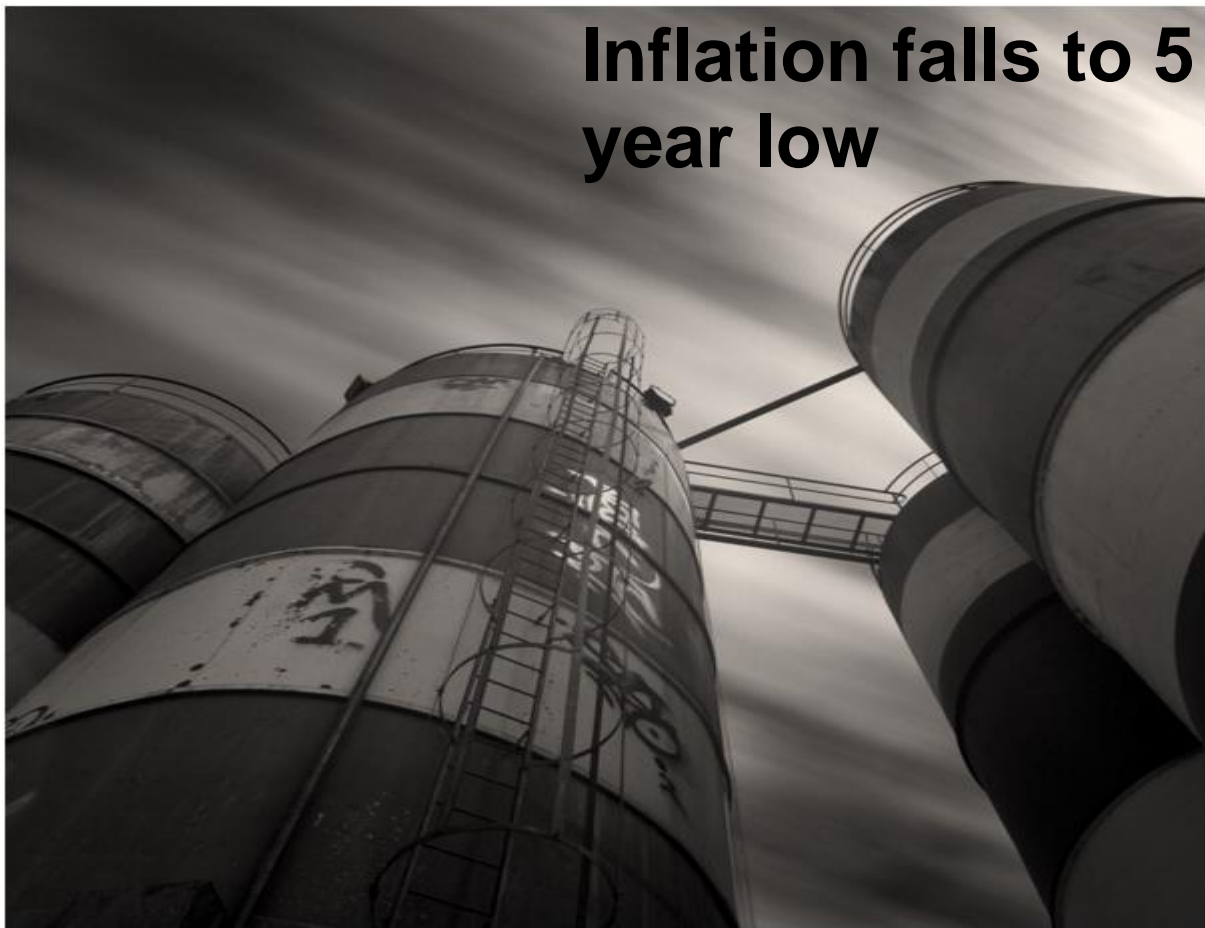
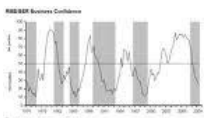


Build Trends

September 2010 | Issue 120



Inflation falls to 5 year low



Business confidence increases



Retail sales growth in July at best level in three years



Walmart offers \$4bn for South Africa's Massmart

Macro-economic trends impacting on construction industry

Germany leads growth in Europe.

Global economic indicators suggest only moderate growth during the second half of 2010. The current slow-down in economic activity is partly a reaction to the European sovereign credit crisis in the second quarter of the year.

The crisis led to tighter financial conditions in many economies and a sharp weakening of the Euro, and increased uncertainty about the sustainability of global economic growth.

Germany leads growth in Europe. Ironically, while the US and Japan were under pressure, Europe actually grew faster than expected in the second quarter, led by Germany and helped by the weaker Euro. German GDP grew by an amazing 2.2% quarter-on-quarter (q/q) (non-annualised) - a massive 9.0%, annualised. The market was expecting growth of 1.3% q/q (+5.5% q/q, annualised). This is the fastest growth the country has experienced in at least two decades (certainly since reunification in 1991), and actually outpaced growth in China during the same period (a very acceptable 7.2%, annualized).

