PSG Wealth

PPC

Materials

Company Update Report

Hold

PPC board approved construction of a R3 billion cement plant.

Analyst recommendation

Counter	Share price	Intrinsic value	Difference
PPC-ZA	R4.24	R4.5	6%

As of 09 April 2025

Executive summary

- Management's shake-up with the, new group CEO, Matias Cardarelli, has strengthened the Executive Committee with several new roles which could potentially help to improve the profitability and sustainable return on capital in South Africa. However, we did not add this as part of our main analyst thesis as more evidence is needed.
- Successful disposal of the company's 51% stake in CIMERWA (Rwanda) for $42.5 million as of 25 January 2024.
- PPC has implemented bi-annual price increases to mitigate rising input costs and restore EBITDA margins.
- PPC hosted its Capital Markets Day on 27 March 2025, highlighting its core priorities: enhancing competitiveness, strengthening cost management, improving operational efficiency, advancing sustainability and environmental initiatives, and pursuing growth opportunities.
- PPC's board of directors has approved a construction of a new R3 billion cement plant in the Western Cape.
- The R200 million share repurchase program was completed on 13 March 2024.
- The 10-month operational update highlighted slight volume declines in SA & Botswana, however with improved margins.

Outlook:

a. PPC will focus its resources on Southern Africa.
b. Operational efficiencies and cost containment measures have been identified and was supported by the margins improving in the 10-month operational update.
c. They will continue to implement bi-annual price increases to achieve margin recovery.

Analyst thesis

- PPC's largest segment is South Africa and Botswana:
  a. Price increases should continue to help improve margins.
  b. Increased construction from lower interest rates, improvement in infrastructure and thematic themes such as urbanisation could potentially help with industry growth. Volumes could also further benefit from expansion projects such as the R3 billion cement plan in the Western Cape. Thanks to its premium cement, the company can safeguard its market share against competitors offering lower-quality products, especially where quality is a priority for customers.
  c. However, volumes are going to remain under pressure as competition remains high and exacerbated by price increases.
  d. The real opportunity lies in government intervention: government spend (infrastructure plan), import tariffs and SOE performance.
- International (Zimbabwe): The company switched to hard currency; the dollar cleans up reporting with no more hyper-inflation items.
- Our valuation has an upside of 6% which supports our hold view. We value the company on a discounted cash flow basis which takes into account dividends received in international business. A high discount rate was applied due to inflationary pressure in Zimbabwe and uncertainty relating to supply demand dynamics in the cement industry.

1H25 Results

Metric (Million)	H1 FY24	H1 FY25	Y/y % change
EBITDA cement SA & Botswana	377	392	4.0%
EBITDA materials SA & Botswana	14	28**	100%
EBITDA PPC Zimbabwe $ million	23	22*	-4.0%
Gross debt SA & Botswana	779	501	-35.7%

*Impacted by weaker performance in Zimbabwe due to the lifting of the import ban.

**Driven by higher pricing and better product mix and increased volume in aggregates.

Source: PSG Wealth research

Key thoughts and the H1 FY2025 results:

