



**FINANCIAL RESULTS**

**FOR THE HALF-YEAR ENDED 30 JUNE 2012**

# presentation

25 AND 26 JULY 2012

# PRESENTATION

## Outline



- Welcome
- Executive team
- Overview of results
- Business environment and AECI's performance
- Segment performance
- Segment update
  - AEL
  - Specialty chemicals
  - Heartland
- Outlook

# EXECUTIVE TEAM



**Graham Edwards**  
Chief Executive



**Mark Kathan**  
Chief Financial Officer



**Khosi Matshitse**  
Human Capital Executive



**Nomini Rapoo**  
Company Secretary



**Anthony Diepenbroek**  
Managing Director  
Heartland



**Mark Dytor**  
Chemicals Executive



**Schalk Venter**  
Managing Director  
AEL Mining Services



**Edwin Ludick**  
Chemicals Executive

# PERFORMANCE

## Overview



- Revenue up 17% to new half-year record high
- Market share maintained in highly competitive market
- Improved safety performance with TRIR of 0,58
- Profit from operations down 3%
- Disappointing trading results and WC control at AEL
- Heartland – no property sales
- HEPS down 9% (excl. B-BBEE IFRS cost)
- Unchanged cash dividend of 78cps declared

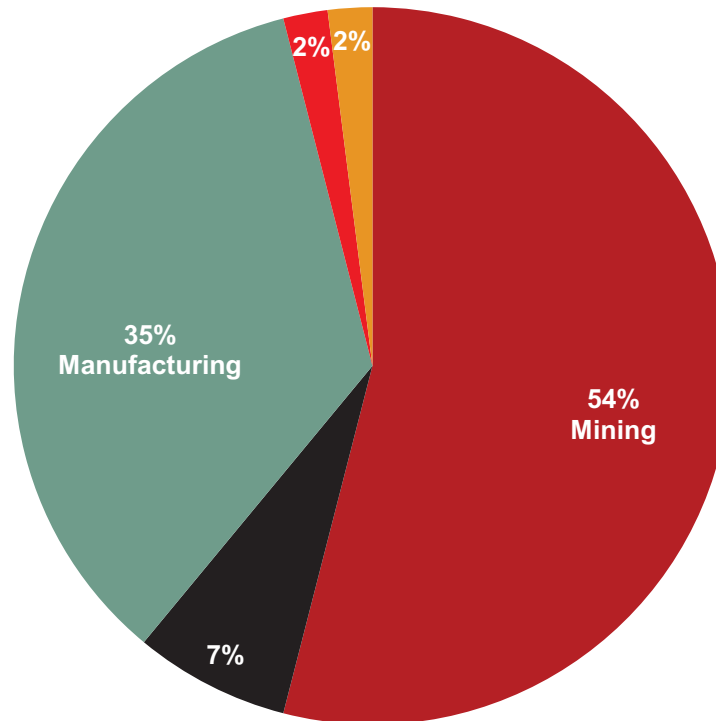


# environment & performance

# REVENUE SPLIT

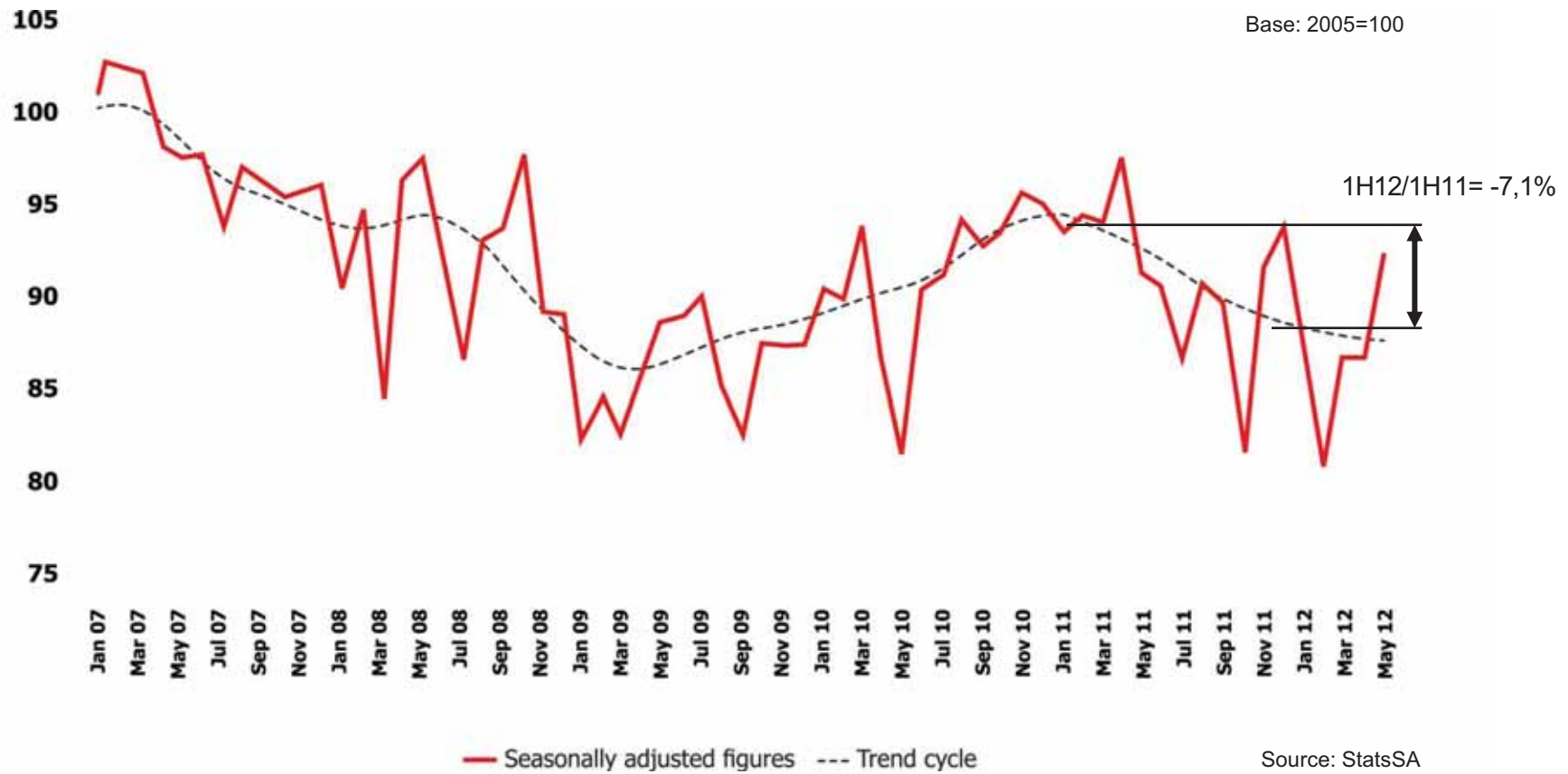


- Mining
- Agriculture
- Manufacturing
- Property
- Fibres



# BUSINESS ENVIRONMENT

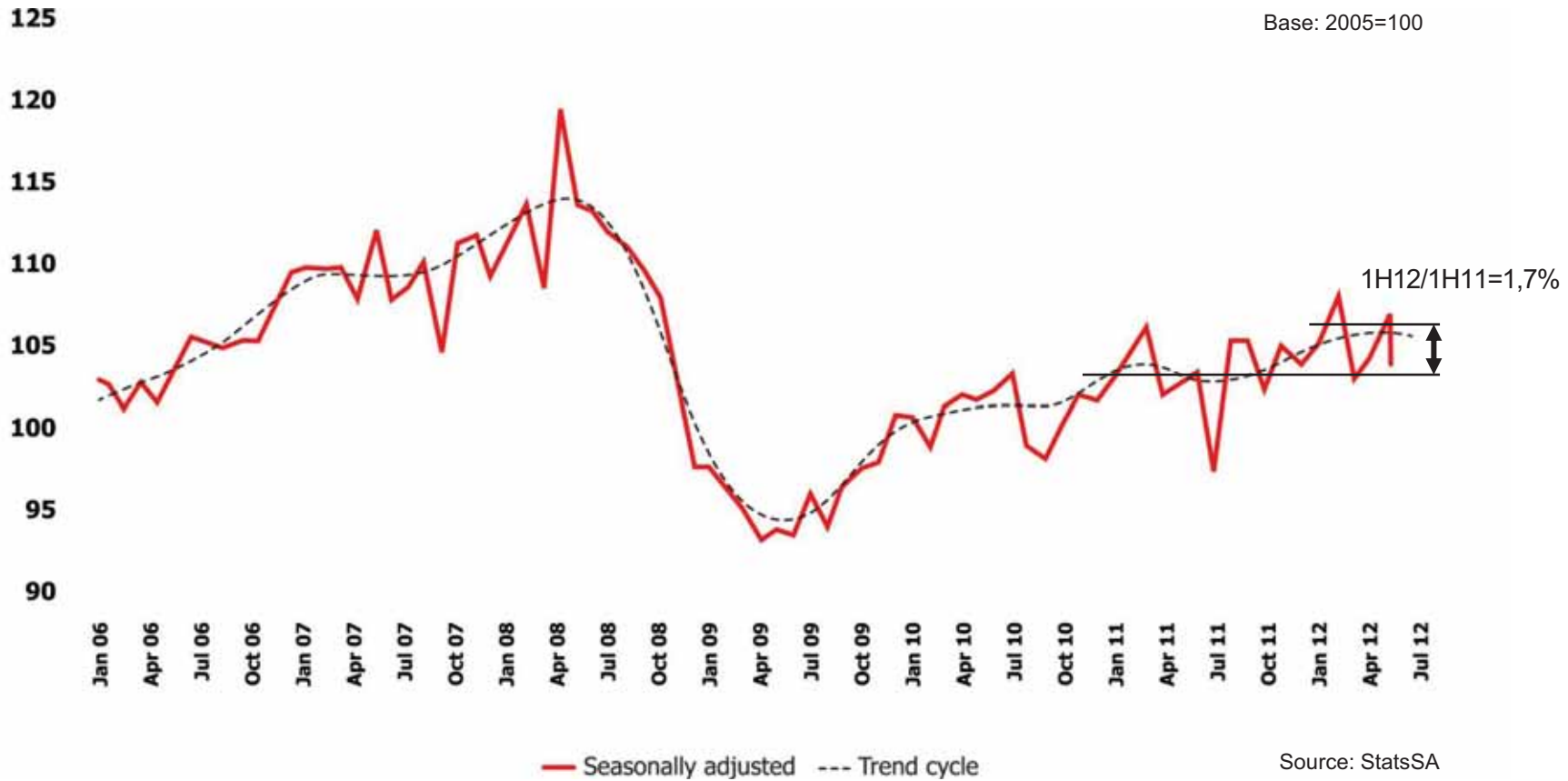
## SA mining volumes Jan '06 – Jun '12



Source: StatsSA

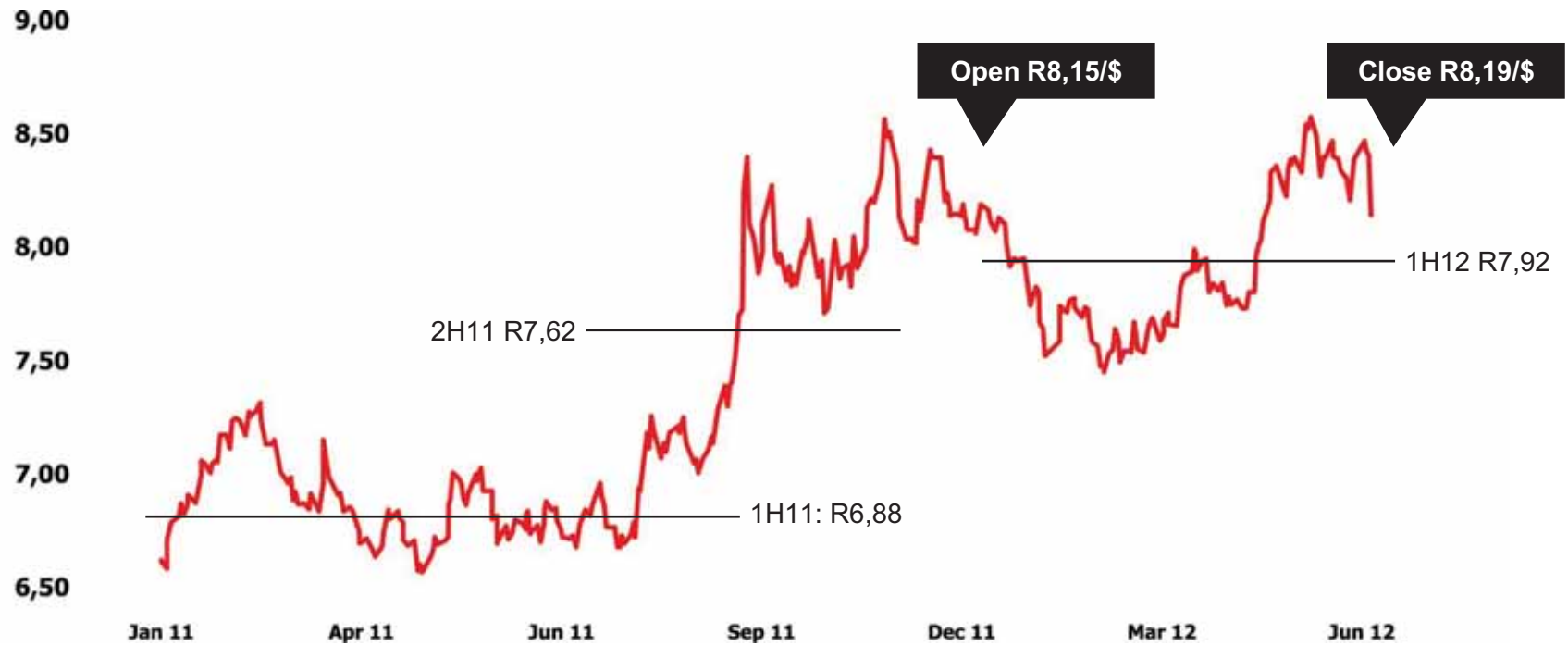
# BUSINESS ENVIRONMENT

## SA manufacturing volumes Jan '06 - Jun '12





# ZAR/US\$ EXCHANGE RATE



# BUSINESS ENVIRONMENT

## Effect on performance



- Volatile ZAR/US\$ rate
- Challenging market conditions in manufacturing sector
- Mining volumes steady
  - growth in surface
  - reduction in underground (especially platinum)
- Property market remains difficult, except for specific locations



