

Build Trends

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**Medium-Term Budget
Policy Statement is very
commendable but no
guarantee of
implementation**



Combination of lower than expected CPI and PPI increases likelihood of rate cut in November



Infrastructure deferrals slow construction



AfriSam announces the introduction of a range of environmentally responsible concrete products

Macro-economic trends impacting on construction industry

On the whole, economic and business analysts have no reason to be disappointed with the latest Medium-Term Budget Policy Statement (MTBPS). Several of the ideas were totally commendable and hit at the core of the challenges facing the South African economy in its attempt to lift its growth rate. The problem lies with the potential success or otherwise in the implementation of these ideas, a theme which we have frequently trotted out. In conclusion, were the government to succeed with implementing its intentions appropriately, the long-term goal of achieving 7% annual growth and creating 500,000 jobs per annum is attainable. However, given the ructions within the ruling tripartite alliance and the attempts at appeasing all parties, it remains doubtful whether such noble objectives will be achieved. Instead, the new official National Treasury forecast of growth in the region of 3% to 4% over the next few years is about as positive as seems credible.

One was especially pleased to hear about the government's commitment to improve education and skills development, to concentrate its spending on infrastructure and to root out corruption by means of new systems to regulate the management of the rollout of government tenders. Especially welcome is the programme to improve the human resource capacity within the public sector, especially with regard to the implementation of capital budgets.

One can also greatly welcome the decision to refrain from taxing capital inflows as a means of constraining gains in the Rand and instead to relax foreign exchange controls further and to increase commitment to foreign exchange intervention to tame the currency's gains. At the same time, the details of the foreign exchange relaxation are not yet available in order to assess the extent to which they might defuse upward pressure on the currency.

Ostensibly, the MTBPS appears to commit government to pursuing the National Health Insurance scheme initiative. However, analysis of the revised breakdown of government spending by department shows spending on health actually declining as a percentage of government spending over the next three years. This raises questions regarding the state of play in the introduction of the new NHI.

In contrast, there appears to have been a significant shift in revising upwards the share of funds allocated to education, housing, defence and welfare (social protection). Such increases seem to be accommodated by a substantial reduction in the public sector interest bill, as a result of projections of lower interest rates than was the case in February. There has also been a substantial downward revision in the budget allocated to "economic affairs", the catch all for all types of mineral, agricultural and industrial policies. This raises questions regarding the consolation of some of the intentions incorporated into the New Growth Path announced, to promote job creation in those sectors.

From a fiscal point of view, the MTBPS contains no surprises. As we have been suggesting for some time,

government revenue for 2010/11 was set to exceed February's budget by around R30bn, with expenditure falling marginally short of budget. Consequently, the downward revision of the budget deficit for 2010/11, to 5.3% of GDP, from an originally budgeted 6.2% of GDP, is much in line with expectations. So too are the commensurate reductions in the budget deficits for the next three fiscal years by between 0.2% and 0.4% of GDP compared with February. The upshot of this is that the general government borrowing requirement for the next three years cumulatively will be R69.8bn less than budgeted for in February and for the current fiscal year alone R31.1bn less.

However, against this, there is a substantial R66.0bn projected increase over the next three years compared with February's budget in the funding requirement for non-financial public enterprises. This illustrates the manner in which the government intends shifting its funding priorities away from direct government expenditure, towards infrastructural investment by parastatal organisations to alleviate bottlenecks in electricity, transport and water supply. In sum, the overall public sector borrowing requirement is little changed from what was budgeted for in February, implying negligible pressure on (long-term) interest rates to change as a result of the MTBPS.

Source: Econometrix, 27 October 2010

In comments made by Federal Reserve Board Chairman Ben Bernanke recently regarding the weakness of the US economy, the general interpretation was that this guarantees that the Fed would embark upon a substantial new round of quantitative easing. This merely entrenched

Bubble could burst sooner.

the growing view that the US Fed's approach to extricating the US economy from slow growth guarantees that there will be a flood of money chasing after financial assets and emerging market currencies such as the Rand

for a considerable period of time.

However, we would warn against such complacency. The general perception that the Fed's policy virtually guarantees a bubble in equity prices and many non-Dollar currencies in itself could result in such a bubble bursting sooner than is generally anticipated. There is no certain scenario as to why such a "premature" end to the bubble could materialise. However, it is becoming increasingly apparent that tensions between China and the US over currency management could see expectations increasing of an outbreak of protectionist tendencies, which would shatter expectations of economic growth being maintained at a reasonable level globally.

Were a severe downturn in global financial markets to materialise as a consequence, there is a real risk that expectations would turn to the potential that tax revenues associated with economic growth forecasts might not be as forthcoming as currently anticipated. In turn, this could lead to an inability on the part of the world's authorities to rein in

burgeoning government debt to the extent currently anticipated, leading to a vicious circle of declining asset prices and further expectations of economic decline.

Under such circumstances, one could experience a fairly dramatic turnaround in the Rand's fortunes given the high level of liquidity of South Africa's financial markets, combined with the fact that South Africa has one of the largest current-account deficits amongst emerging markets.

Source: *Econometrix*, 18 October 2010

Excited talk of currency wars has given way to an uneasy truce, but what has so far been a phoney war could yet break out into outright hostilities.

For the statement thrashed out among finance ministers of the Group of 20 leading economies in South Korea this month did no more than paper over the radically different views of the two main belligerents – the United States and China.

Sometimes international meetings sow the seeds of understandings that, over time, bear policy fruit. But most times what you see is what you get. And what world markets saw in Gyeongju was two countries poles apart on who is responsible for global imbalances that are generating currency volatility and threaten to spill over into 1930s-style protectionism, at a time when the world economic recovery, in the words of the G20, is "fragile and uneven".