Euro-area GDP grew by 1.0% q/q (non-annualised) in Q2 2010, which was ahead of market expectations for growth of 0.7% q/q.

Germany comprises around 25% of the Euro-area, but contributed around 65% of the growth in the region during Q2 2010. This better-than-expected economic performance was mostly due to an improvement in net trade (exports), inventories and (to a lesser extent) capital expenditure.

The rapid growth in Germany highlighted the growth differential across the Euro-area, with Greece still in a severe recession at -1.5% q/q and Spain barely growing at 0.2% q/q. Growth was good in Austria and the Netherlands, solid in France, and weak in Italy and Portugal. This growth differential is likely to raise concerns about on-going intra-regional tensions.

Another important issue is how sustainable the German 2010 boom will be in the second quarter, and whether it can provide a lift to the rest of the region. Part of the strong growth relates to German exports and the benefit of a weaker Euro. However, the Euro has since strengthened relative to the Dollar, diluting this advantage. Additionally, German domestic activity is under some pressure due to government cutting back on spending, although recent employment and consumption figures have been quite encouraging.

Overall, the latest GDP growth estimates for Europe imply that the Euro-area, and German GDP growth estimates in particular for 2010, are likely to be revised higher over the coming few weeks. Despite the likely upward revisions, we still expect a softer second half of the year in Europe relative to the first half, especially if there is no upward momentum

in employment.

Combating unemployment has become a global challenge. High levels of unemployment have persisted in many advanced economies and there is a major concern that temporary joblessness will turn into long-term unemployment.

A question that is being debated is whether unemployment is purely a result of cyclical unemployment because of economic changes, in which case government intervention could assist to some extent, or whether the problem is caused by a structural change in the economies which would lead to long-term unemployment issues. This is known as structural unemployment and there is not much governments can do about fixing the problem in the short-term. Restoring banking sector health and credit supply to employment-intensive sectors could help.

Global demand must be rebalanced to sustain growth. Looking further ahead, the world's ability to sustain growth over the medium term depends on rebalancing global demand. This means that economies that had excessive external deficits before the crisis need to continue consolidating their public finances in ways that limit damage to growth and demand.

Economies that ran excessive current account surpluses will need to increase domestic demand as much as possible to sustain growth, as excessive deficit economies scale back their demand. Rebalancing needs to be supported by financial sector reform and growth-enhancing policies in both surplus and deficit economies.

Source: Liberty Life, Stanlib economics, Kevin Lings and Laura Jones, September 2010

Inflation subsided to its lowest level in five years in August, driven in part by the rand's strong rally, and raising the possibility of the Reserve Bank trimming interest rates again.

Consumer inflation now at 3.5%.

Consumer inflation retreated to 3,5%, just below expectations and against 3,7% in July. During the month, prices rose 0,1%, slowing from 0,6% in July.

The annual rise in the consumer price index (CPI) — which is used for the inflation target — has now retreated for eight months in a row.

Many expect it to ease a bit more in the next couple of months, taking it closer to the bottom of its 3%-6% official target range.

This will fuel calls from labour unions for more interest rate cuts, but economists think this is unlikely without further evidence of weakness in SA's economic recovery.

However, most agree there is now a chance, albeit slim, that the Bank will cut its key repo rate by 0,5 percentage points to 5,5% at its next policy meeting in November.

"While we do not expect a further rate cut at this stage, data to be received and the behaviour of the rand in the run-up to the next meeting of the monetary policy committee could tilt

the decision” to a further cut, said Johan Rossouw, group economist at Vunani Securities.

The rand scaled a 2¾-year peak at R6,92 against the dollar this week. That is seen as paving the way for further gains to R6,85/80.

Currency strength helps curb the cost of imports, particularly fuel, which keeps inflation pressures at bay. But it also erodes the competitiveness of local exports on global markets — a big concern given the fragility of SA’s economic recovery.

Absa Capital economist Gina Schoeman said the lower inflation outcome stems from the extent to which rand appreciation last year is still filtering through to the CPI. “In our view, the cumulative impact of rand appreciation can last up to 24 months,” she said.

The rand is up 35% against the dollar since the start of last year. The currency’s effect on inflation could be reinforced by a rapid goods destocking cycle, she said.

That view is backed by the fact that goods inflation slowed to 1,9% last month compared with August last year, down from 2,1% in July.

But services inflation, which is not affected by the rand, was steady at 5,4% during both months.

Administered prices set by state-owned entities remained the main bugbear, rising 8,3% year on year, though lower than 8,6% in July. These include electricity tariffs.