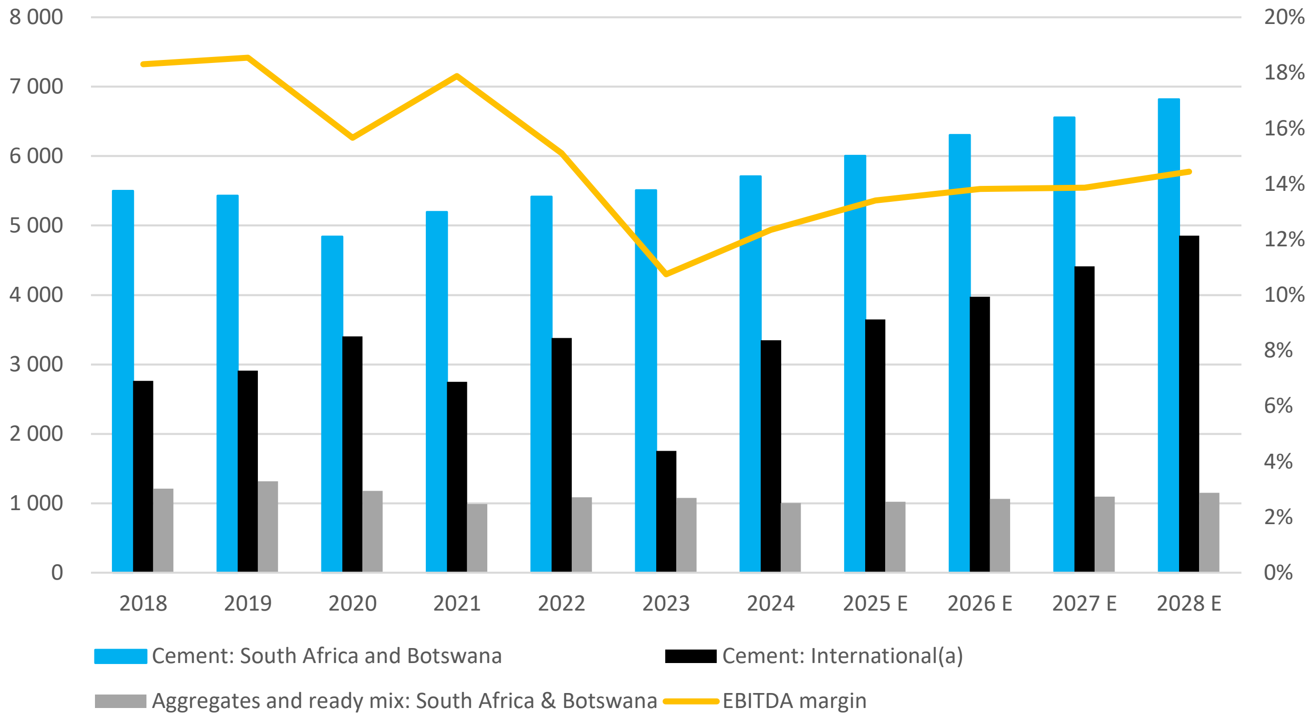
- South Africa and Botswana:
    - The market continues to be imbalanced as supply is greater than demand. The company implements bi-annual price increases to offset volume declines.
    - During the H1 FY 25, cement sales volumes in South Africa and Botswana declined by 5% compared to the previous period, primarily due to reduced demand for bagged (retail) cement.
    - Overall, no impairments were recorded in the current period, compared to an R53 million impairment in the prior period related to the mothballing of PPC Cement SA's Jupiter milling plant. Therefore, EBITDA margin increased to 12.3% as margins stabilised when compared to the comparable period.

- International (Zimbabwe)
    - PPC Zimbabwe volumes decreased by 9.1% largely due to a shift in market dynamics following the lifting of the import ban.
    - Despite a 76% increase in electricity tariffs period-on-period, the positive impact of contract renegotiations more than offset the additional costs. This contributed to a 1.5 percentage point improvement in the EBITDA margin, increasing from 24.6% in H1 FY24 to 26.1% in the current period.
    - Capital expenditure in Zimbabwe increased by 85% compared to H1 FY24, primarily due to unplanned maintenance following two kiln stoppages.

Ten Months Operational Update Ended 31 January 2025

- South Africa and Botswana
    - Overall sales volumes in South Africa and Botswana declined by 1%, mainly due to weaker performance in Botswana. South Africa's volumes remained stable, and July 2024 price increases helped offset the volume decline.
    - Margins expanded significantly to 14.8% from 11.4% year-on-year, reflecting improved profitability and operational efficiency.
- International (Zimbabwe)
    - Sales volumes declined by 9% in the current period, indicating weaker demand or reduced activity.
    - EBITDA margin improved by 4.4 percentage points to 26.0%, driven by strict cost control measures.

Graph 1: Revenue and EBITDA margin



Source: PSG Wealth research

Valuation

We have valued PPC Limited using a discounted cash flow (DCF) model. In our valuation we have flexed our bear, base, and bull scenarios, each assigned with an equal probability weighting.