"On the currencies, I would have liked to have seen more substantive progress there," said Canadian Finance Minister Jim Flaherty. "We did make directional progress," he said, but added: "There was a lot of push back from China and some of the other countries as well. I think there's nervousness about the fragility of the economic recovery."

Washington pressed its case that countries with big external surpluses, primarily China, need to let their currencies rise.

The result? A call in the communique for more market-determined exchange rate systems, the avoidance of competitive devaluations and the pursuit of a full suite of policies to reduce current account imbalances.

Developing economies countered with criticism of rich countries for cranking up their money-printing presses and, in the process, sending a flood of money into their markets that is inflating asset bubbles and forcing up their exchange rates to the detriment of export industries on which they rely for growth.

The result? A promise in the closing statement that countries that issue reserve currencies would be vigilant against excessive volatility and disorderly movements in exchange rates.

"The outcome of the G20 meeting clearly shows progress in the global rebalancing policy debate," said Thomas Stolper, chief currency strategist at Goldman Sachs in London.

"At the same time, this is not a Plaza-style statement that signals a broad agreement on the role currencies have to play in the global rebalancing," he added, referring to the 1985 Plaza Accord by five leading nations to drive down the dollar.

Source: *Reuters*, 25 October 2010

South Africa's government has no target for foreign exchange reserves and will help the Reserve Bank accumulate reserves as and when it can afford to, Finance Minister Pravin Gordhan said recently.

SA has no target for FX reserves.

The government is under pressure from exporters and unions to tame the rand, which has rallied more than 26%

against the dollar since the start of 2009, and Gordhan said the government would allocate more funds to let the central bank build up reserves.

The rand's strength, largely fuelled by foreign investment into South Africa's high-yielding assets, is hurting mining and manufacturing exports in particular.

"There is no target as far as reserves are concerned. As and when we can afford to fund the Reserve Bank's purchase of dollars and accumulation of reserves we will certainly do that," Gordhan told a parliamentary committee.

The Treasury says it has spent R43-billion so far this year to support the central bank's reserve-building efforts and will continue to do so, pushing reserves to over \$44-billion by the end of September.

The central bank started using currency swaps in August to shore up its reserves. Through an overbought forward book it purchases dollars in the spot market and enters into longer-term contracts to settle the purchases.

The central bank's forward book stood at \$1,1-billion in September.

Source: *Engineering News, Reuters*, 28 October 2010

The y-o-y CPI inflation rate declined to a new five-year low of 3.2% in September, down from 3.5% in August. This decline was greater than consensus expectations, which had looked for a fall to 3.4%.

Without doubt, the continuing strength of the Rand was a key contributor towards the further fall in inflation. In particular, the inflation rate of goods, which is intimately linked to the cost of imports, fell to a new multi-year low of 1.5% in September, from 1.9% in August and a level of more than 5% a year ago.

The main downward pressure on CPI inflation in September arose from the fall in petrol prices, of -10 cl in September, which contrasted with an increase in the price of petrol of 36 cl in September 2009. However, this impact was fully built into the expectation of some decline in the CPI inflation rate. Instead, the underlying reason for the unexpectedly sharp decline in the inflation rate arose from three unexpected price developments. Firstly, despite increases in international commodity prices of food, the food CPI fell by -0.2% m-o-m in absolute terms when some moderate increase had been expected. Secondly, one had expected vehicle prices to rise on account of the introduction of the carbon emissions tax during the month and instead the vehicle CPI declined in absolute terms by -0.1%. Thirdly, insurance costs declined by -0.3% m-o-m.

One still believes that there is a significant risk that inflation henceforth will begin to rise, starting with an expected 20 cl hike in the petrol price next week. A combination of a sharp

increase in raw material costs over the past year and high wage increases will contribute towards this. However, the pressure on the Reserve Bank to cut interest rates in the wake of these latest figures will be such that the Bank is likely to go with the mood and decide to do so at its forthcoming MPC meeting in November. The one proviso to this is the possibility that the Rand might come under pressure in the event that steps are announced in the Medium-Term Budget Policy Statement which damage sentiment towards the currency.

Source: *Econometrix*, 27 October 2010

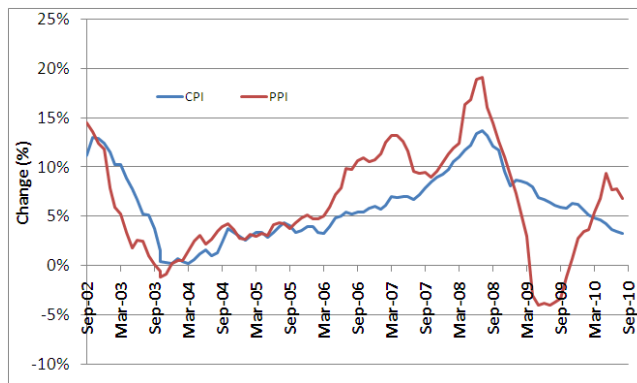
Following the lower than expected CPI inflation, the September PPI inflation rate also came in more than 1% lower than consensus. Consensus forecasts had been for the PPI inflation rate to rise slightly, to 8.0% in September, from 7.8% in August. Instead, the September PPI inflation rate dropped to 6.8%, its lowest level in four months.

The combination of these outcomes increases substantially the likelihood that interest rates will be reduced again in November. Even though the PPI inflation rate is still above the 6% upper end of the inflation target, it is only moderately in excess of this figure and suggests that the upward pressure from higher input costs on consumer prices which one had feared would be considerable in due course, might not be as dramatic as previously feared.