But there was also a worrying trend in food prices, which quickened for the second month in a row. They rose 1,5% year on year last month, up from 1,1% in July. That is bad news for SA’s poor majority, who spend most of their income on food.

Most economists believe the trend in the inflation data suggests it will remain inside its target range for longer, allowing the Bank to keep rates on hold throughout next year.

But if the gains in the rand are sustained, they could lead to lower inflation than expected.

Core inflation, which excludes food, petrol and energy, continued to fall last month, easing to 3,2% from 3,6% during July.

If administered prices alone are excluded, inflation would be at just 2,7%, Ms Schoeman said. “Although domestic demand is improving, we think it is still too weak to exert upward pressure on inflation.”

Economists agree that strength in the rand is one of the biggest “downside” risks in the near to medium term for inflation.

But most think the chances of a rate cut in November are minimal, though local money markets are putting the odds at about 30%.

“It could go either way,” said Brait economist Colen Garrow. “There’s an opportunity, given impetus by the inflation numbers, but the Bank is going to want more evidence.”

Source: Business Day, Mariam Isa, NewsWatch, 30 September 2010

Discussions at the ANC’s National General Council (NGC) recently were very much as one would have expected. Attempts were made to paper over the cracks within the ruling tripartite alliance, with much discussion about

generalities, but little suggestive of a change in the economic outlook. It is almost certain that many of these tensions will resurface again with the approach of the local government elections next year. In particular, there appears to be disagreement within the alliance regarding the premise that the ANC forms the centre of power of the alliance. Cosatu is likely to rebel in due course against its perception of being marginalised.

As expected also, none of the protagonists in the pursuit of political power will have come out of the NGC completely satisfied and none devastated without hope of continuing to press forward with his respective political agenda. The issue of leadership succession and the timing of any changes in leadership positions within the alliance remains even more uncertain than it was prior to the NGC.

As one suspected and suggested in the preambles to the NGC, the issue of nationalisation was left unresolved, with any details of the process to be discussed only in 2012. One was left at a quandary as to what benefits would be derived from nationalisation, the costs of such a process and the manner in which it would be implemented. In this regard, what conspicuously failed to receive a mention was the inability as things currently stand of government to implement more speedily its ambitiously massive infrastructural investment programme as a means of fostering faster economic growth. Infrastructural investment continues to drag, holding back any potential for accelerated job creation, enhanced service delivery and reduced inequality and poverty.

President Zuma indeed announced broad measures to enhance service delivery amongst his ministers and their departments, but there is no reason to believe that such initiatives will meet with any more success than they have in the past.

Also as one suspected, critical structural issues which prevent the economy from moving onto a higher growth plane, were generally overlooked in favour of more emotive and ideologically charged discussions about nationalisation, what to do about the value of the Rand and the need for more government intervention in the economy. In particular, issues relating to the critical necessity for rapid improvements to education and skills development as well as labour market reform to improve the productivity of the workforce were largely overlooked.

One was also somewhat disappointed at the lack of sufficient attention to issues of corruption and entitlement. Also missing was any obvious strategy to introduce greater cohesion and coordination in economic policies between different government departments.

Probably the one concrete proposal, which was relatively new in the economic landscape, was the outline of the introduction of a National Health Insurance (NHI) scheme for 2012. However, even here, understandably there is still much ground to cover before a final project is agreed upon. On the positive side, the numbers presented as an initial estimate of the costs of the NHI were somewhat more realistic than earlier estimates, presumably partially due to the extension of the timeframe for the introduction of the project to 13 years as opposed to five years originally. Nonetheless, one finds it difficult to envisage affording both an NHI and the funding of nationalisation.

At the end of the day, one felt frustrated that the most important issues confronting the country's economic future were not addressed. The implication is that the current status quo in terms of lack of service delivery and weak implementation of economic policies is likely to continue. Fortunately, this also has certain positive implications in the sense that the implementation of damaging policies is avoided, leaving the private sector to continue motoring along at a reasonable pace which keeps economic activity growing positively, albeit at a sub optimal pace.

Source: *Econometrix*, 30 September 2010

Business confidence in South Africa during August was the highest reported in 2010, said the South African Chamber of Commerce and Industry (Sacci), but warned that the spike in the index could be followed by a correction.

Business confidence increases.

The Sacci Business Confidence Index (BCI), showed a jump of 3,3 points to 87,6 points in August 2010, from 84,3 in July. Further, the level of the BCI for August is 4,6 points above the level for

the same month in 2009.

The chamber said that month-on-month and year-on-year, nine of the subindices of the BCI improved, including indicators such as manufacturing, imports, vehicle sales, inflation, real private sector borrowing, precious-metals prices and the rand exchange rate.

