in Southern Africa (South Africa, Botswana and Zimbabwe)& Rwanda

CHAPTER 2
PPC'S FOOTPRINT

As a leading supplier of materials and solutions in the essential services sector, PPC's well-developed portfolio remains responsive to shifting economic, operational and political environments.



	Employees ⁽¹⁾	Population ⁽²⁾	Urban population growth (annual %) ⁽³⁾ (2020) ⁽³⁾	Projected real GDP (%) (2022) ⁽⁴⁾	Cement consumption per capita (kg) ⁽⁵⁾
SOUTH AFRICA					
→ Managing Director (MD): Ngombi Lekula	1 840 [†]	61.51 million	1.7 %	0.1 %	245
→ Head (Inland): Ehekhi Mthembu					
→ Head (Materials): Dave Miles					
→ Head (Coastal): Johan Vorster					
BOTSWANA					
→ Head (Botswana): Tuelo Bothole	36	2.5 million	2.6 %	3.7 %	287
ZIMBABWE					
→ MD: Keibone Masiyane	403 [†]	15.5 million	2.2 %	2.5 %	89
RWANDA					
→ CEO ^{††} : James Ornyango Odour	304	13.9 million	3.1 %	6.2 %	57

⁽¹⁾ Includes employees employed by Pronto, 3Q and Ulula Ash.
⁽²⁾ Source: www.worldometers.info/United Nations data as at 11 May 2023.
⁽³⁾ Source: The World Bank.
⁽⁴⁾ Source: IMF World Economic Outlook Database, April 2023.
⁽⁵⁾ Source: The Global Cement Report – 14th edition.
[†] Limited assurance – refer to the independent limited assurance report on pages 128 to 129.
^{††} Albert Sigel's term as CEO ended on 1 October 2022. James Ornyango Odour was appointed as director and CEO of CIMERWA on 30 November 2022.

Refer to manufactured capital on pages 44 to 53 for a detailed operational review.

Contribution to group EBITDA by segment (%) – continuing operations

Cement: South Africa and Botswana	56
Cement: Zimbabwe	27
Cement: Rwanda	31
Materials	53
Group services and other	50

Contribution to group revenue by region (%) – continuing operations

South Africa and Botswana	63
Zimbabwe	18
Rwanda	15

Contribution to group revenue by segment (%) – continuing operations

Cement: South Africa and Botswana	56
Cement: Zimbabwe	18
Cement: Rwanda	16
Materials	50

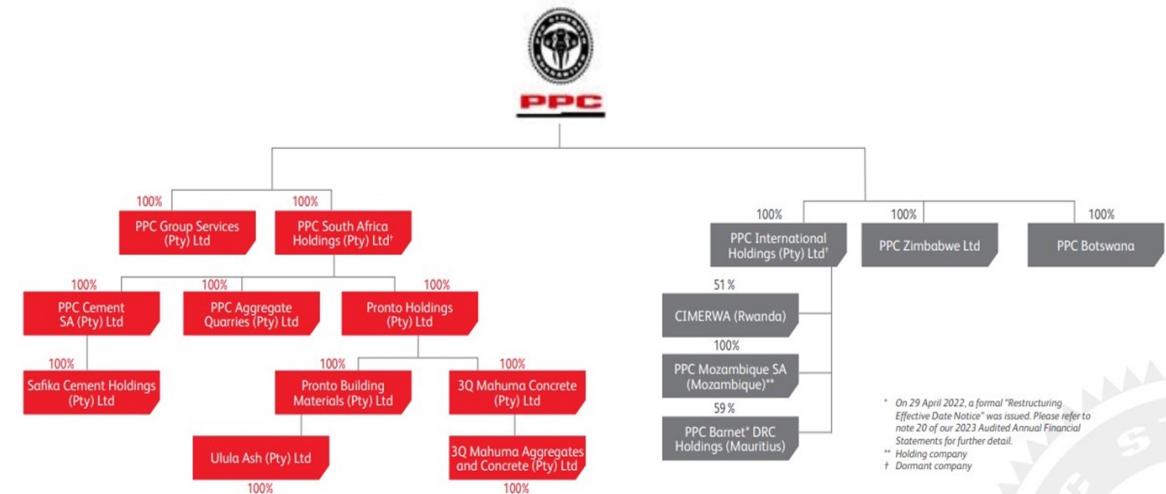
Contribution to group EBITDA by region (%) – continuing operations

South Africa and Botswana	40
Zimbabwe	27
Rwanda	33

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CHAPTER 2
PPC AT A GLANCE
COMPANY LEGAL STRUCTURE

PPC began its journey as South Africa's first cement manufacturer over 130 years ago. PPC has remained resilient, and over time expanded its footprint to four countries across sub-Saharan Africa. PPC provides quality cement, aggregates, premixes, readymix concrete, slag and fly ash.