Several factors contributed towards the PPI inflation. Firstly, agricultural food prices reversed their rising trend of recent months. Their decline was complemented by a similar decline in the cost of live animals and animal products. Secondly, the cost of crude oil inputs, as well as that of petroleum products, declined by slightly more than one might have expected based on the fall in the Rand price of crude oil. Thirdly, and rather surprisingly, the electricity inflation rate fell sharply, to 17.2% in September, from 23.1% in August. This suggests that Eskom has not increased the cost of electricity to primary electricity users as much as one had believed was the case. Fourthly, the price of coal did not rise as much as one had suspected would be the case based on market price trends. Fifthly, whereas indices of commodity prices had shown an increase in September, the PPI for metal ores fell quite steeply.

Over and above these figures, one is encouraged by the fact that "underlying" producer prices excluding the direct influence of commodity prices of food and energy-related items, showed no change whatsoever. This suggests that the knock-on effect of higher commodity prices in earlier months through the rest of the input price chain has dissipated.

Should the current disinflationary trend continue, it is not impossible that more than one more interest rate cut might materialise. Clearly, the critical factor to watch in this regard is whether or not the exchange rate of the Rand maintains its strength of recent months. International economic and financial developments remain critical in this regard and cannot necessarily be relied upon to remain favourable.



Source: *Econometrix*, 28 October 2010; *Stats SA*; *Global Insight*

South Africa's official jobless rate stood at 25,3% of the labour force in the third quarter of 2010, from a slightly downwardly revised 25,2% in the second quarter.

In its latest quarterly Labour Force Survey, Statistics South Africa said the total number of unemployed people was at 4,396-million in the three months to September from a slightly revised 4,401-million in the second quarter.

The expanded definition of unemployment, which includes people who have stopped looking for work, increased to 36,6% from 35,9%.

Source: *Reuters*, 26 October 2010

Botswana, the world's largest diamond producer, has raised its economic growth forecast for 2010 due to a recovery in the mining industry and investments in power and water, a budget strategy paper showed recently.

The government also cut its budget deficit forecast for 2010/11 to 9,03% of gross domestic product from an earlier 12,16%.

Botswana now expects economic growth of 7,9% for 2010, up from earlier forecasts of 5%, the paper showed.

"The economic outlook looks favourable, with the recovery of the mining sector. Investment in the power and water sector is also expected to boost growth," the paper said.

*Botswana revises
GDP growth
forecast up to
7.9%.*

In the paper, which the government will use as a guide in preparing the 2011/12 budget, it also revised its revenue and expenditure forecasts for the next three years, mapping out how it plans to reach a balanced budget by 2012/13.

Botswana has posted budget surpluses in the past but the last three years have been characterised by high deficits due to a global economic crisis which has slashed demand for diamonds. Diamond output accounts for 33% of GDP and 70% of foreign currency earnings.

In August the International Monetary Fund said that Botswana's economy should expand by 8,4% this year due to higher diamond demand but that the country would need

to trim its public workforce and promote private industry to maintain high growth rates.

Source: Reuters, 18 October, 2010

Key Indicators	2006	2007	2008	2009	FC2010	Ytd Sep-10
GDP	5.6	5.5	3.7	-1.8	3.1	3.2
GDFI	12.1	14.2	11.8	2.4	1.0	-2.4
Residential	7.7	-0.3	-7.6	-9.3	-0.2	-5.4
Non-res	13.4	20.2	7.8	2.0	3.5	1.9
Construction	21.9	42.7	31.3	36.0	10.4	5.6
CPI	4.6	7.1	9.9	7.1	5.1	4.6
PPI	7.7	10.9	14.3	0.2	5.4	6.0
Interest rate	11.2	13.1	15.1	11.8	10.1	10.1
Exchange Rate (R/\$)	6.77	7.05	8.24	8.28	7.59	7.46
Exchange Rate (R/Euro)	8.52	9.66	12.13	11.50	9.95	9.82

Source: Econometrix, Stats SA, Reserve Bank
GDP and GDFI is actual for 2nd Q 2010

Building and construction trends

Some improvement in building plans passed in August was to be expected for a number of reasons. Firstly, the interruption to the processing of applications during the FIFA World Cup had passed. Secondly, August contained one additional working day compared with August last year, thereby increasing the number of days on which to process applications. Thirdly, the lagged benefit of sharply lower interest rates was likely to encourage some increase in optimism.

Building statistics show some improvement.

In the event, there was indeed a moderate improvement in plans passed, especially in respect of the residential sector, which had been hammered in the previous two years. Y-o-y growth in residential plans passed increased from 28.8% in July, to 29.3% in August. More impressively, m-o-m seasonally adjusted growth was a hefty 10.9%. In the case of non-residential plans, y-o-y growth remained negative, at -30.0%, but this was significantly less negative than the -54.6% recorded in July. Moreover, m-o-m seasonally adjusted growth was also quite high, at 8.4%.

In contrast with the more encouraging trend of plans passed, building completions slumped badly during August. On the residential side, growth in completions declined to -12.9%, from -10.2% in July, on the back of the m-o-m seasonally adjusted growth of -2.8%. However, it was especially in the non-residential sector that the full brunt of the slowdown in the building industry was felt in August. Y-o-y growth declined from 25.4% in July, to -60.0% in August, with m-o-m seasonally adjusted growth heavily negative at -28.0%. This reflected the non-residential building sector as a classical lagging indicator of economic activity, in this case of the recession of 2009. However, the extent of the downturn in building completions might also have been a reflection of the disruption caused by the public sector wage strike.