Between July and 2010, two subindices were negative and two were neutral. The subindex on the volume of merchandise imports again recorded a relatively strong performance compared with previous months. However, Sacci said it could be expected that the spike in the index, would be followed by a correction as unusual positive developments on the trade account and net financial inflows from the rest of the world created the positive shift.

"Nevertheless, the BCI will probably continue its generally positive trend in the medium term smoothing out the short-term volatility."

A survey by Rand Merchant Bank (RMB) and the Bureau for Economic Research showed that business confidence in the third quarter rose to its highest level in two-and-a-half years. The RMB/BER business confidence index rebounded 11 points to 47 points in the third quarter, having fallen from 43 points to 36 in the second quarter.

Meanwhile, Sacci economist Richard Downing said that early signals were that the third quarter economic growth prospects would continue in the same vein as the second quarter, as South Africa continued to be plagued by devastating strikes. The South African economy grew at 2,3% in the second quarter.

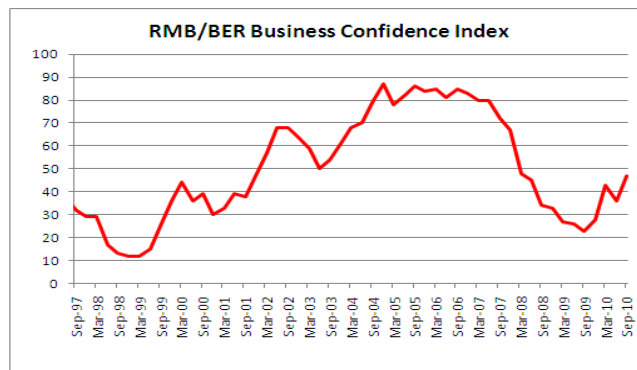
"The labour disputes currently experienced in the country have unknown dimensions for policy and crippling implications for instances where there are still public service delivery backlogs.

"The outcome of the public servants strike will have serious consequences for already tight fiscal circumstances, as well as unintended consequences for employment prospects,"

said Downing.

Meanwhile, credit extension to the business sector declined by 0,7% year-on-year in nominal terms in July 2010.

Sacci said that there was a case for lowering the country's interest rate on September 9, and thereby alleviating some of the financial pressures associated with servicing debt and potentially stimulating an improvement in current levels of economic activity.



However, the chamber acknowledged that interest rate reductions were not a "panacea" for sustainable economic growth. "Such growth must be underpinned by economic discipline with regard to expenditure and labour remuneration, and a higher rate of fixed investment which would promote business confidence."

Source: *Engineering News*, Loni Prinsloo, 7 September 2010, Sacci, RMB, BER

One can derive some encouragement from the fact that the y-o-y growth in retail sales at constant prices improved marginally further in July, to 7.9%, from 7.6% in June. July's growth was the best since June 2007.

These figures were both significantly higher than the year to date growth in retail sales at constant prices, of 3.9%. Furthermore, following the 1.8% m-o-m growth in June, July saw a further 0.7% m-o-m improvement.

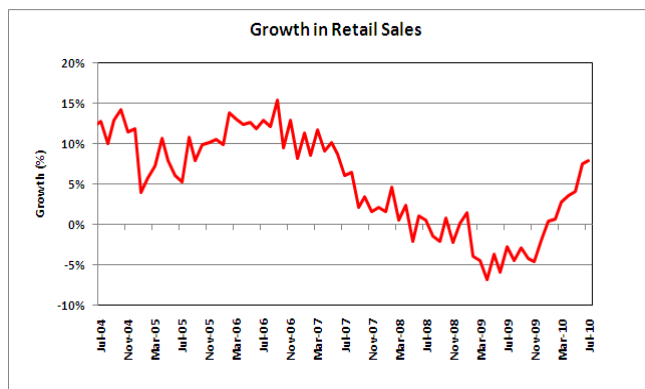
Obviously, the FIFA World Cup in June and July explains much of the improvement. Essentially, retail sales for these months this year were about R6bn higher than in the same two months of last year. At constant prices, retail sales in June and July of this year were 7.7% higher than in the same two months of last year. Bearing in mind that some of this boost emanated from purchases by the locals, these figures are slightly disappointing compared with some expectations of what the World Cup would bring. The figures highlight the fact that most foreign tourists attending the tournament were of relatively modest means and had little extra discretionary spending ability after accounting for accommodation, transport, food at the matches and the tickets themselves.

The biggest beneficiaries of the World Cup in terms of a boost to sales not surprisingly were general dealers, dealers in pharmaceuticals, cosmetics and toiletries and dealers in clothing and footwear.