The Target

SNAPSHOT OF PERFORMANCE FROM CONTINUING OPERATIONS continued

Group results excluding PPC Zimbabwe and Rwanda (SA obligor)

Revenue

Revenue, excluding dividends increased 1% to

R6 586 million

(FY22: R6 501 million)

EBITDA margins

declined to

8,7%

(FY22: 11,8%)

Net debt for the SA obligor group improved by R263 million

PPC ZIMBABWE

Slower than anticipated recovery after planned kiln shutdown while market remains sound but hyperinflation materially impacts reported results

Dividends

Dividends of

R147 million

(US\$8,8 million) received by the group (FY22: R91 million or US\$6,2 million)

CIMERWA RWANDA

EBITDA

Volume growth of 1% in line with expectations but EBITDA still increased

31%

and margins increased marginally to 29%

Dividend

Inaugural dividend

R79 million

(US\$4,3 million) received by the group in March 2023

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2023

	Notes	March 2023 Rm	Restated ^{(a)(b)} March 2022 Rm	Restated ^(b) 1 April 2021 Rm
ASSETS				
Non-current assets		7 720	9 698	10 147
Property, plant and equipment	2	7 331	9 255	9 622
Right-of-use-assets		68	69	68
Goodwill		—	37	38
Other intangible assets		85	113	149
Financial assets		185	166	196
Other non-current assets		24	32	50
Deferred taxation assets		27	26	24
Current assets		2 759	2 711	2 676
Inventories		1 287	1 085	1 111
Trade and other receivables		995	1 006	993
Taxation receivable		53	43	115
Cash and cash equivalents		424	577	457
Assets held for sale and held by disposal groups	3	8	2 919	3 659
Total assets		10 487	15 328	16 482
EQUITY AND LIABILITIES				
Capital and reserves				
Stated capital	4	4 544	4 575	3 965
Other reserves		(6 818)	(4 592)	(2 731)
Retained profit		7 999	7 367	6 115
Equity attributable to shareholders of PPC Ltd		5 725	7 350	7 349
Non-controlling interests		617	22	56
Total equity		6 342	7 372	7 405
Non-current liabilities		2 420	3 053	2 878
Provisions		187	211	219
Deferred taxation liabilities		1 338	1 654	1 621
Long-term borrowings	5	852	1 150	983
Other non-current liabilities		1	—	23
Lease liabilities		42	38	32
Current liabilities		1 725	1 781	2 900
Provisions		15	12	30
Trade and other payables		1 288	1 251	1 167
Lease liabilities		28	21	28
Short-term borrowings	5	337	436	1 645
Taxation payable		57	61	30
Liabilities associated with assets held for sale and disposal groups	3.2	—	3 122	3 299
Total equity and liabilities		10 487	15 328	16 482

^(a) Accrued finance charges of R5 million have been reclassified from trade and other payables to short-term borrowings to align to the amortised cost measurement.

^(b) Refer to note 1.3 for details regarding the prior period restatement.

SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 March 2023

	Notes	March 2023 Rm	Restated ^(a) March 2022 Rm
Continuing operations			
Revenue	6	9 902	9 882
Cost of sales		(8 343)	(8 352)
Gross profit		1 559	1 530
(Increase)/decrease in expected credit losses on financial assets		(23)	49
Administration and other operating expenditure		(1 082)	(1 057)
Operating profit before items listed below:		454	522
Fair value and foreign exchange movements		69	2
Fair value gain on Zimbabwe financial asset		—	56
Fair value loss on Zimbabwe blocked funds		(32)	(18)
Net monetary loss on hyperinflation in Zimbabwe		(131)	(108)
Impairments	8	(145)	(38)
Profit before finance costs, investment income and equity-accounted investments		215	416
Finance costs		(172)	(240)
Investment income		27	10
Profit before equity-accounted investments		70	186
Profit from sale equity-accounted investments		23	—
Profit before taxation		93	186
Taxation	9	(242)	(207)
Loss for the year from continuing operations		(149)	(21)
Loss for the year from discontinued operations	3.3	(425)	(56)
Loss for the year		(574)	(77)
Attributable to:			
Shareholders of PPC Ltd – continuing operations		(250)	(71)
Shareholders of PPC Ltd – discontinued operations		(417)	11
Non-controlling interests		93	(17)
		(574)	(77)
Earnings/(loss) per share (cents)			
Basic – group	10	(43)	(4)
Diluted – group		(43)	(4)
Basic – continuing operations		(16)	(5)
Diluted – continuing operations		(16)	(5)
Basic – discontinued operations		(27)	1
Diluted – discontinued operations		(27)	1