In conclusion, one would hope that the continuing decline in interest rates and the moderate improvement in economic

growth over the past year will gradually see a turnaround in the fortunes of the building industry. However, such an improvement is only likely to manifest itself to any extent in 2011. Furthermore, any pickup in building activity in coming years is likely to be very weak compared with the buoyancy experienced in much of the past decade.

Source: Econometrix, 21 October 2010

South Africa's construction sector would only start to "significantly improve" from 2012 onwards, ratings firm Fitch said recently.

The firm stated that the recovery of the sector continued to lag a sustained recovery in the broader South African economy, owing to deferral of government infrastructure spending.

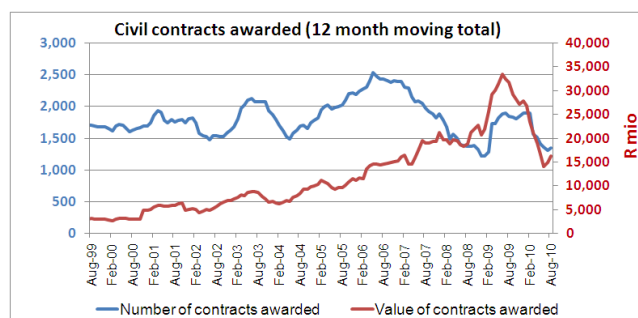
This would put further pressure on the "already thinly-stretched" credit profile of local construction companies next year, Fitch stated.

The ratings firm had previously expected government's R800-billion infrastructure spending plans over the next three to five years to relieve the revenue pressure of some of the larger construction companies, such as Aveng and Murray & Roberts.

But, it stated that continued postponement of planned non-essential government infrastructure spending might add cash flow pressure across the sector in 2011, and push out existing order books beyond three years, which would in turn weaken margins and leverage 2011.

Fitch pointed out that the larger domestic construction companies were likely to conserve cash in 2011, while competitive tendering could continue to impact on operating margins for the less diversified competitors.

"Larger companies, with diversified operations across multiple economic sectors and lower leverage compared with peers, are however expected to retain adequate financial flexibility to take advantage of potential merger and acquisition opportunities over the medium-term," it added.



For the ytd August 2010, Civil Contracts awarded have declined by -36% in the number of contracts awarded and by -50% in the Rand value of contracts awarded.

Source: Creamer Media Reporter, 26 October 2010; Industry Insight

The recent public-sector strike could have "a dire impact on the civil industry", as government is forced to reallocate funding towards footing a higher wage bill, research house

Industry Insight notes in its newest 'Construction Monitor' report, issued in September. The company says that this will inevitably include a portion of the funds which were allocated to infrastructure expenditure.

"Government's revised wage offer of 7,5% and R800 housing allowance will make it almost impossible for government to reduce the budget deficit and cut State borrowing," notes the report.

Any fallout from the public-sector strike will worsen the situation, as the local construction industry is already under strain. "Turnover in the civil industry, excluding spending on mechanical, electrical and engineering equipment, is expected to plummet by between 30% and 40% in 2010, despite government's elaborate budget of R846-billion for infrastructure in the next three years. While almost 50% of that amount is earmarked for Eskom, it is unlikely that even a third of that will actually reach downstream suppliers," the report states.

A major driver of the expected sharp drop in revenue for 2010 is a steady decline in tender flow over the last few months. Industry Insight notes that tendering activity in the civil sector decreased by 17% in the first quarter of 2010, compared with figures for the corresponding period last year, and by a further 25,6% in the second quarter, "putting immense pressure on service providers and downstream suppliers in this sector". Government is the biggest source of tenders in the civil construction industry.

Industry Insight adds that the general outlook for government expenditure has weakened in recent months, following the release of the 2010 Budget in February.

"While the slowdown in larger capital projects was expected, smaller-scale projects, channelled through provincial and municipal departments, are slow to reach the implementation stage. Tender activity has slowed while the [project] postponement rate has increased. Information released by the National Treasury on municipal capital expenditure also reported results for the first three quarters of the 2009/2010 financial period, where several provinces had spent less than 15% of their housing budgets."

Source: *Engineering News*, Irma Venter, 8 October 2010; *Industry Insight*, September 2010

*Murray & Roberts
proud to be part of
Chilean mine
rescue process.*

South African engineering, contracting and construction services company Murray & Roberts said it was privileged to be part of the Chilean mine rescue process.

"We are very privileged to have been a part of this process and it is a feather in our cap as South Africans as

leaders in underground mining," spokesman Ed Jardim said. "The Chilean government has managed the rescue and drilling process exceptionally well and we have been proud to have assisted the government through this process."

Jardim said even though the hole being used for the rescue was not the one drilled by Murray & Roberts, its staff members were still on site at the San Jose mine to help.

Supporting work crews from different countries had raised their national flags at the mine and the South African flag was also visible, he said.

When the Chilean government first called for help, Murray & Roberts had the first drill on sight.

"We were plan A. We shipped the drill [with the South African flag painted on it] to Chile along with some staff," Jardim said.

Murray & Roberts had an existing operation in Chile with controlling shareholding in two mining contract companies, Terracem and Cementation Sudamerica.

Terracem was a specialist raise drilling company and Cementation Sudamerica focused on major vertical shaft and underground mine infrastructure work, Jardim said.

A large diameter raise drilling machine, the Strata 950, was used by Terracem in the rescue operation.

Rotary Vertical Drilling System technology, co-developed by Murray & Roberts, was also applied to accurately drill a pilot hole to reach the trapped miners.