Looking ahead at the retail sector over the remainder of the year, one needs to balance the benefits of lower interest

rates and the enhanced financial health of households against the possibility that spending power consumed during the World Cup might detract from that available over the forthcoming Christmas. On the whole, one anticipates the growth in retail sales to slow from the elevated levels seen in June and July, but to remain significantly positive all the same.

In its deliberations, the Reserve Bank will no doubt be aware that the strength of retail sales in June and July was a function of the World Cup. Under the circumstances, the Bank will be cognisant of the fact that the August and September figures due to be released prior to the next MPC meeting will have a greater bearing on the conduct of monetary policy. For the present, the relative strength of retail sales in June and July argues against any further interest rate relief.



Source: *Econometrix*, 22 September 2010

related infrastructure came to between R30-billion and R40-billion over five years.

Safcec chief economist Henk Langenhoven points out that the stadium contracts were awarded around 2005/06, when the industry had already experienced 72% growth from 2000 on the back of expansion in the economy, the Gautrain project award and significant mining investments.

Safcec reports that all construction-related gross fixed capital formation growth indicators are lower than they were one quarter ago. Langenhoven says that the severity of the contraction is surprising, if not alarming, as it happened despite the R845-billion that was earmarked for all capital construction spending over the next three fiscal years, translating into roughly R262-billion for 2010/11, R283-billion for 2011/12 and R300-billion for 2012/13.

“There is a fear that spending was accelerated to install the infrastructure for the 2010 FIFA World Cup and that the next few years will be lean. The significant figure of R845-billion could easily be misconstrued and must be raising expectations among the general population, which will [heighten] disillusionment,” Langenhoven says.

Safcec states that the most important developmental need of the economy is to look after the population and meet its social needs, and a comparison of the population trends with progress made in providing social infrastructure shows that this need is being tackled, although delays in solving the water provision and sewerage problems are reaching critical points.

Data on the provision of the economic infrastructure to support a growing economy that can deliver the 6% economic growth to make inroads into unemployment sketches a worrying picture. Langenhoven notes that total stock of the economic infrastructure supporting the economy has declined to early 1960s levels and the tempo at which we are adding to it is now slowing down by as much as 40% in 2010.

“The local economy will simply not stay competitive globally if these patterns are allowed to continue; the population will not be healthy and economic expansion will not take place to the extent needed,” he points out.

He adds that the argument that the global financial crisis has had an impact on the tempo of project implementation is a tenuous explanation. “The economy is still depending on trade for about 60% of its gross domestic product, which needs harbours, airports, border posts and road and rail infrastructure to sustain. The country has only just begun to tackle its electricity supply shortfalls,” he asserts.

Safcec attributes the significant slowdown in construction activity to the lack of planning coordination among different public-sector entities, as well as the general institutional vacuum within these institutions making investment decisions.

The cumulative number of tender invitations declined 16% over a year and by 20% over six months, but improved quarter-on-quarter during the first quarter of 2010. However, the average value kept declining, indicating tough times in the short term.

The report states that these tough times are reflected in the value of contracts awarded dropping 55% over 12 months and 62% over six months. Re-estimated yearly employment started to show stronger signs of contraction, with a decline

Key Indicators	2006	2007	2008	2009	FC2010	Ytd Aug-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	4.7
PPI	7.7	10.9	14.3	0.2	5.4	5.9
Interest rate	11.2	13.1	15.1	11.8	10.1	10.2
Exchange Rate (R/\$)	6.77	7.05	8.24	8.28	7.59	7.50
Exchange Rate (R/Euro)	8.52	9.66	12.13	11.50	9.95	9.89

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

Building and construction trends

The completion of the 2010 FIFA World Cup building programme cannot be blamed for the estimated decline of 23.5% in real terms in civil engineering turnover during the year ended March 2010, compared with the industry's turnover for the previous year, and 33% over the six months to the end of March 2010.

The South African Federation of Civil Engineering Contractors' (Safcec's) 'State of the Civil Engineering Industry' report, released in August, states that the stadiums only represented about 9% of turnover a year and spending on ancillary infrastructure of the same magnitude up to the start of 2010. Resources committed to the stadiums and

of 7% a year ago and 13% over a six-month period. Safcec fears that companies will not be able to hold on to their unoccupied staff.

The organisation maintains that the market is still fundamentally underpinned by the significant need for infrastructure development, such as electricity, water, roads, harbours, rail capacity and possibly oil refining, which have hardly been addressed.

Safcec believes that these infrastructure developments will support the industry during the period 2011 to 2020, if the country can resolve the delivery bottlenecks. The short-term volatility will result in fluctuations around a lower base, but a structural shift to pre-2000 levels is not expected.