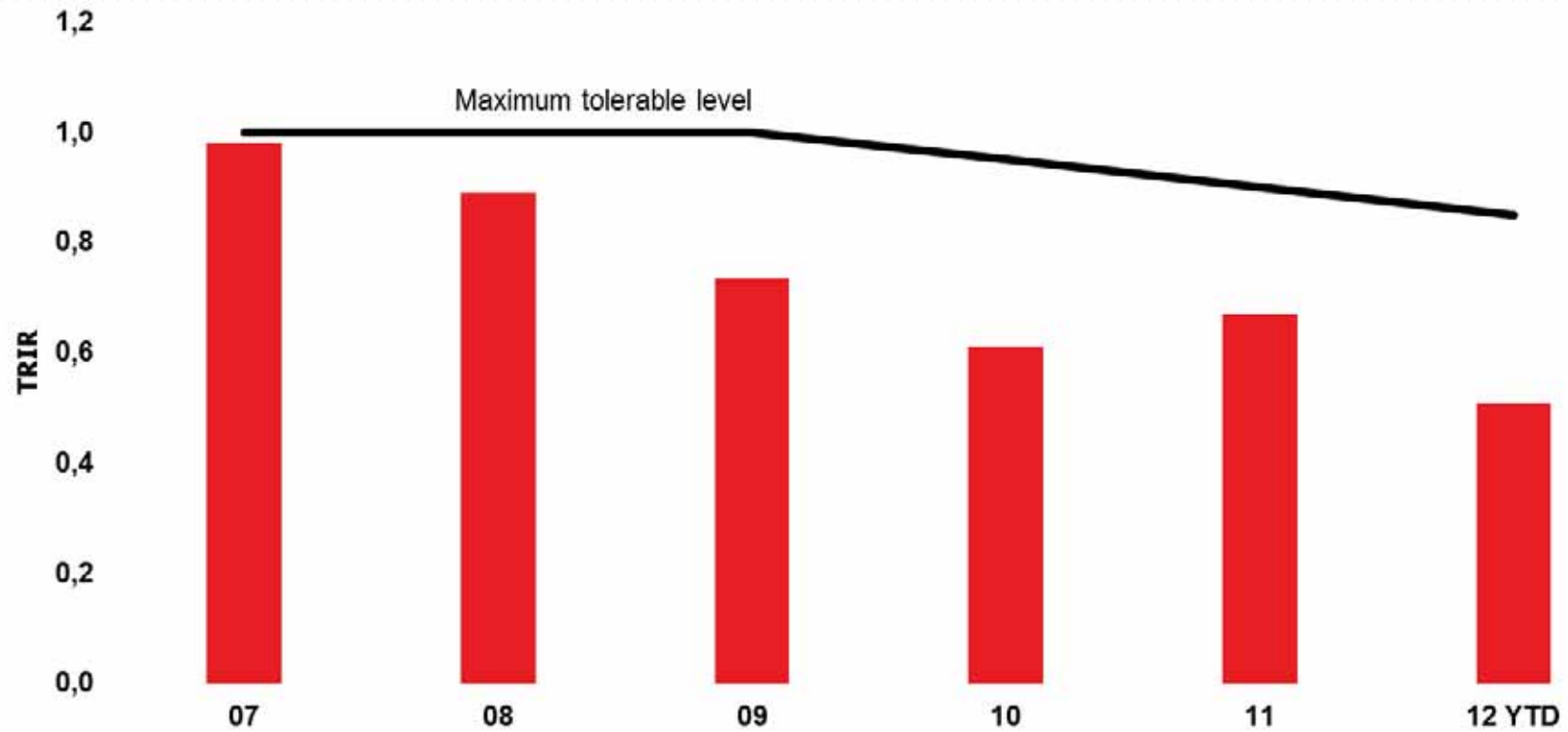
performance

# SAFETY AND HEALTH

## Performance



### ALL WORKERS TRIR



Total Recordable Injury Rate (per 200 000 hours)

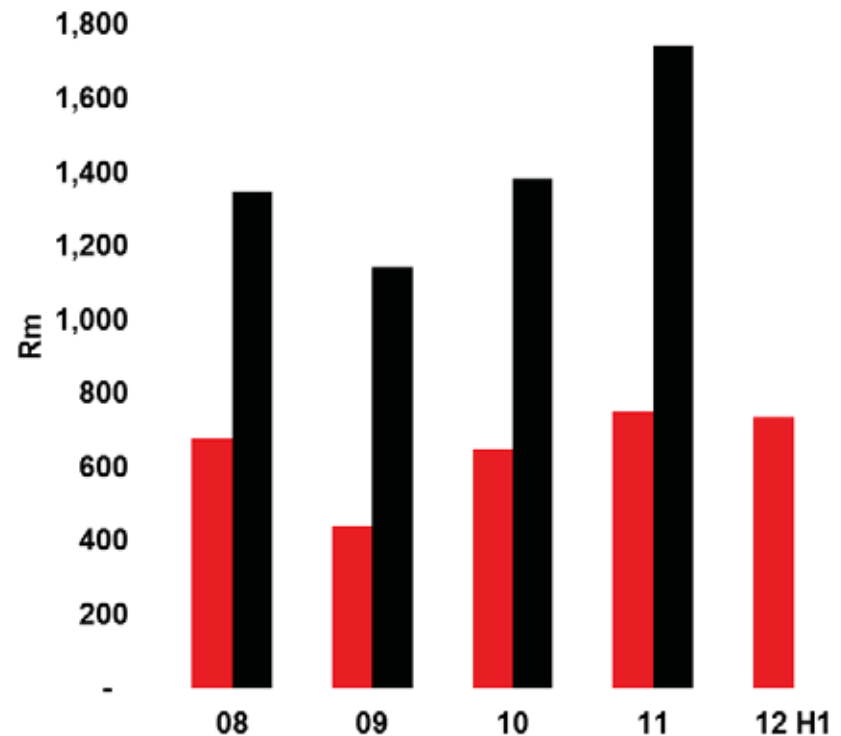
# RESULTS

## EBITDA and volumes



- EBITDA -2% to R738m
- Volumes +8,2% overall
- Chemicals volumes +12,1%
  - manufactured -6,8%
  - traded +33,4%
- Explosives +4,2%
- Foreign revenue +25% to R2 073m
- Market share maintained