^(a) Refer to note 1.3 for details regarding the prior period restatement.

The Target

This provides exposure to the cement and materials market in South Africa, Botswana, Zimbabwe and Rwanda.

It is important to note that the market conditions and financial performance of these markets are very distinct with the South African and Botswana (core) struggling with volume and margin pressure, while Zimbabwe and particularly Rwanda (CIMERWA) showing significant growth.

SEGMENTAL INFORMATION

for the year ended 31 March 2023

The group discloses its operating segments according to the business units, which are reviewed by the group executive committee, which is also the chief operating decision-maker for the group. The group executive committee primarily uses a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) to assess the performance of the operating segments.

The operating segments are initially identified based on the products produced and sold and then per geographical location. The operating segments are and group services. South Africa and Botswana Cement, Zimbabwe, Rwanda, aggregates, ash and readymix

No individual customer comprises more than 10% of the group revenue.

	Cement				Materials business								
	Consolidated		South Africa and Botswana		Zimbabwe ^(a)		Rwanda ^(a)		South Africa		Aggregates, ash and readymix		Group services and other ^(b)
	March 2023	Restated ^(d) March 2022	March 2023	March 2022	March 2023	March 2022	March 2023	March 2022	March 2023	March 2022	March 2023	March 2022	Restated ^(d) March 2022
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue													
Gross revenue	10 195	10 170	5 782	5 703	1 753	2 172	1 563	1 209	1 097	1 086	—	—	—
Inter-segment revenue ^(d)	(293)	(288)	(273)	(288)	—	—	—	—	(20)	—	—	—	—
Total revenue^(a)	9 902	9 882	5 509	5 415	1 753	2 172	1 563	1 209	1 077	1 086	—	—	—
Cost of sales	(8 343)	(8 352)	(4 703)	(4 469)	(1 478)	(1 956)	(1 112)	(894)	(1 038)	(951)	(12)	(82)	(82)
Expected credit losses on financial assets	(23)	49	(18)	58	(12)	(3)	(13)	(3)	5	(3)	15	—	—
Admin and other operating expenses	(1 082)	(1 057)	(548)	(586)	(179)	(207)	(106)	(70)	(141)	(139)	(108)	(55)	(55)
Operating profit before items listed below	454	522	240	418	84	6	332	242	(97)	(7)	(105)	(137)	(137)
Fair value and foreign exchange gains movements	69	2	(2)	20	35	(17)	14	(9)	(2)	1	24	7	7
Fair value gain on Zimbabwe financial asset	—	56	—	—	—	56	—	—	—	—	—	—	—
Fair value loss on Zimbabwe blocked funds	(32)	(18)	—	—	—	—	—	—	—	—	(32)	(18)	(18)
Net monetary loss on hyperinflation in Zimbabwe	(131)	(108)	—	—	(131)	(108)	—	—	—	—	—	—	—
(Impairments)/reversal of impairments	(145)	(38)	(8)	(94)	—	—	—	(3)	(49)	60	(88)	(1)	(1)
Profit/(loss) before finance costs, investment income and equity-accounted investments	215	416	230	344	(12)	(63)	346	230	(148)	54	(201)	(149)	(149)
Finance costs	(172)	(240)	(112)	(297)	(6)	(9)	(49)	(76)	(2)	(93)	(3)	235	235
Investment income	27	10	12	356	3	4	1	1	—	39	11	(390)	(390)
Profit/(loss) before equity-accounted earnings	70	186	130	403	(15)	(68)	298	155	(150)	—	(193)	(304)	(304)
Profit from sale of equity-accounted investments	23	—	—	—	—	—	—	—	—	—	23	—	—
Profit/(loss) before taxation	93	186	130	403	(15)	(68)	298	155	(150)	—	(170)	(304)	(304)
Taxation	(242)	(207)	(4)	(121)	(137)	(25)	(61)	(46)	11	(11)	(51)	(4)	(4)
Profit/(loss) for the year from continuing operations	(149)	(21)	126	282	(152)	(93)	237	109	(139)	(11)	(221)	(308)	(308)
Profit/(loss) for the year from discontinued operations	(425)	(56)	—	35	—	—	—	—	—	(11)	(425)	(80)	(80)
Profit/(loss) for the year	(574)	(77)	126	317	(152)	(93)	237	109	(139)	(22)	(646)	(388)	(388)
Attributable to:													
Shareholders of PPC Ltd – continuing operations	(250)	(71)	126	282	(152)	(93)	136	59	(139)	(11)	(221)	(308)	(308)
Shareholders of PPC Ltd – discontinued operations	(417)	11	—	35	—	—	—	—	—	(11)	(417)	(13)	(13)
Non-controlling interests	93	(17)	—	—	—	—	101	50	—	—	(8)	(67)	(67)
	(574)	(77)	126	317	(152)	(93)	237	109	(139)	(22)	(646)	(388)	(388)