Metric: key assumptions	Bear case	Base case	Bull case	Prob weighted intrinsic
Revenue FY22-27	2.5%	4.1%	7.1%	
EBITDA FY22-27	1.5%	2.3%	6.5%	
Terminal growth rate	2.5%	3.0%	4.0%	
Wacc	19.5%	19.5%	19.5%	
Intrinsic value	R3.2	R4.5	R5.5	
Share price	R4.22	R4.22	R4.22	4.3
Upside/(downside)	-24.2%	6%	30.3%	2%
Probability	30%	50%	20%	100%

Source: PSG Wealth research as of 09 April 2025

Table 4: Qualitative summary

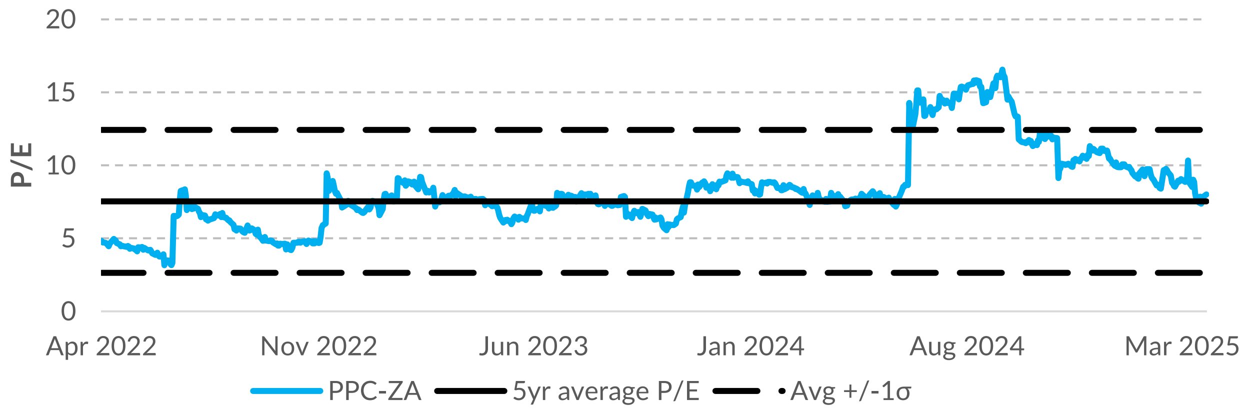
Factor review	Rating	Description
Growth		Revenue 3-year CAGR is expected at 9.8%.
Valuation		Upside to intrinsic value 6%. Further upside is if government intervenes in import dumping in South Africa.
Dividend yield		The forward dividend yield for PPC Limited is 3.4%.
Issuance		The share repurchase programme of R200 million, approved by the board, was completed on 13 March 2024.
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. • Awakened turnaround plan focussing on improving profitability and efficiencies.	
Quality of earnings		Earnings distorted by the Covid period. Zimbabwe setting dollar standard helps with volatility. History of impairments.
Moat		Competition remains high with PPC's brand and cement quality not being a strong enough moat. The government needs to implement measures to prevent imported cement which could benefit PPC's moat in the future.
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	• Multi-currency trading environment extended from 2025 to 2030. • Downtime from plant optimization (affects production =volumes). • Importing and dumping from international market and continued lack of intervention from government especially from South Africa. • Risk of impairments of PPC Cement Plants.	
Regulation		Government might introduce import tariffs to create a level playing field for domestic producers, however, management states that these remain "elusive".
ESG		Although in an industry with a large negative carbon emission impact and potential for injuries, PPC is pursuing an ongoing decarbonisation program.
Momentum price		Price momentum is negative.
Momentum earnings		In the last three months, earnings revision has been revised upwards by 14.7%.
Piotroski score		Achieved an average score of 8.

Source: PSG Wealth research

Table 5: Company data

52-week high	R5.26
52-week low	R2.92
Market value (bn)	R6.2
Price momentum	Negative
3m earnings revision	14.7%
Fiscal year end	2025/03/31

Graph 2: Price to earnings



Source: FactSet

Table 6: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
PPC Limited	-18.1%	-8.3%	-12.1%	8.5%	36.2%	57.8%	17.1%	170.0%	-62.2%
JSE Capped SWIX	2.3%	-2.9%	2.7%	-0.2%	14.2%	11.3%	11.1%	73.6%	28.6%

Source: FactSet

Table 7: Key competitors

Company	Code	Price (local)	Market Cap (Rbn)	Sales FY (Rbn)	EBIT FY (Rbn)	Net Income FY (Rbn)	EV/EBIT	P/E	Price % (3mo)	Price % (1YR)
PPC Limited	PPC-ZA	4.1	6.4	10.1	0.3	0.1	5.0x	7.6x	-14.6%	29.8%
Raubex Group Limited	RBX-ZA	39.2	7.1	17.4	1.5	0.8	-	5.2x	-21.40%	-21.40%