FULL- AND HALF-YEAR EBITDA



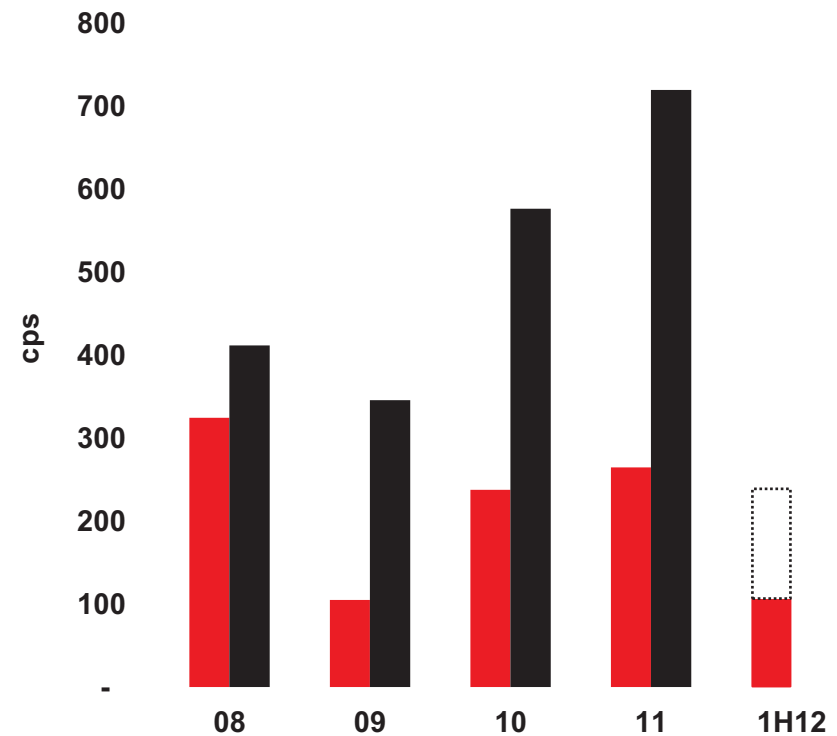
# RESULTS

## HEPS



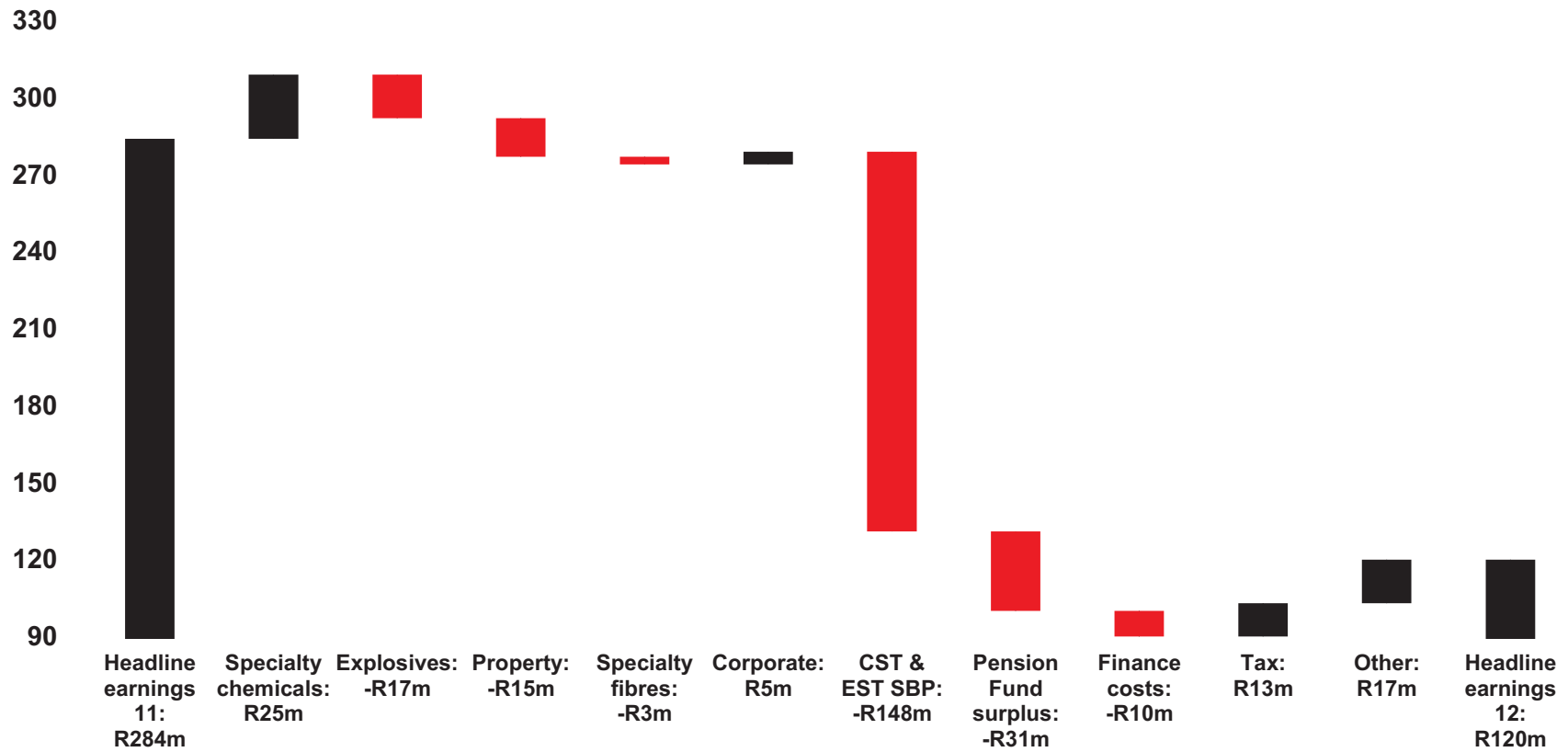
- HEPS -59% to 108cps including IFRS charge of 132cps
- Excluding IFRS charge HEPS -9%
- Pension Fund/PRMA surplus – -R16m compared to R15m in '11
- Profit from operations -3%

FULL- AND HALF-YEAR HEPS



# RESULTS

## Headline earnings (Rm)



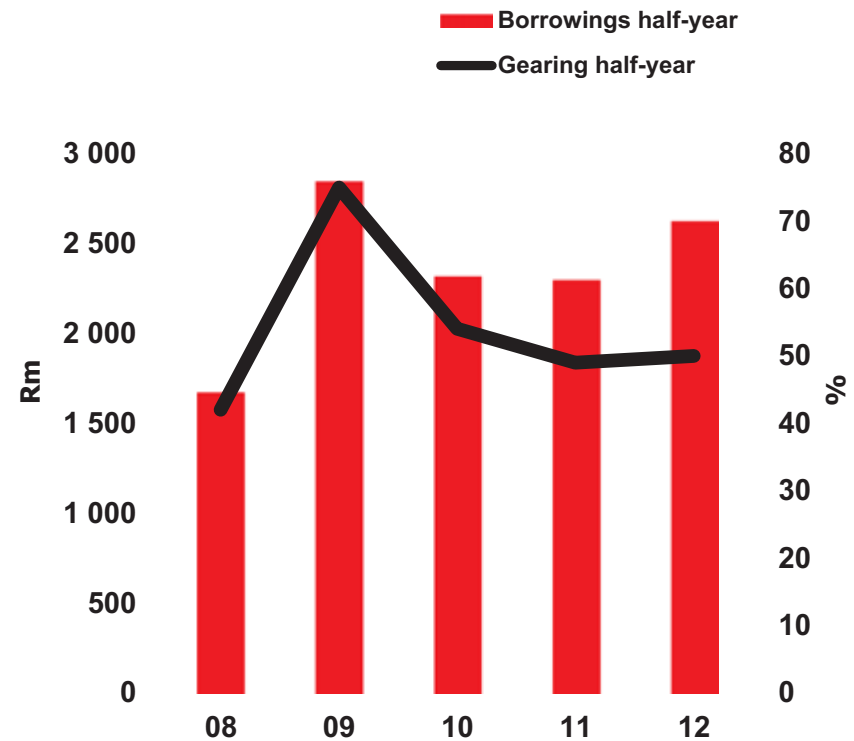
# RESULTS

## Cash utilisation



- Capex: R280m – incl. R145m for expansion projects
- NWC to sales – 22,4% (1H11: 20,2%)
- Net borrowings – R2 629m
- Gearing at 50% (1H11: 49%)
- Cash interest cover – 7,1x
- Cash dividend – 78cps

### HALF-YEAR BORROWINGS AND GEARING





## **IFRS 2 CHARGES**

### B-BBEE transaction



- CST – R138m once-off
- EST – R10m in 1H12, R15m in 2H12
- EST – only 75% of shares allocated
- Annualised IFRS 2 charge = R25m for 75%, approx. R33m for 100%
- IFRS 2 charges not deducted in tax calculation
- Income statement impact of EST to '19 – total of R125m