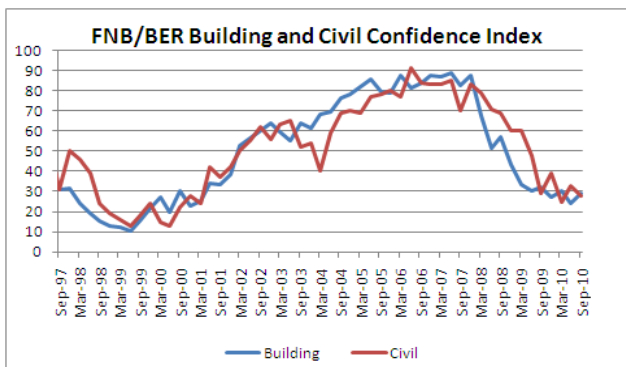
Source: *Engineering News*, Petronel Smit, 3 September 2010

Conditions in the civil construction industry remain difficult, according to FNB Civil Construction index for the third-quarter.

During the third quarter the index retraced some of the gains made during the second quarter of this year, according to the bank's chief economist, Cees Bruggemans.

The index declined from 33 points in the second quarter to 28 points in the third quarter.

"As such it remained above the level of 25 registered during the first quarter of 2010, which was the lowest point in the last cycle. The current reading indicates that barely one fourth of respondents rated prevailing business conditions as satisfactory." This was quite low, but still above the lowest level of 13 recorded in the survey's 13-year history, in the second quarter of 2000.



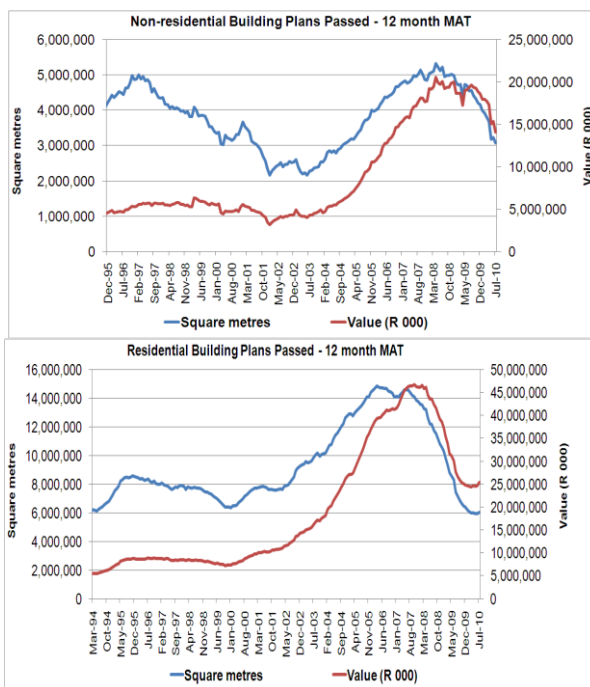
The FNB Building Confidence Index did rebound slightly during the third quarter of the year to 29, after falling from 30 to 24 during the second quarter of 2010. At 29, the index is still very low compared to the levels of 80 plus reached during the period 2005 to 2007.

Source: *Business Report*, Sapa, 29 September 2010, FNB, Global Insight

The feature of the July building plans passed figures was a dramatic -61.0% m-o-m seasonally adjusted decline in non-residential plans passed. One had been expecting the downward trend caused by the aftermath of the recession to continue, but not to this extent. The brunt of the decline was borne by plans for commercial and industrial developments. The collapse in such plans coincides with anecdotal reports

of a sharp fall off in orders in the building and construction industry following the completion of the World Cup. It is also intimated that government's ambitious infrastructural investment programme is not getting off the ground.

In contrast, the erstwhile declining trend in residential building plans passed appears to have continued bottoming out, with a m-o-m seasonally adjusted decline of just -0.7% in July. It is apparent that the steep decline in the interest rates of the past 21 months has been helping to provide some support to the residential market, as evidenced also by the positive trend of house prices over the course of this



year in contrast with the negative trend seen last year.

In contrast to the decline in building plans passed, building completions picked up nicely across a broad front in July. One suspects that the completion of the World Cup saw a return to more productive activity in the industry. Nonetheless, judging from the negative trend of building plans passed through to July, one cannot be particularly optimistic about any continuation of positive growth in the building industry over the next six to 12 months.

Source: *Econometrix*, 16 September 2010, Stats SA, Global Insight

Basil Read is pursuing public-private partnerships (PPPs) worth an estimated R17 billion.

Marius Heyns, the chief executive of the listed building and engineering group, said recently that the PPPs included four new prisons in Paarl, Nigel, Klerksdorp and East London; a new head office for the Tshwane Metro; another for the Department of Rural Development and Land Reform; various hospitals; and the N1 and N2 toll roads in Cape Town worth about R10bn.

Heyns said the tender for the Baragwanath Hospital was expected to be issued soon and the project value of this contract alone was expected to be between R4bn and R6bn.