Source: FactSet

Table 8: Income statement

Income statement (ZAR bn)	2018	2019	2020	2021	2022	2023	2024	5Yr CAGR
Sales	10.2	10.4	8.6*	8.9	9.8	8.3*	10.0	-0.7
Y/Y growth (%)	*6.3*	*2*	*-17.3*	*3.5*	*10.1*	*-15.3*	20.5	-
Gross income	2.2	1.8	1.7	1.9	1.2*	1.0*	1.5	-3.5
Y/Y growth (%)	-	*-18.2*	*-5.6*	*11.8*	*-36.8*	*-16.7*	50	-
EBITDA	1.8	1.9	1.5*	1.6	1.4*	0.9*	1.2	-8.7
Y/Y growth (%)	*-10*	*5.6*	*-21.1*	*6.7*	*-12.5*	*-35.7*	33.3	-
EBIT	0.9	0.9	0.7*	1.1	0.5*	0.1*	0.6	-7.7
Y/Y growth (%)	*-16.7*	*0*	*-22.2*	*42.9*	*-50*	*-80*	*500*	-
Net income	0.5	0.2	-0.6*	0.9	-0.07*	-0.3	0.08*	-16.7
Y/Y growth (%)	-	*-60*	*-400*	*-250*	*-107.8*	328.6	-126.7	
EPS	-	-	-	*-0.1*	*-0.1*	*-0.09*	*0.3*	-
Y/Y growth (%)	-	-	-	-	-13.3	-30.8	233.3	

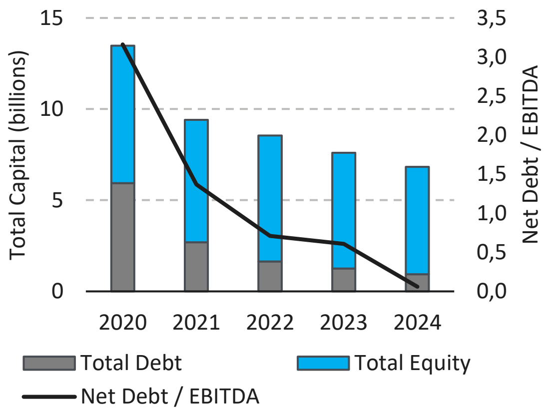
Balance sheet and cash flow (ZAR bn)	2018	2019	2020	2021	2022	2023	2024	5Yr CAGR
Capex	-0.9	-0.7	-0.6	-0.4	-0.6	-0.4	-0.4	-
Cash from Operations	1.4	1.2	0.2	1.0	1.2	0.4	0.6	-12.9
Free Cash Flow	0.5	0.4	-0.8	0.9	0.5	0.5	0.4	0
Y/Y growth (%)	-	-	-	*-50.7*	*-44.4*	*0*	-20	-
Cash and ST Investments	0.8	0.4	0.5	0.4	0.5	0.4	0.8	14.8
Total assets	16.2	17.9	15.8	14.9	15.3	10.4	9.5	-11.9
ST debt	0.9	5.1	1.7	0.5	0.4	0.3	0.5	-37.1
LT debt	4.1	0.9	1.0	1.2	1.1	0.8	0.2	-25.9

Ratios (ZAR bn)	2018	2019	2020	2021	2022	2023	2024
Gross margin (%)	22.1	19.2	22	15.5	14.8	14.8	15.6
EBIT margin (%)	*9.4*	*8.6*	*8.5*	*12.0*	*5.3*	*1.6*	*6.4*
Net income margin (%)	*3.7*	*2.2*	*2.1*	*-0.9*	*-2.4*	*-3.9*	*0.8*
Current ratio	1.1	0.5	0.9	1.5	1.6	1.6	1.5
Total debt to equity	56.2	76.2	39.1	22.4	22.3	21.9	15.6
Total debt to assets	28.3	28.3	34.6	17.0	10.7	12.0	9.8
ROA (%)	*0.8*	*1.4*	*-3.7*	*5.9*	*-0.4*	*-2.5*	*0.8*
ROE (%)	*1.8*	*2.8*	*-7.8*	*13.4*	*-1.0*	*-5.0*	*1.5*

*Impacted by closing of Zimbabwe plant in 2013 and weaker performance in South Africa and Botswana.