# EXPLOSIVES

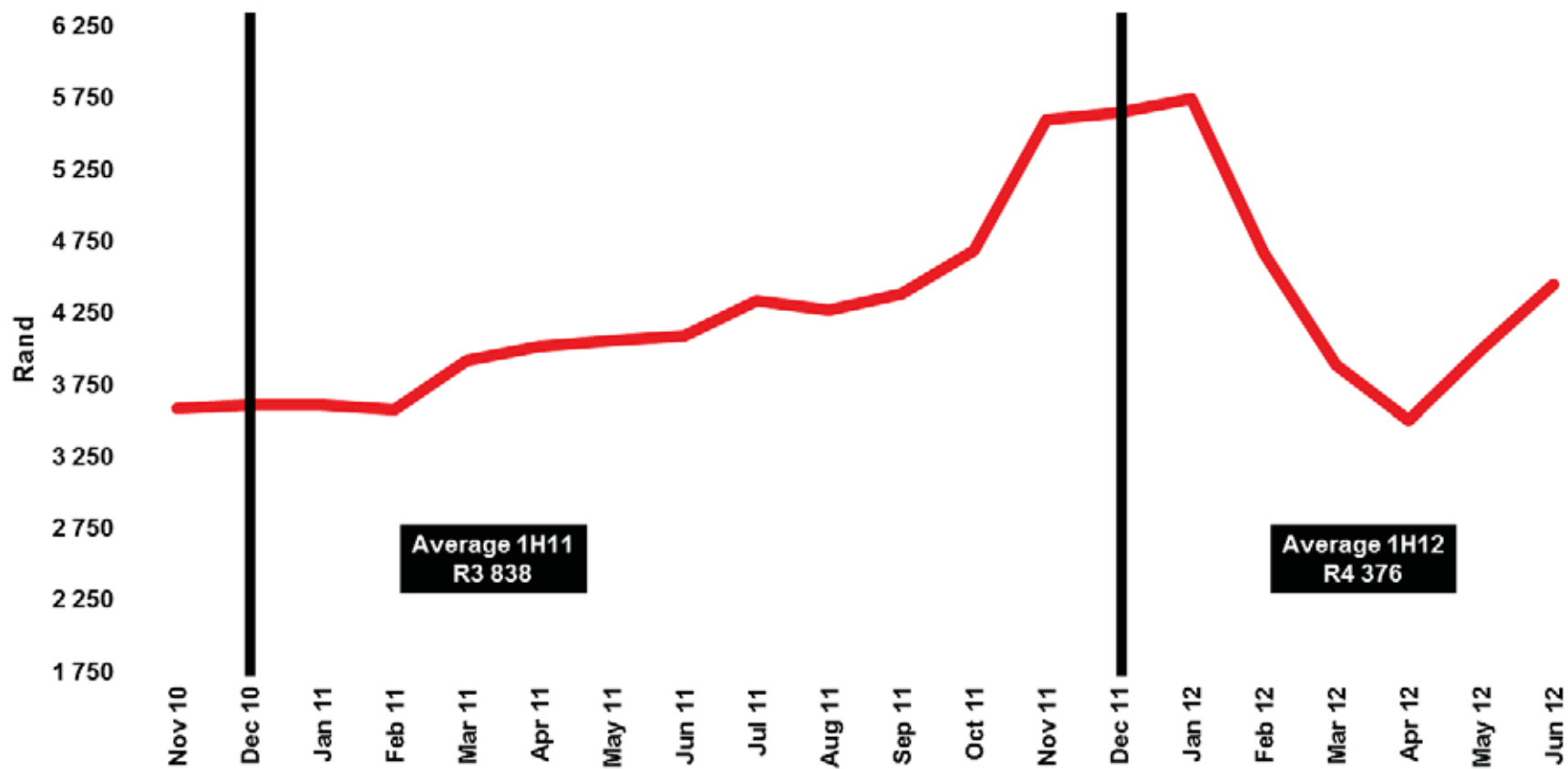
## Environment



- Global commodities – good demand for gold, copper, diamonds, iron ore
- Economic landscape – softening coal, platinum volumes
- Underground mining challenged – volume decline, production interruptions
- Favourable ZAR/US\$ rate
- Key input costs volatile – ammonia and fuel
- Mining in the rest of Africa increasingly attractive

# EXPLOSIVES

## Ammonia price



# EXPLOSIVES

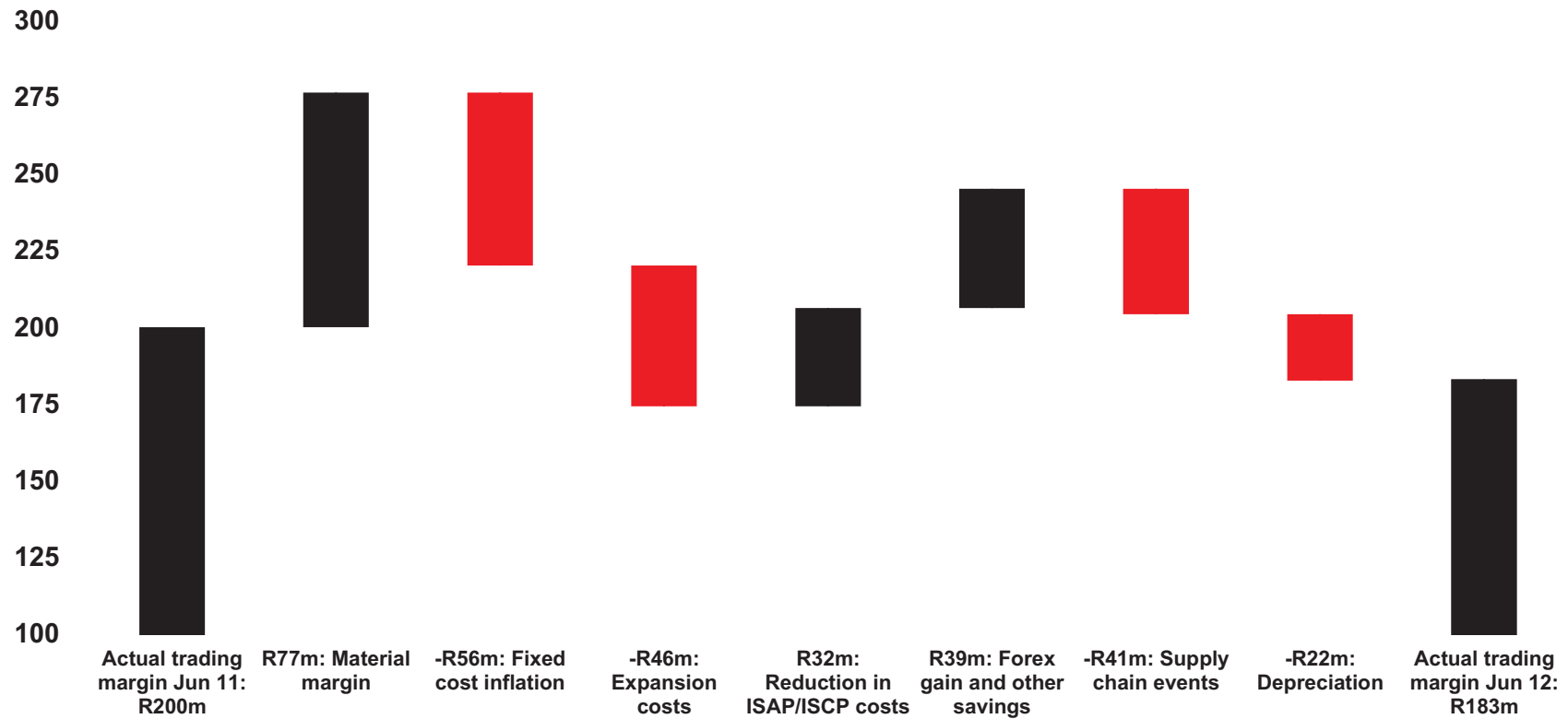
## Performance



- |                        |         |             |
|------------------------|---------|-------------|
| ■ Revenue              | R2 907m | +14%        |
| ■ Trading profit       | R183m   | -8,5%       |
| ■ Trading margin (%)   | 6,3     | ('11: 7,9)  |
| ■ Current trade WC (%) | 22,4    | ('11: 18,9) |
- Year-on-year weighted volume growth of 4,2%
  - Inefficiencies and planned shutdown affected nitrates production
  - Ammonia supply shortages and price volatility impacted profitability
  - Good growth from Africa supported by gold, copper, diamond mining
  - SA performed well in surface mining; Narrow Reef declined
  - Indonesian volumes up and additional contracts secured
  - Staff reductions – 189 in 1H12; in addition to 181 in '11

# EXPLOSIVES

## Performance



# SPECIALTY CHEMICALS

## Environment



- Weaker rand and volatile commodity prices
- SA manufacturing sector still pedestrian
- SA's mining sector declined in 1H12
- Platinum mine strikes and closures had negative impact
- Competition from global players intensifying
- Commodity prices softening

# SPECIALTY CHEMICALS

## Performance



- Revenue R3 949m +20%
- Trading profit R411m +6%
- Trading margin (%) 10,4 ('11 H1: 11,8)
- Current trade WC (%) 20,7 ('11 H1: 21,4)
  
- Volumes +12,1%
  - manufactured -6,8%
  - traded +33,4%
- Prices +7,4%
  
- Strong performances from Akulu, CI, Crest, IOP, Lake, Nulandis
  - Volume growth
  - bolt-on acquisitions (Qwemico, Croxton Chemicals)
  - Restructuring in '11