The Strata 950 had just completed a shaft for Codelco's Andina mine and was quickly transferred to the San Jose mine where drilling commenced immediately, he said.

The miners were now being rescued via the Plan B hole, independent of the Murray & Roberts hole.

The 'Plan B' drill broke through to the miners on Saturday, October 9.

The rescue was started at 4.15am on Wednesday 13 October, with the first miner surfacing just after 5am South African time.

The 33 miners, 32 Chileans and a Bolivian, were trapped 688 metres underground for 69 days in the San Jose mine near Copiapo in the north of Chile.

The miners had been trapped since August 5, after the main access tunnel to the mine collapsed.

The Chamber of Mines of South Africa complimented Murray & Roberts for its part in the Chilean mining rescue operation.

The acting chief executive of the chamber, Peter Bunkell, said "while we have been encouraged by the ingenuity of those responsible for the rescue operation, we are delighted today to be able to congratulate their efforts and are also happy that the miners are finally being reunited with their loved ones".

"Sixty nine days is a very long time underground and such rescue operations are serious technical challenges which are further complicated by the emotions of the rescuers and those being rescued," he said.

The Congress of SA Trade Unions and the SA Communist Party also congratulated all those who were involved in the rescue operations from South Africa and the rest of the world.

Source: *Engineering News*, Sapa, 13 October 2010

Anyone who has dealt with builders will know that construction delays are part of it all, whether you're remodelling a bathroom or building your home from scratch. So imagine if you could build a home in shorter time than it takes to build an RDP house - and the sort of pad that would get the architectural cognoscenti to sit up and take notice.

Spanish firm Ensemble Studio has achieved just that in seven days. Instead of some new-fangled business materials they did it with the sort of material used to build highways and low-cost housing.

And in doing so, the firm's principals, Antón García-Abril and Débora Mesa, could hold the key to building homes quickly and efficiently without compromising aesthetics. They were in the country recently to lead a masterclass on the future of Joburg at SA's first architectural indaba, Architecture SA 2010.

Called Hemeroscopium House, the project used concrete, steel and glass in creating the home which is situated just outside Madrid.

The house, which was built for García-Abril's family, features all the usual conventions of a home - two bedrooms with en-suites, a kitchen, living room and "a service area". Instead of coating those materials with paint or introducing new fittings, the company was committed to finding ways of taking the existing elements and repurposing them.

For instance, a beam on the top floor of the building was glassed in to become a swimming pool which looks like it's floating in mid-air.

"We believe structure and architecture are the same thing and so its design has to integrate mechanical, formal, organisational and spatial aspects," explains Mesa.

She says the firm was able to build the house in one week by using only prefabricated elements and expertly co-ordinating their assembly. However, it did take a year to engineer the project, working closely with a pre-casting company (which makes concrete pieces from existing moulds), co-ordinating the transportation of the elements and working out the construction on the site.

The idea for the house came from a previous project Ensemble had worked on - the Martemar House in Malaga where a concrete beam was used to "frame the sea in a diagonal space". After Hemeroscopium House was built, its design inspired subsequent projects such as the impressive campus called the Tower of Music, a housing project called WoHo (World Homes) and an installation called Balancing Act which forms part of this year's Venice Biennale.

The duo believe that, with our existing pre-casting companies and our own Cement and Concrete Institute, the ideas born from Hemeroscopium can be channelled into creating housing from RDP homes to more lavish abodes in the same way.

"The good thing about concrete is that it can always be made locally; and pre-fabrication assures enough quality level for the structure to be naked, and the architecture to be therefore more economic," says Mesa.

Source: Sunday Times, Craig Jacobs, 24 October 2010

Gautrain construction was "going well", said project manager Jack van der Merwe and added that the entire system, including the Johannesburg – Pretoria link, would be operational by July next year.

The first phase of the Gautrain started operating between OR Tambo International Airport and Sandton in June, stopping at the Rhodesfield and Marlboro stations along the way.

The additional stations – Park station, Rosebank, Midrand, Centurion, Pretoria and Hatfield – would all be opened simultaneously because it was more complicated for the operating control centre to open the line in segments.

The Midrand station was already complete, while the bulk of the civil works at the Hatfield, Pretoria and Centurion stations, was expected to be completed by the end of 2010, or start of 2011, following which all electrical, mechanical and aesthetic work would be done.

Van der Merwe said that the Gautrain Management Agency (GMA), which was appointed to manage the train, had just completed its first audit and was given a clean bill of health.

He stated that GMA was essentially managing three projects simultaneously. The first was the operation and management of the OR Tambo International Airport to Sandton link, which was opened in June. The trains ran 90 trips a day and carried between 8 000 and 10 000 passengers a day, with a 95% track record for punctuality and availability.

The second project that the GMA was responsible for, was the completion of the Sandton station car park, as currently only 40% of the overall parking was available. This was expected to be completed by the end of 2010.

The third major project for the GMA was the construction of the system north of Sandton, which Van der Merwe said was progressing on schedule.

The GMA said that feedback from the public had been 95% positive, while some issues such as better signage and information, and calls for longer operating hours, were raised.

Van der Merwe said that operating hours would be extended but that the details would be finalised.

The Gautrain currently operates from 05:24 to 20:30.

Source: Engineering News, Christy van der Merwe, 21 October 2010

Construction materials supplier Afrimat is in the process of acquiring its first metallurgical dolomite mine. The Glen Douglas dolomite mine, which is owned by diversified miner Exxaro, has been sold for R35-million. Afrimat is awaiting final approval for the transfer of shares by the Department of Mineral Resources.

