Afrimat Construction Index recovers in second quarter of 2022

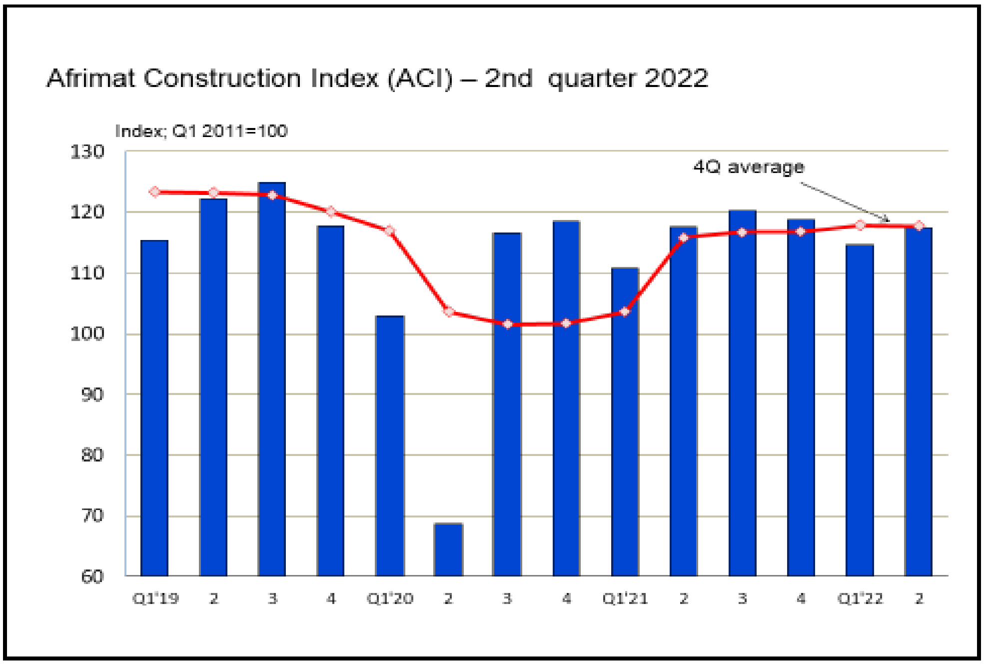
Johannesburg, 12 September 2022 – Afrimat, the JSE-listed open pit mining company providing industrial minerals, bulk commodities and construction materials, has released the findings of the Afrimat Construction Index (ACI) for the second quarter of 2022. The ACI is a composite index of the level of activity within the building and construction sectors compiled by economist Dr Roelof Botha on behalf of Afrimat.

According to Dr Botha, the construction sector managed to increase the value added to the economy by an impressive 4.1% in real terms, compared with the previous quarter. "This is despite a series of unfortunate events putting additional pressure on levels of economic activity during the second quarter, including the KwaZulu-Natal floods and lengthy strikes at major mining companies, combined with general economic factors such as weaker prices for precious metals and iron ore, high fuel costs, extensive loadshedding, inefficiencies in rail transport and increasing inflation."

He adds that the ACI also recorded a modest 2.4% increase over the first quarter of the year, saying that one of the most encouraging features of the second quarter performance was the positive trend for both the volume and the value of building material sales, which may be regarded as leading indicators for future construction activity.

"The best-performing indicator, however, was the value of buildings completed in the metros and larger municipalities, with a 21% year-on-year rate of increase. The increase in employment in construction during the second quarter was also encouraging and will hopefully continue as government starts embarking on more public/private partnerships as part of the promised infrastructure drive."

Building material sales increased by 9.6% (quarter-on-quarter) and by 4.4% compared to the second quarter of 2021.



% Change in the constituent indicators of the Afrimat Construction Index (year-on-year and quarter-on-quarter)

Indicator	% y-o-y	% q-o-q
Buildings Completed (Value)	21	19.7
Employment In Construction	-0.6	9.7
Building Materials (Sales)	4.4	9.6
Construction Value Added	-4.3	4.1
Building Materials (Volume)	1.2	2.9
Retail Trade Sales – Hardware	-9.8	0
Salaries & Wages – Construction	-4.8	-0.3
Building Plans Passed (Value)	-6.2	-1.2
Wholesale Construction Trade	-0.3	-5
Afrimat Construction Index	**-0.2**	**2.4**
Real GDP	**-0.2**	**3.9**

Notes: *1. Ranked by q-o-q % change*

2. GDP based on constant 2022 prices, deflated by the CPI

"The public sector is still lagging behind the private sector in the crucial area of capital formation, which is the aggregate demand component that ultimately incorporates construction sector activity. Infrastructure investment by government has not yet resulted in higher levels of public sector expenditure on capital projects," Botha points out, adding that private sector capital formation produced an impressive 8.7% increase, in real terms, during the second quarter, compared to the second quarter of 2021.

Dr Botha says that during the second quarter, positive signs did however start to surface as the fixed capital formation by state corporations managed to increase in real terms, both in quarter-on-quarter and year-on-year terms. "Another positive development is the rise in the SME Business Confidence Survey for the construction sector, a quarterly survey conducted by the Bureau for Economic Research on behalf of the Construction Industry Development Board. This particular index recorded a level of 42 during the second quarter, compared with 35 in the first quarter."

"Although government has started a process of deregulation, especially in the crucial area of renewable energy by lifting the limitation on self-generation, much more needs to be done to improve, expand and maintain the country's infrastructure and also improve the functionality and capacity of key state-owned enterprises and municipalities."

He believes that fiscal constraints are not the root cause of the lack of public sector expenditure on infrastructure, but rather over-regulation, a lack of requisite skills, especially in project management, and the dysfunctional state of a large number of municipalities. "Fortunately, government has acknowledged that all of these issues should be prioritised under the new growth and reconstruction strategy and visible signs of deregulation have already come to the fore."

Afrimat's CEO, Andries van Heerden, acknowledges that while South Africa is not an easy environment to operate in at the moment, given loadshedding, increasing input costs such as diesel and what was a poor performance from Transnet, Afrimat's strength lies in its ability to be nimble, underpinned by the diversification of products, commodities, location and foreign exchange income streams, all of which enable the Group to overcome and work through these operational detractors.

"Although there has been an uptick in the performance indicators of this edition of the ACI, we can attest to the fact that construction and infrastructure activity remains low. Thankfully, the Construction Materials segment continues to benefit from being located in strategic places across the country, efficiency drives, and product diversification. Similarly, in the Industrial Minerals segment, sector diversity, especially in support of the agricultural sector, is proving to be a solid support to the segment."

In conclusion, Van Heerden says that Afrimat remains in a strong cash position, bolstered by the recent and oversubscribed capital raise. This supports an already strong cash balance and provides the ability to implement an exciting pipeline of growth projects whilst being able to react quickly to good opportunities that present themselves.

"The focus for the remainder of the year will be on ensuring seamless execution and the implementation of the Glenover phosphate, vermiculite and rare earth project, which aligns with the global trends of decarbonisation, technology advancements and food security, as well as further enhancing the Afrimat diversification strategy, which shows good long-term market dynamics with healthy margins."

Note: *Index value comparisons with previous editions need to take cognisance of the inclusion of an additional indicator and the re-basing of South Africa's GDP by Statistics South Africa, affecting historical values.*

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