# SPECIALTY CHEMICALS

## Performance cont.

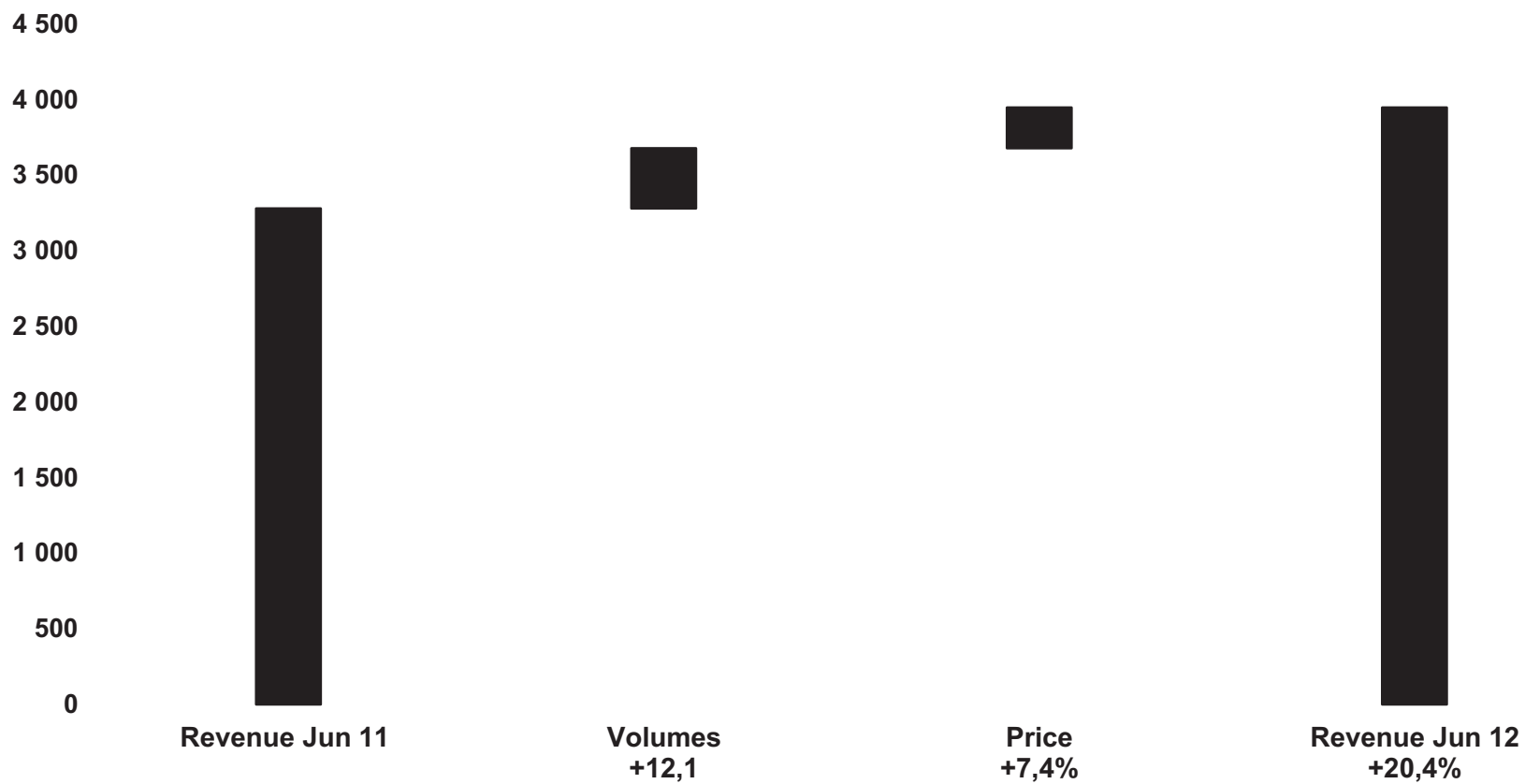


- Solid performance from Senmin in difficult market conditions – platinum sector strikes
- All new plants performing well; focus on growing market and exports
- Duco will be closed by year-end
- R20m profit from sale of former CSL Head Office, offset by
  - strike effects
  - restructuring charges



# SPECIALTY CHEMICALS

## Price and volume analysis (Rm)



# PROPERTY Environment



- Office market in early stage of recovery, led by Sandton – but expensive
- Building-construction industry stagflation (BER BCI 14%)
- Industrial vacancies flat – real rentals down; exceptions in specific areas
- Capitalisation rates declined marginally



Source: Viruly Property Clock, Viruly Consulting

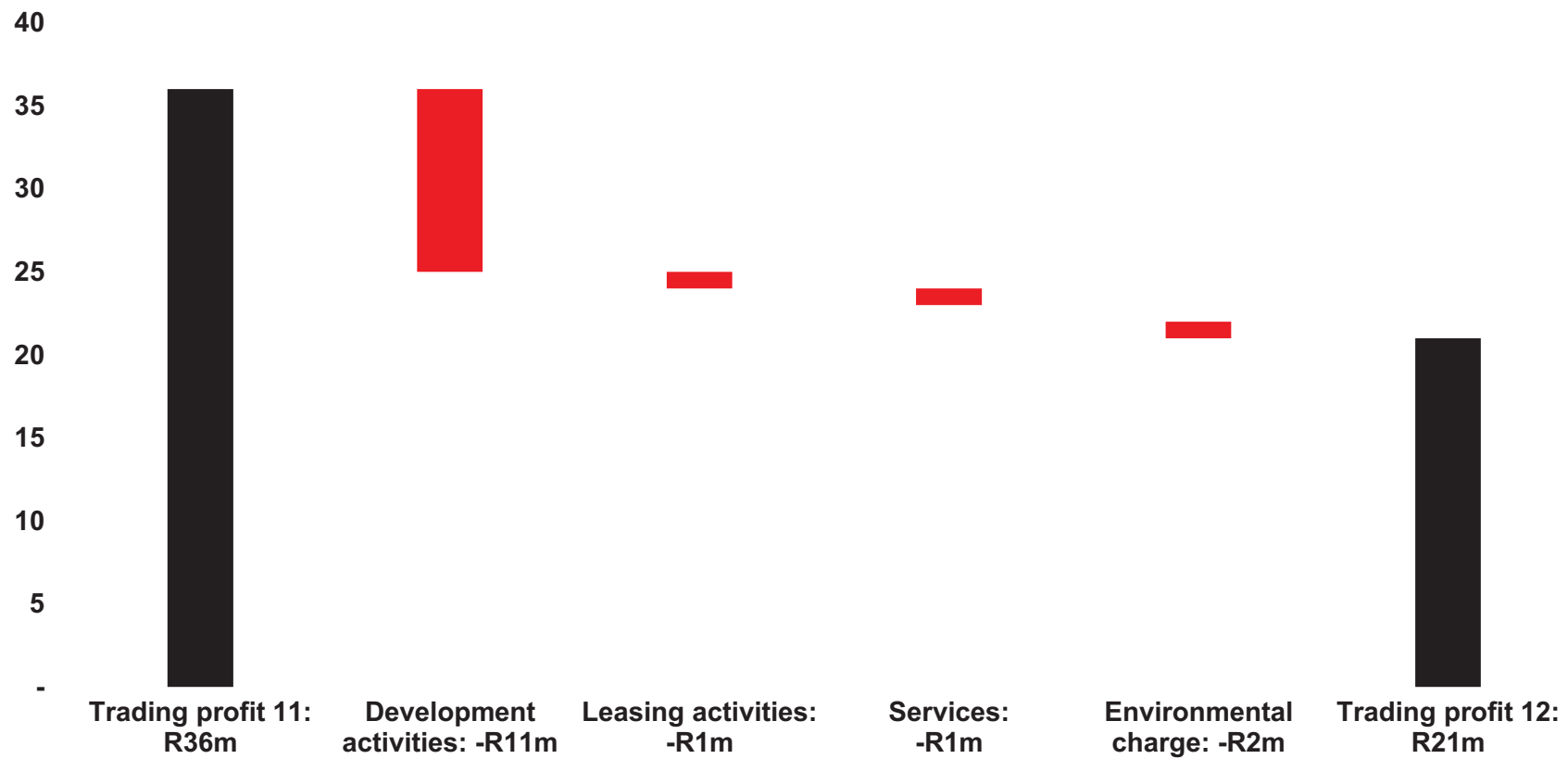
# PROPERTY

## Performance



- |                      |       |              |
|----------------------|-------|--------------|
| ■ Revenue            | R176m | -9%          |
| ■ Trading profit     | R21m  | -42%         |
| ■ Trading margin (%) | 11,9  | ('11: 18,6)  |
| ■ Current WC         | R280m | ('11: R247m) |
- 
- No land sales (3 in 1H11)
  - Rental income flat
  - Infrastructure expenditure of R43m
    - Longlake Ext. 1
    - Westlake
    - M60/Marlboro Road