The Glen Douglas mine puts Afrimat in a good market position, as it is an important access point to the metallurgical dolomite industry. The geographical location of the mine, at Henley-on-Klip, provides a natural advantage as it is the only dolomite mine within a 35-km radius. The lack of rival mines in the area is beneficial, as quarries in Gauteng are particularly competitive.

Afrimat was first listed on the JSE in 2006, and, through the further acquisition of various companies, has become one of the top three aggregate suppliers in South Africa. Initially, most of Afrimat's income was generated from construction materials supplied to the residential market. Thereafter, it moved into the infrastructure market and then branched out into industrial minerals.

"Fortunately, Afrimat has consistently made strategic business decisions before it was forced to do so. We have continued to successfully reposition ourselves by finding new markets in which to sell our products, without jumping

to different and unrelated markets,” says Afrimat CEO Andries van Heerden.

Afrimat is, therefore, not a stranger to change: “Each acquisition that the company makes requires changes to the dynamics and operation of the business. Now we will be entering into a new field, with its own nature and requirements. For the first time, we will have chemical engineers working for Afrimat. Current employees at the Glen Douglas mine will be retained within the company, but will be retrained and possibly redeployed so as to absorb them into the Afrimat Corporation. We have also sent across some of our senior management to assist Exxaro in preparation for the acquisition,” adds Van Heerden.

He believes that the company has seen opportunities that were not exploited by Exxaro. “The mine has not been performing at full potential as it has been run as a big mine when, in fact, it is a quarry. Afrimat has similar-sized quarries and our proposed approach would be to change the cost structure model to the model applicable to managing a small mine. I am certain that we can unlock a significant amount of value.”

Van Heerden adds: “We are going to be enforcing the Afrimat way. We have found a system that is extremely cost effective and which works very well at our other mines.” While Afrimat plans to change the cost structure model, the company’s approach to quality control, health and safety, however, will remain the same. He emphasises that it is important for Afrimat to maintain standards that earn the respect of the community.

Another aspect that Afrimat will have to deal with is how to effectively market its newly acquired mining products. While a large mine relies mainly on long-term contracts, a quarry must continually source new business. Marketing metallurgical dolomite also requires a specific knowledge and approach. “The usual salesperson who sells aggregate to the construction market cannot sell dolomite until he has developed an adequate understanding of the metallurgical dolomite processes. This has implications for skills training,” explains Van Heerden.

Afrimat has a vision to turn the Glen Douglas mine into a model dolomite mine by making it the most cost-efficient and profitable quarry in the market. “Our dream is to raise the mine from its present mediocre breakeven situation to a star performer. We believe this is possible,” Van Heerden concludes.

Source: Engineering News, Jessica Hannah, 22 October 2010

Domestic and international cementitious industry sales trends and news

Construction materials group AfriSam has announced the introduction of a range of environmentally responsible concrete products.

These Eco Readymix products are application-branded, fit-for-purpose ready-mix concretes, specific to the needs of various construction requirements, including foundations, surface beds, suspended slabs, columns and retaining walls.

The range of products follows the launch earlier this year of AfriSam’s Eco Building Cement, which has proved popular and is enjoying increased levels of sales.

Although the carbon footprint of each product in the range varies according to its composition and strength requirement, on average, the products have a carbon dioxide (CO₂) footprint of about half the world average. These CO₂ figures are based on the world average for cement, calculated in accordance with the cement CO₂ protocol developed by the World Resources Institute and the World Business Council for Sustainable Development.

“These off-the-shelf products can be ordered according to the strength requirement for specific applications. One of the most important aspects is that performance is not compromised even though we are able to achieve this extremely low-carbon footprint for the products. We are also able to produce ultrahigh-performance Eco concretes with compressive strengths of between 70 MPa and 120 MPa,” says AfriSam cement product manager Mike McDonald.

Another aspect is that consumers have become accustomed to paying more for environment-friendly products. AfriSam’s marketing manager, Victor Bouguenon, states: “We have made a conscious effort to ensure that our eco-friendly products are competitively priced. Not only are we operating in a price-sensitive environment, particularly in the construction industry, but we would also consider it irresponsible to extract a premium simply because the products are greener than any other on the market.”

McDonald has noticed that some companies have adopted a ‘green-wash’ approach, in which, they claim their products are environment-friendly without providing the necessary substantiation. “Even though extensive research and development has gone into the product, we still believe it is our responsibility to offer a product that performs to specifications, offers a measurable environmentally responsible solution and is priced competitively,” says McDonald.

The new Eco Readymix is a natural progression for AfriSam and is part of a well-orchestrated initiative that started in 1994. AfriSam reports it was the first cement producer to develop an environmental policy, which commits it to sustainable development and ensures that it complies with international best practise. The company also views the reduction of its carbon footprint as a critically important environmental target and is the industry leader in emission control and energy efficiency.

“As far back as 2000, AfriSam implemented its green cement project. At that point, we started producing composite cements and effectively using less carbon-intensive materials. Being involved in green building initiatives necessitates significant investments but, far more importantly, it requires a consistent commitment and cannot be a reactive response to the market,” says Bouguenon.

AfriSam has invested in excess of R1-billion since 2004 to incorporate in its operations such initiatives as reducing the use of non-renewable resources like coal, reducing dust

emissions, improving energy efficiencies and commissioning advanced blending plants to increase the use of mineral components.

Bouguenon tells Engineering News: "Architects are central to the sustainable building design process. For this reason, AfriSam has set up two green building initiatives. We have established the South African Institute of Architects award for sustainable architecture. This award programme recognises outstanding achievements in design that incorporates social development, economic, cultural as well as ecological sustainability aspects."