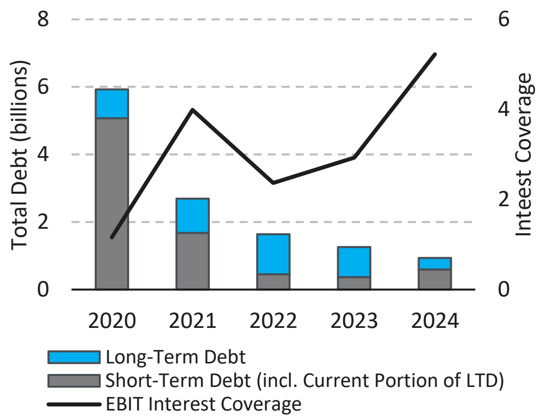
Source: FactSet

Graph 3: Capital structure and net debt/EBITDA



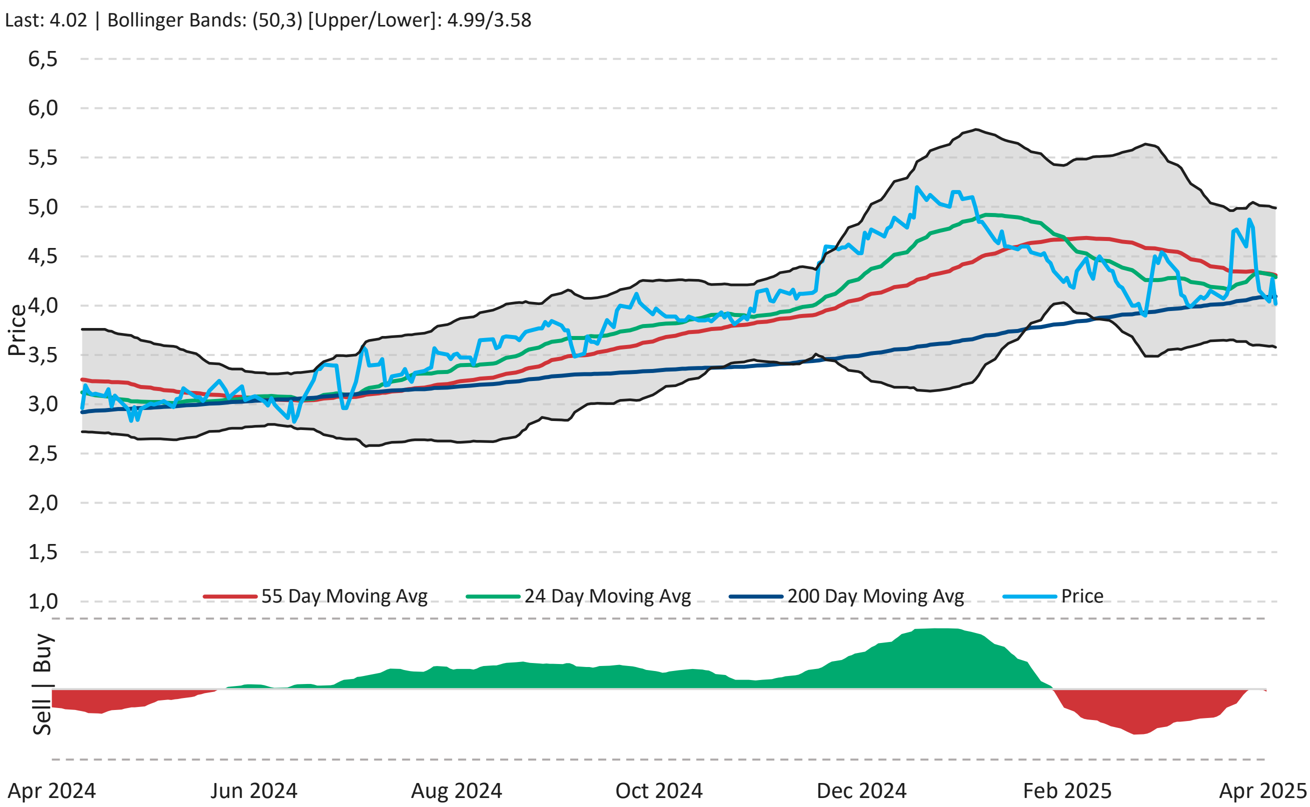
Source: FactSet

Graph 4: Total debt and interest coverage



Source: FactSet

Graph 5: Price momentum



Source: FactSet

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