# PROPERTY Performance



# SPECIALTY FIBRES

## Performance



- Revenue R175m +6%
- Trading profit R24m -11%
- Trading margin (%) 13,7 ('11: 16,4)
  
- Overall volumes -12%
- US automotive sector stable
- Export market and margins down, but levelling
- Margin pressure to continue in 2H12
- Business remains cash generative



# segment update



# EXPLOSIVES

## Capital projects



- Total spend 1H12 R189m (1H11: R35m)
  - Nitrates sustenance R35m
  - Other sustenance and environmental R64m
  - Southern Africa
    - Xstrata Coal and Sishen Iron Ore
  - Work-in-progress
    - Africa: bulk plants, Egypt, Burkina Faso, DRC
    - Indonesia: new contracts
    - KPC Bengalon expansion: operational Jul '12
- } R83m

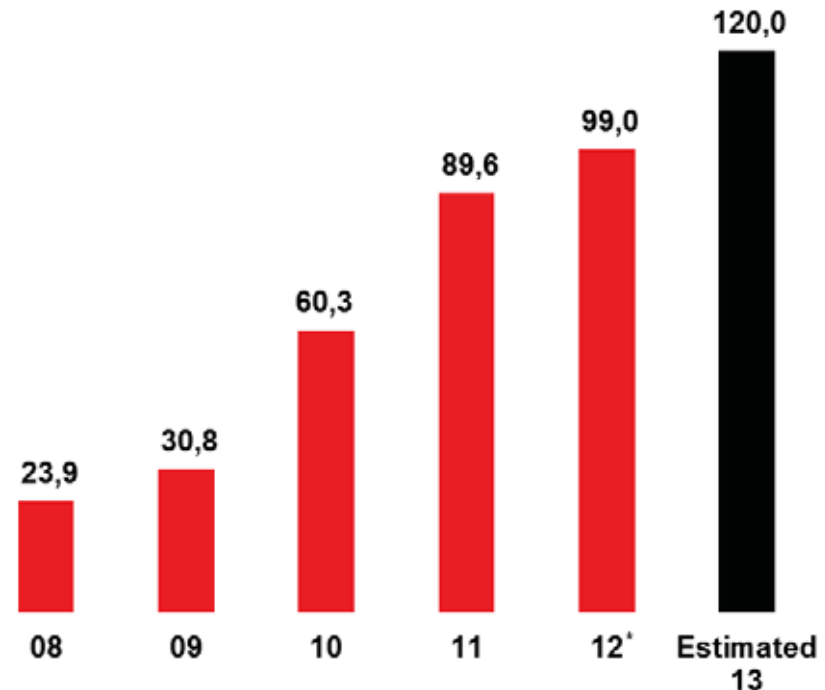
# EXPLOSIVES

## ISAP



- Ramp-up targets were not met
- Problem diagnosed as being people, processes and quality regime
- Appointed dedicated Executive of Operations: Initiating Systems
- Intervention initiated
  - review of staffing levels
  - aligning people capability and competency to plant requirements
  - improvement of leadership skills
  - streamlining and optimising processes
  - quality process improvements

ISAP DETONATOR OUTPUT (MILLIONS)



\* Rolling 12 month actuals



# EXPLOSIVES

## ISAP intervention



- Technology deployed is operational
- Focus on
  - delay powder development
  - surface range
- On track to achieve R50m saving in '12 (of the originally planned R100m)

# EXPLOSIVES

## Major projects outlook



- Balance between sustenance and growth capital
- Modderfontein nitrates complex – continued sustenance
- Environmental projects – completion of feasibility studies
- More opportunities in Africa being assessed

# EXPLOSIVES

Bulk plant sites in Africa



# EXPLOSIVES

## Outlook

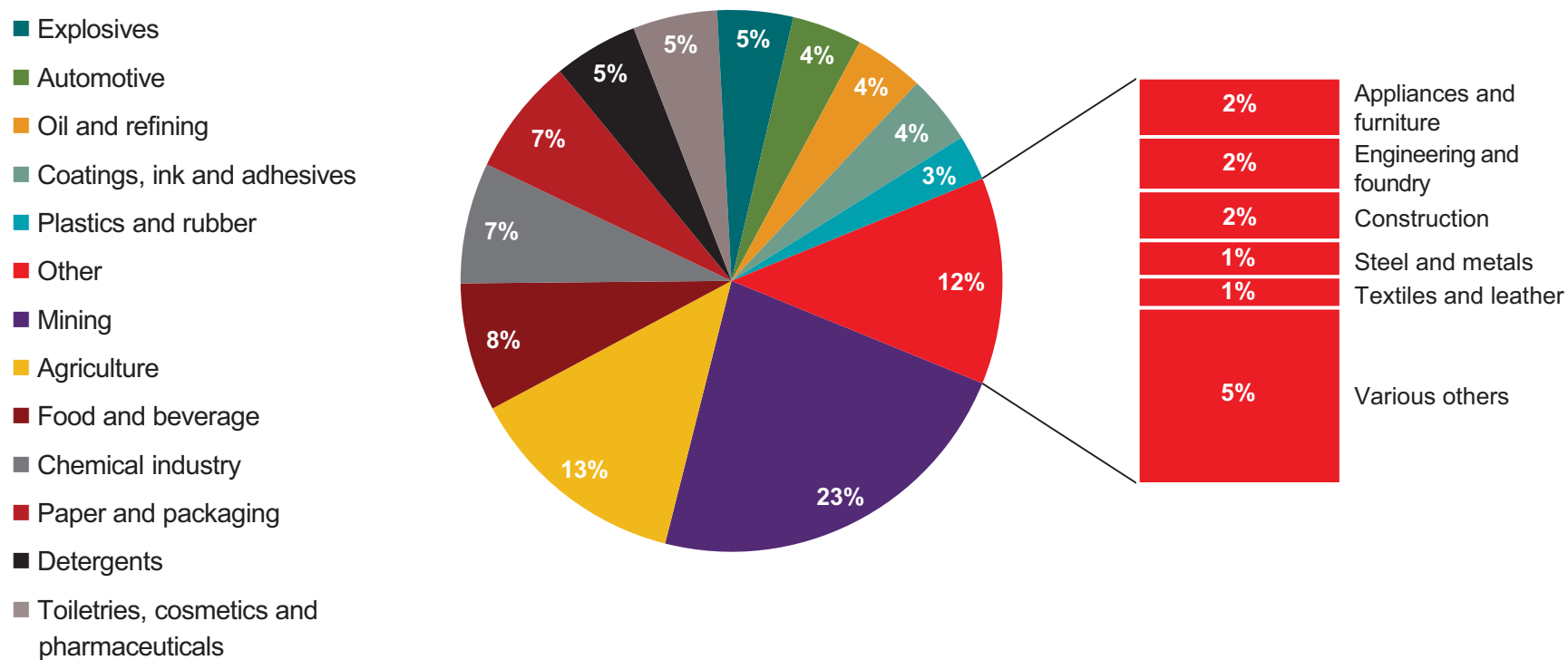


- Global growth softening – volumes and commodity prices affected
- Uncertainty on SA government's intention with mining – future investments
- Escalating underground mining cash costs – more shaft closures
- Tightening raw material margins in International business
- Additional ANS secured for SADC region
- Focus on
  - continued growth in Africa and SE Asia
  - Latam market for electronic detonators
  - ISAP Intervention and operational improvements
  - environmental projects
  - working capital optimisation

# SPECIALTY CHEMICALS



## REVENUE BY MARKET SECTOR 1H12



# SPECIALTY CHEMICALS

## Acquisitions update



- General Electric's Chemical and Monitoring Solutions business
  - non-exclusive distribution agreement – Nov '11
  - acquisition of Africa business with an exclusive licence and manufacturing agreement, effective Jul '12
  - approved by Competition Commission and SARB
  - annual revenue in excess of R180m
  - African footprint with excellent people
  - specialised equipment for water processing
  - continued support and technology from a world class partner
  - in line with water, oil, gas, energy strategy roll-out