The second initiative is the Construction World's Best Projects Awards. This yearly awards programme recognises excellence in sustainable construction.

McDonald is optimistic about future trends: "We predict that there will be an upsurge in the demand for green building and environmentally responsible developers. Clients are becoming increasingly aware that they can influence the direction of future development."

Source: NewsWatch, Engineering News, Jessica Hannah, 22 October 2010

Cement producer NPC-Cimpor plans to train up to 200 artisans a year at a facility that will be opened in January 2011.

This comes after the company signed a R10 million artisan training deal with black-owned artisan training academy Ikhaya Fundisa Techniskills Academy.

The facility, which will be based in Port Shepstone, will also have the capacity to accommodate up to 100 learners at any time. Training for learnerships and apprenticeships will include instrumentation, millwrighting, fitting and turning, welding, boiler making and motor mechanics.

Source: Business Report, Samantha Enslin – Payne, 18 October 2010

Cement product and aggregates suppliers in building and construction are feeling a post- Soccer World Cup hangover, as projects disappear from balance sheets.

In its latest trading statement, Pretoria Portland Cement (PPC) says it expects normalised earnings per share and headline earnings per share for the year to September to be between 10% and 20% lower than the same period last year.

The expected drop in earnings comes after PPC's annual results for last year reflected a R490m charge relating to its broad-based black economic empowerment deal and a R213m gain from the consolidation of the company's Zimbabwean operations.

Deal streams in the sector reflect reduced demand in the aftermath of the October 2008 markets crash, with a drop in regional building and construction activity across the board, despite the promise of continuing government infrastructure spending.

According to the Cement and Concrete Institute, sales of cement products in SA between October 2008 and October 2009 declined 14%, while regional sales in Botswana,

Namibia, Lesotho and Swaziland increased 0,8% in the period.

Hanlie Turner, marketing manager of the institute, says figures for sales of cement products for this year are not available, after the Competition Commission accused top suppliers of price fixing in the middle of last year.

PPC has 12 operating sites in SA, Botswana and Zimbabwe, and says the financial information in the latest trading statement has not been reviewed or reported on by its external auditors. It now expects to release its annual results for the year to September on or about November 9.

The company placed its Western Cape Se Kika capacity expansion programme under review after a 40% drop in demand in the region scotched plans to build a 1,4-million-ton-a-year cement plant. Instead, it is now upgrading its Cape-based Riebeeck and De Hoek operations to a combined capacity that equals the original expansion project, phasing in expenditure of R3bn over six years, rather than R4,5bn over four years.

Warwick Lucas, industrials analyst at Imara SP Reid, says the decline in PPC's headline earnings per share is reasonable, and market consensus was over-optimistic.

"Most building counters have shown substantial cuts in earnings," he says, adding that PPC has a relatively low gearing compared with other cementitious products and aggregates suppliers. Some of the smaller and mid-sized players in construction and materials such as AG Industries and Buildmax have seen red ink across their attributable incomes and headline earnings per share. And this is reflected in the headline earnings per share and earnings per share of bigger hitters upstream — Aveng, Basil Read, Murray & Roberts and Group Five.

Almost alone among them, Wilson Bayly Holmes-Ovcon (WBHO) has managed to ensure that shareholders are still getting good value, offering a final dividend of 220c per share last week.

WBHO financial director John Abbott says that conditions in the industry are still tough and will likely remain so at least until mid- 2012, although on the positive side the company's order book stands at R13,9bn, up from R12,3bn at the end of the 2009 financial year.

He says the company has identified new projects of about R112bn across the board, including work worth R4bn in Australia. Mr Abbott says bidding for roads and earthworks projects in SA is competitive.

"There are lots of players out there and delivery of work from government is not as fast as it could be, because of capacity constraints," he says.

WBHO is looking at securing private-sector projects elsewhere in Africa, in a search for higher margins.

Source: Business Day, Mark Allix, 20 October 2010

JSE-listed Sephaku Holdings posted a loss of R90-million for the 16 months ended June 30, 2010, primarily as a result of an R86-million loss incurred by the Sephaku Cement group.

The loss by Sephaku Cement included an R66-million employee cost that was needed for the ramp-up of staff required for the company's ash processing plant, and its cement manufacturing project, Aganang.

The Aganang project includes a limestone mine and a cement manufacturing plant in North West province and is scheduled to produce about 900 000 t/y of cement by 2012. The group reported that some of the more significant material additions for the period included R93-million for the company's Agnang project, R53-million for the ash processing plant at State-owned utility Eskom's Kendal project and R18-million spent on the purchase of the remaining portion of the Witklip farm.

In total, the group spent R417-million on property, plant and equipment, compared with R141-million for the comparable previous period.

During the reporting period, Sephaku Holdings acquired interests in a number of businesses including Ergomark, Incubex Minerals and Sephaku Cement.

The group also sold its gold and nickel assets at the beginning of the year, as a first step in creating a more focused industrial minerals company.

Sephaku said in a statement that it would realign the group and consolidate its position in the country's minerals market during its next financial year.

"The forthcoming year will see the company consolidate its position as one of South Africa's leading emerging industrial minerals exploration and development companies, with plant construction under way and production drawing closer. The continued strategic realignment of the group will provide clarity to shareholders and the market at large," the group concluded.

Source: Engineering News, 1 October 2010

Shareholders of Sephaku Holdings have approved the issuing of additional shares in Sephaku Cement to Dangote Industries, in return for a R779-million equity investment for the development of two flagship cement manufacturing projects in South Africa.