PPC SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS 2023

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PPC SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS 2023

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The Target

- The target has reduced its level of debt and divested from a few markets (Ethiopia & DRC) given trading conditions and a focused on cash generation.
- As the current market conditions change, it is forecast that effective demand will exceed effective supply for the first time in 10 years in 2024/5, this provides an opportunity to position for growth in the infrastructure materials space.
- The proposal is to take the company private and to delist from the JSE.

The Target transaction

- The acquisition entity needs sufficient credibility to deal with the target company, its shareholders, key stakeholders and regulators.
 - This requires a partnership consisting of a strategic industry partner, a credible local partner, funders with sufficient patient capital.
- The proposal is to create an SPV which will engage the target with the objective of preparing to an Expression of Interest (EOI).
- The SPV will require financial commitment or support from funders for at least USD 250 million, and a commitment from QNC as the strategic industry partner. (the funding will be a combination of debt and equity funding)
- The partnership will be led by QNC and Smada as the strategic industry partner along with the strategic local partner.

The Target Transaction

The engagement with the target must be very carefully managed as it is listed on the JSE and subject financial market regulations.

- The preliminary discussions and preparation of an EOI must be carefully structured and considered in order not to trigger market announcements and trading updates prematurely.
- The preparation of an EOI must satisfy a number of criteria in order for it to enable effective engagement with the target. This will find expression finally in the proposed transaction structure either as a proposed scheme of arrangements or general offer to shareholders.
- The proposed primary offer to shareholders should be a cash offer at a nominal premium to the market. This may be viable/attractive to small shareholders. Institutional shareholders may wish to continue to have exposure to the asset post acquisition and delisting.

The Target Transaction

The market capital of the company was R4,7billion (22 September) with 1,5 billion shares in issue (1 553 764 624 trading at R3,00)

Institutional shareholders own 56%. The key strategic shareholders are Value Capital Partners (15,85% and 2 directors on the board) and PIC (8,3%). Other institutional investors include M&G Investments, Cammissa Asset Management, Old Mutual, Fidelity and Sanlam.

Institutional shareholders may wish to continue to have exposure to the asset post acquisition and delisting. In such a scenario there could be a combination of shares plus cash offered (this could be in a ratio of 50% cash and 50% in shares valued at a post-acquisition value).

The Target Transaction

The Rationale for the proposed transaction is based on three points:

- A strategic market entry opportunity at time when the market conditions are starting to change and become more favourable.
- The target entity is trading at a discount due to historic market conditions and performance.
- There is a growth in demand for alternative investment opportunities that are exposed to infrastructure and Africa.

The opportunity is to raise funds (debt and equity) in the local and international market on the basis of the proposed transaction.

The Next Steps

1. The formalisation of the partnership to pursue the target.
 - A memorandum of understanding between QNC and Smada setting out terms of agreement to pursue the target.
2. The informal engagement to explore the requirements of an offer to shareholders of the target
3. The submission of an Expression of Interest to the board of the target
4. The establishment of a deal team to lead the transaction.