# SPECIALTY CHEMICALS

## Acquisitions update cont.



- Senmin PAM plant
  - successfully negotiated exit of BASF as a partner to a royalty agreement
  - allows AECI to compete in all global mining chemical markets with PAM
- Cellulose Derivatives
  - awaiting final decision from Competition Tribunal after appealing Competition Commission's decision
- Local acquisitions – healthy pipeline
- Brazilian strategy being pursued – 20+ potential targets visited

# PROPERTY VALUATION

Modderfontein





# PROPERTY Valuation



		Hectares	Old Mutual (2008) Rm	Independents mean (2012) Rm
<b>Modderfontein</b>				
Surplus to ops				
	Land	1 966	1 313	1 306
	Land/buildings		260	195
	Land reserved for operations	972	263	323*
	Private open space	275	159	159*
	<b>Total</b>		<b>1 995</b>	<b>1 983</b>
<b>Somerset West</b>	Land/buildings	720	<b>450</b>	<b>538</b>
<b>Grand total</b>			<b>2 445</b>	<b>2 521</b>

\* Assumed values for comparative purposes; land not valued

# PROPERTY

## Valuation cont.



- 3 independent valuers: Norman Griffiths & Associates, Massel Property Services, Standard Bank Properties
- Mean of valuations – 13% standard deviation
- Based on comparative sales methodology; not DCF
- Current book value – R671m
- Land for Modderfontein Reserve
  - commitment made in '96
  - co-existence of industry and environment
  - integral component of awarded rights
  - vital open space, wetland, stormwater system
  - essential components of enterprise development, environmental education, recreation



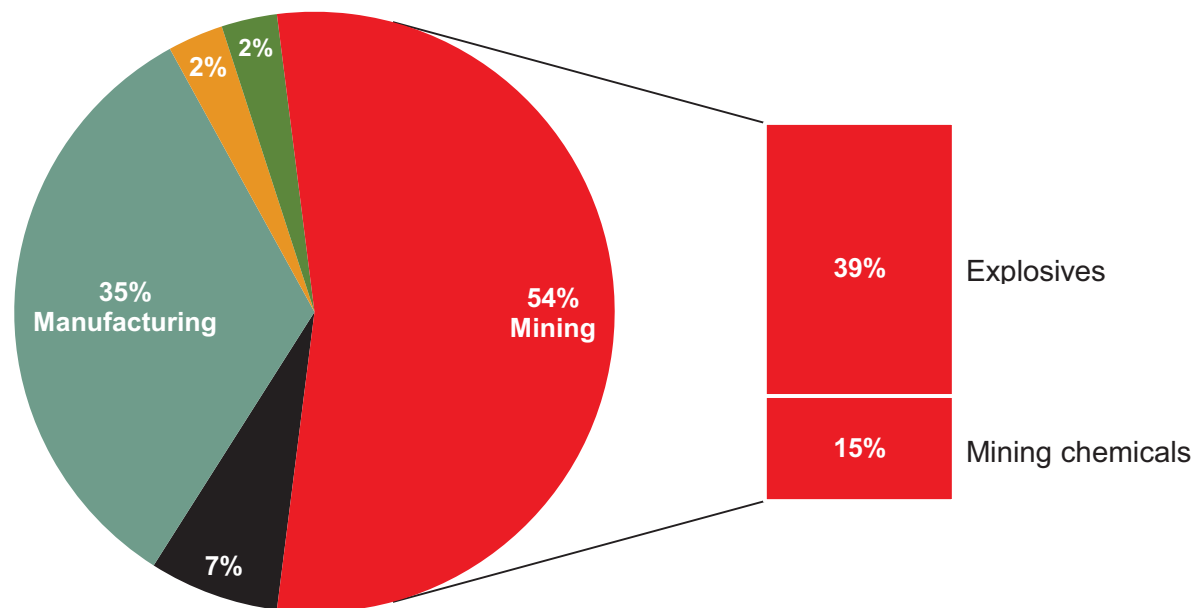
# outlook and underlying growth



# REVENUE SPLIT



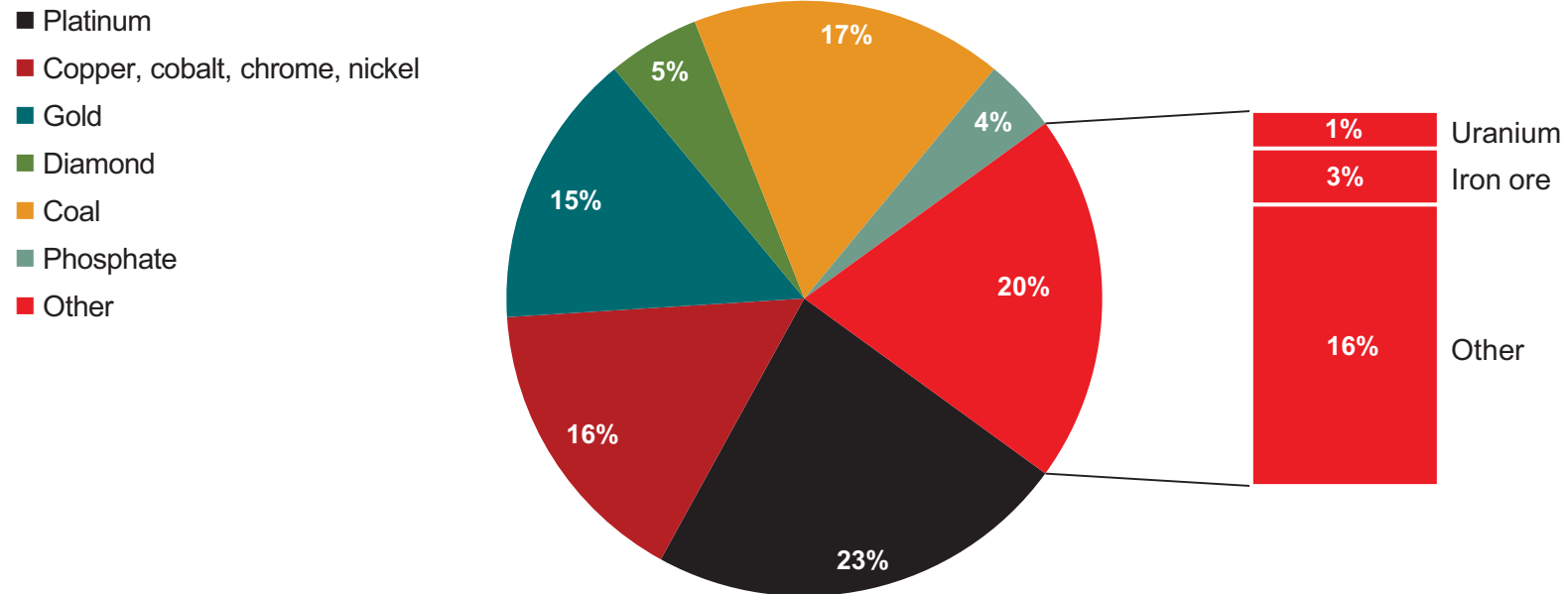
- Mining
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- Property
- Fibres



# GROUP MINING REVENUE



## REVENUE BY MINERAL MINED 1H12



## FOCUS AND OUTLOOK



- Sales volumes expected to be stable despite global slowdown
  - gold (in rest of Africa), coal, copper and iron ore mining expected to be robust
  - platinum and gold mining in SA expected to decline
  - weak growth expected in SA manufacturing volumes
- Management will focus on operational excellence in AEL
  - ISAP intervention to stabilise production practices and ramp-up
  - improve on-line time and quality practices on all plants
  - cost and working capital reduction
- Significant potential for improvement in both explosives and chemicals, however restructuring charges are likely to be incurred
- Prospects of property sales improving

# INVESTORS' CALENDAR



- Heartland site visit, Modderfontein
- Financial year-end
- Results released
  - JHB presentation
  - CT presentation

October/November

31 December

26 February 2013

26 February 2013

27 February 2013



thank  
you