It was announced in August that Dangote, which is Nigeria's largest cement company, would increase its stake in Sephaku Cement to 64%, up from its previously held 19,76% interest, through the investment.

The funds were being used to develop Sephaku Cement's 900 000-t/y Aganang cement manufacturing plant, in North West province, and the 1,25-million ton a year Delmas cement milling plant, in Mpumalanga province.

The projects required a combined R3-billion to develop, with the investment from Dangote fully funding the equity requirement.

In March this year, Sephaku appointed Nedbank Capital as lead arranger for the R1,8-billion project finance facilities required for the development of the two projects.

Dangote had also, in 2008, made a R350-million capital injection to start construction on the projects. This earned the Nigerian manufacturer the initial 19,76% stake in Sephaku Cement.

Both projects would start producing cement in 2012.

"Our vision for the company has been reinforced by our shareholders and we are excited to move forward on both the cement and fluorspar fronts. Our partnership with Dangote reflects the attractiveness of South Africa to foreign investors and we are firmly committed to bringing a new

entrant into the South African cement market for the first time since 1934," Sephaku Holdings CEO Niel Crafford-Lazarus commented in a statement.

Sephaku Holdings' fluorspar division was aiming to start production at its 130 000 t/y Nokeng mine, in Gauteng, also by 2012.

Source: Engineering News, Chanel de Bruyn, 18 October 2010

Nigeria's biggest cement maker Dangote Cement listed on the stock exchange on the 26th of October 2010, valuing it at N2,1-trillion and making it the country's largest firm by market capitalisation.

Dangote Cement listed 15,5-billion shares at N135 each in what the stock exchange said was biggest ever single listing in sub-Saharan Africa's second largest equities market. The move follows a merger with local rival Benue Cement.

"Our vision is to consolidate and build upon our position as the leading cement manufacturer in Nigeria and ultimately to create an African champion that can compete with the largest cement companies in the world," said billionaire tycoon Aliko Dangote, the majority owner of the business.

Aliko Dangote held majority stakes in both Dangote Cement and Benue Cement through his holding company Dangote Industries, meaning the free float of the new entity is less than five percent, well below the minimum 25% requirement. Listing broker Afrinvest said 25% of the shares were theoretically on offer in Nigeria but the market, whose total capitalisation was around 6 trillion naira before the listing, was unlikely to be able to absorb that amount.

"Because the market is not likely to absorb all of that quantity, the (stock exchange) council has given a special dispensation to sell the remainder over the next two years," Afrinvest chief executive Godwin Obaseki said.

"However, whatever quantity this market demands today will be satisfied," he said.

Chief Operating Officer Kunle Alake told Reuters that the firm plans to sell a 20% stake through a global share offering in the next 18 months in order to meet the minimum free float requirement.

Aliko Dangote said recently that the offering would most likely be in London.

Dangote Cement, which is setting up cement plants and import terminals in countries around Africa including Cameroon, Ethiopia, Ghana, Ivory Coast, Senegal and Zambia, aims to produce a total of 46 million tonnes of cement in five years' time on the continent, 30-million of it in Nigeria.

The aim of the merger with Benue was to allow Dangote's cement operations better access to financing, as well as consolidating supply and distribution chains, reducing costs and helping increase cement production more quickly.

"Dangote Cement is the dominant player in the Nigerian cement industry by some considerable margin," Stanbic IBTC said in a note, initiating coverage of the stock with a "buy" recommendation.

"The listing appears to have attracted significant interest from many investors. This, in addition to its low free float, should serve as a catalyst for the stock in the short term," it said, setting a 12-month target price of N170,50.

Source: Reuters, 26 October 2010

Kenyan Cement Company Athi River Mining plans to grow its production capacity to five-million tons a year by 2016, deputy MD Surendra Bhatia said recently.

Athi River expects significant growth in the demand for cement in East Africa, on the back of anticipated expansion in the construction sector.

Demand for cement in East Africa stood at about 6,85-million tons a year in 2009. Cement consumption in East Africa was growing at about 14% a year and generally grew at 2,5 times that of the region's gross domestic product, Bhatia noted.

The company, which has recently upgraded a cement plant in Kenya to 650 000 tons/year, would develop a new 1,5-million ton a year cement plant in Tanzania, at a cost of about \$125-million, by 2012.

Bhatia highlighted that while most cement manufacturers developed new plants at more than \$200/ton of installed capacity, Athi River could develop plants at a cost of less than \$100/ton.

He noted that South Africa's Pretoria Portland Cement's now cancelled 1,2-million ton a year Se Kika plant would have cost about \$500/ton of installed capacity to develop.

Athi River's Kenya plant, however, had cost about \$77/ton of installed capacity to develop, while the new Tanzania plant would cost about \$84/ton of installed capacity to develop.

This was owing to the fact that the NSE-listed company had developed a "boon" of engineering, manufacturing and construction capabilities, allowing it to reduce costs.

Bhatia noted that the Tanzania plant was being fully funded by development finance institutions.

By 2016, Athi River would aim to develop two further greenfield cement projects in two more African countries where it had mining rights for resources such as limestone, which was integral to the cement-making process.

It would also aim to have two more potential cement plant projects in its pipeline for development beyond 2016.

Bhatia said that Athi River was aiming to become a pan-African cement company.

With an increased focus on its cement business, Athi River was planning to hive off its non-cement businesses.

It would do this, either, by listing the non-cement businesses as a separate entity on the NSE, to raise funds to further develop these businesses, which still had plenty of growth potential, or to sell these assets.

Athi River's non-cement business included the production of fertilisers, sodium silicate and a number of other industrial minerals.

Source: Creamer Media Reporter, 4 October 2010

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