He added that Basil Read was already the preferred bidder for a toll road with a project value of \$200 million (R1.4bn) for the Zambian government.

Basil Read reported a 4 percent increase in after tax profit to R127.6m in the six months to June.

Diluted headline earnings a share slumped by 32 percent to R1.0434, largely because of a 43 percent increase in the weighted average number of shares in issue.

Revenue rose 26 percent to R2.62bn in the period. Operating profit grew 9 percent to R202.2m but no dividend was declared.

Working capital movements increased sharply to R401.1m from R110.8m.

Heyns attributed this largely to an increase in trade and other receivables, which was a direct result of the prevailing economic environment as debtors extended their terms.

Trade and other payables rose by 80 percent to R1.14bn.

Heyns said this related mostly to Health Department contracts because the government had run out of money and was waiting for the following year's budget.

The group secured new contracts worth R2.6bn in the reporting period and its order book was now "a healthy" R8.1bn, of which R3.5bn would be constructed next year.

Source: *Business Report*, Roy Cokayne, 1 September 2010

The severe slowdown in infrastructure-related projects knocked Distribution and Warehousing Network's (Dawn's) headline earnings in the year to June but the company is confident that the benefits of its stringent focus on cost management will flow through into the next year.

The JSE-listed sanitaryware manufacturer and distributor said yesterday that revenue declined by 8.6 percent to R3.6 billion while operating profit was down 15.5 percent to R208 million.

Headline earnings slumped 31 percent to R98.9m and headline earnings a share crashed by 40.1 percent to 48.9c. Dawn makes sanitaryware, plumbing, kitchen and engineering products and distributes them through a series of networks in South Africa, Angola, Nigeria and Mauritius, among other countries. Its brands include Cobra taps and DPI Plastics.

Chief executive Derek Tod said although the majority of the group's businesses within the building segment posted a strong performance, the slowdown in infrastructure spend in South Africa had a significant impact on the infrastructure segment businesses. The revenue of the building segment, representing 63 percent of the company's income, declined 7 percent to R2.4bn.

"The segment outperformed a weak building market, assisted by market share gains due to the strength of the brands," said Tod.

Overall volumes in Dawn's infrastructure segment were down 17.8 percent year on year.

"This slowdown led to under-recoveries and an operating loss in DPI Plastics and in Sangio Pipe," Tod noted.

The group took a strategic decision to limit the volume decline and consequent effects, although this had resulted in lower margins, said Tod.

He said a stringent focus on cost management and the full impact of interest savings through reduced debt would flow through to the new year.

Although the short-term outlook for government projects remained bleak, Dawn's infrastructure segment "focuses on priority spend in critical areas, such as water infrastructure projects, which are likely to turn up first", Tod said.

"On the building side, we anticipate some volume improvements as the market slowly starts to recover," he said.

Source: *Business Report*, Florence de Vries, 14 September 2010, NewsWatch

Competition in building materials market expected to increase.

Building materials retailer Cashbuild could face stiff competition from new players in the building materials market, but the company was positive that it would grow its market share in this financial year. "We won't become claustrophobic in our sector.

The building retailer's market is worth over R100 billion and Cashbuild only has a R6bn share. I believe there are lots of opportunities and that this market will continue to grow," Cashbuild chief executive Pat Goldrick said recently.

Analysts say state support and rural development in the lower end of the market may be an opportunity for companies in the building and renovations sector to grow revenue.

Jeanine van Zyl, an equity analyst at Old Mutual Investments, said a number of new players were entering the rural or traditional "lower end" of the building material retailer market. "Players like Italtile with its Top T brand are entering this market," Van Zyl said. But Goldrick maintained that there were more than 10 000 independent building material retailers in the sector. "Competitors like Iliad Africa have made a few acquisitions in this end of the market but it doesn't necessarily mean there are more competitors," he said.

Gryphon Asset Management equity analyst Abri du Plessis said that competitors would have a "tough time" taking on Cashbuild as the company was "very well spread geographically". Goldrick said Cashbuild was only under-represented in southern KwaZulu-Natal and the Western Cape.

But Du Plessis said competitors such as Massmart's Builders Warehouse might reduce prices in order to compete with players in the lower end. "I don't think Massmart will change its store format, but it may reduce the prices of a basic series of items," he said.

Cashbuild reported a 6 percent rise in revenue from R5bn to R5.3bn in the year to June. Van Zyl believed the group was well supported by government grants as well as by wage increases. "The group seemed to have fared well on the back of lower inflation," she said.

Customer shopping transactions at 13.6 million had increased by 9 percent and the final dividend to shareholders had increased by 23 percent to 127 cents.

Goldrick attributed its performance to having 190 fully operational stores in "excellent locations".

