Assets in rest of Africa shore up PPC earnings

PPC chalked up soaring attributable net profit in the six months to September, nearly tripling it to R294m from R102m in the same period in 2016 - well within guidance in the group's recent trading update.

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A "strong performance" from its rest-of-Africa cement assets boosted its regional earnings before interest, tax, depreciation and amortisation (ebitda) by 25%, as group ebitda grew 4% to R1.2bn. The results bode well for a potential bidding war that now favours PPC shareholders.

The group this week effectively rejected a joint conditional partial offer by South African cement producer AfriSam and Canada's Fairfax insurance group, saying it significantly undervalued PPC.

Headline earnings per share shot up 36% in the latest interim period, with net cash flow from operating activities leaping 49% to R870m. Group finance costs plunged 44% to R285m as net debt declined from R4.7bn in March to R4.4bn.

Meanwhile, the group has received nonbinding expressions of interest from Irish cement giant CRH and LafargeHolcim. The latter already has cement assets in SA. CRH has indicated it is considering an allcash proposal for a controlling stake in PPC.

"The major swing factor in the growth in net profit was the decline in finance charges of 44% due to the [fairly recent] rights issue of R4bn," Cratos Capital portfolio manager Ron Klipin said on Thursday. "But the weighted average number of shares doubled, resulting in a major dilution in headline earnings per share," he said.

The results and substantial investment in new capacity in SA and the rest of the continent has put the valuation of the group up in the air.

"Essentially, it is a very good set of results," interim CEO Johan Claassen said.

Group capital expenditure was much lower than previously due to the company's new cement operations in Rwanda, Ethiopia, the Democratic Republic of the Congo and Zimbabwe ramping up, he said.

Meyrick Barker, investment analyst at Kagiso Asset Management, said that the key profit driver in the interim period was the nonrecurrence of fees incurred on recapitalising the balance sheet in the previous year. "Stripping out the impact of specific one-off costs relating to [broad-based black economic empowerment] charges and ongoing corporate action, the increase of 9% in ebitda is a better reflection of operational performance," he said.

South African volumes, however, remained under pressure across PPC's cement, lime and aggregates business.

Having suffered years of pricing pressure, the South African cement industry had been able to achieve inflationrelated price increases over the past 12 months, Barker said.

The Congo operation's ability to generate sufficient cash to service its debt obligations in a weak economy with a cement oversupply was a concern.

Source: *Business Day*