"The locations of our stores are fundamental to the business. Each of our store managers comes from the community in which the store operates, which assists management in getting the proper feedback and advice," he said. Goldrick said the group had strong performances in Nelspruit in Mpumalanga as well as in Umtata in the Eastern Cape and Sibasa in the Limpopo province.

He said the only "negative" aspect of the market in which Cashbuild operated was the fact that other building material suppliers were "debasementing the market by offering lower prices on some of the goods". "It seems as if everyone is trying to fish in the same pool," Goldrick said.

According to Du Plessis, the company performed in line with expectations. Van Zyl said Cashbuild had benefited from increased government grants. "Provided they retained their jobs, Cashbuild's customers will have had high wage increases combined with low inflation, which would also have benefited the group," she said.

According to Goldrick, Cashbuild would pay out R50 million to its employees, which was half of the capital growth in the Cashbuild Employee Empowerment Trust.

Source: Business Report, Florence de Vries, 22 September 2010

WalMart is in talks to buy South Africa's Massmart, a \$4-billion deal that would give the US retailer a big presence in fast-growing Africa and bolster its emerging markets strategy.

The world's largest retailer has been hit by weakness in the United States, where low-income shoppers are particularly vulnerable to unemployment and higher petrol prices. It has responded by focusing on cost cuts and international growth.

Buying Massmart, South Africa's third-largest listed retailer by value, would give WalMart a considerable network in Africa's biggest economy and a foothold in 13 other countries in sub-Saharan Africa. Home to some of the world's fastest growing markets, Africa also boasts an emerging middle class and roughly 1 billion consumers, making it an increasingly attractive target for overseas investors.

"Massmart is a very good fit with their business," said Bryan Roberts, global research director at industry research firm Planet Retail in London. Other international retailers could eventually bid for one of Massmart's local competitors to tap the potential of sub-Saharan Africa, he said. "There's no shortage of good businesses that could be acquisition targets – Shoprite, Woolworths and the like."

Massmart said it has granted the US firm an exclusivity period and said there was no certainty of a formal offer.

WalMart's bid values Massmart at 26,3 times its 12-month adjusted earnings per share, according to Thomson Reuters data. That compares to 21,5 times for Shoprite and 15.5 times for Woolworths.

Source: Reuters, 27 September 2010

Domestic and international cementitious industry sales trends and news

South African cement producer PPC reported that its sales volumes in South Africa and Botswana were still declining, but at a slower rate than had been the case earlier in 2010, with some regions showing a modest growth in sales.

However, sales to the construction industry, which typically comprised about 20% of PPC's sales, were significantly lower, while Zimbabwe sales during July were impacted by a longer-than-planned plant shutdown. Normal sales resumed in that country during August, however, overall, the volume outlook for 2010 remained "negative and uncertain", the company said during an investor road show.

Earlier in the year, CEO Paul Stuiver noted that the cement industry had entered its third consecutive year of decline.

However, he reiterated PPC's view that the longer-term volume outlook remained positive in line with historical trends, growth forecasts and regional infrastructure development plans.

Stuiver told investors that he did not foresee cement capacity in South Africa rising over the group's next two financial years, but that it could begin to rise "marginally" during its 2013 financial year.

Source: Engineering News, Terence Creamer, 1 September 2010

Cement manufacturer Lafarge SA plans to retrench 13% of its workers at its Lichtenburg plant in South Africa, according to the union Solidarity.

Solidarity, said it had been served with a notice by the company indicating its plans to retrench about 80 of its 600 employees by the end of October.

"Lafarge Cement maintains that the shrinking of the construction industry owing to the recession and the rising cost of electricity is the reason for the planned layoffs," the union said in a statement.

Solidarity spokesman Dirk Hermann said job losses in South Africa's manufacturing sector dropped by 74 000, while 54 000 people lost their jobs in the construction sector during the second quarter of 2010.

South Africa, the continent's largest economy, has already shed off hundreds of jobs due to a shrink in the construction industry, partly caused by the ending of major construction projects.

Source: Reuters, Engineering News, 1 September 2010

AfriSam (South Africa) (Pty) Ltd
Reg No: 2006/005910/07
PO Box 6367
Weltevredenpark 1715
South Africa
Tel: (011) 670 5721
e-mail: alet.vanstaden@za.afrisam.com

www.afrisam.com
Tel: 0860 141 141
e-mail: customer.service@za.afrisam.com

Main sources of information:

Industry Insight
Tel: (021) 557 4168
info@industryinsight.co.za
www.industryinsight.co.za

Econometrix
Tel: (011) 483 1421
macrohotline@econometrix.co.za
www.econometrix.co.za

Cement and Concrete Institute
Tel: (011) 315 0300
www.cni.org.za

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