BIZCOMMUNITY

PPC cements African growth plan with new Zimbabwe plant

By Mark Allix

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PPC is spending $200m on expanding its production facilities in Zimbabwe by 2020 as the nation's cement market evolves from mostly cash-in-hand sales for home building and renovation to renewed maintenance spending on national infrastructure.

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SA's largest cement group will add new Harare milling facilities to milling and clinker assets in Bulawayo and Gwanda, bringing total capacity in the country to about 1.2-million tonnes annually. The new Harare plant will cost about $86m. It should be up and running in the middle of next year. The group is making the investment despite using only about 70% of overall capacity at its existing PPC Zimbabwe operations. These produce about 700,000 tonnes of cement per annum.

But that is now changing, according to PPC Zimbabwe MD, Njombo Lekula, who spoke at a Zimbabwe investment event in Johannesburg on Friday. He said since the "dollarisation" of Zimbabwe's economy in 2009 after years of hyper-inflation, the cement maker had seen a positive trajectory.

There was a renewed focus by the government to revamp the nation's infrastructure, Lekula said. This included adding generating capacity to Kariba Dam's hydroelectricity output. PPC Zimbabwe supplies cement to the project.

Private sector participation is opening up

"What is opening up now is private sector participation" in power generation. Government has come to the realisation that the only way to progress is through foreign direct investment - and to become investor friendly."

Lekula said a new generation of ministers had spent years in the private sector before joining the government. This included Minister of Commerce and Industry Michael Bimha, who also spoke at Friday's investment indaba. Mr Bimha had spent 20 years with Anglo American and served on numerous company and parastatal boards in that country.

Ramping up African investment outside SA

PPC's expenditure in Zimbabwe is part of a rapid ramp-up in African investment outside of SA. While the company has a "keep the home fires burning" policy to support its main South African operations, it is seeking 40% of revenue from the rest of the continent by 2017. That means that gross debt of R6.8bn is soon set to rise to between R10bn and R12bn. To this end, the group has ring-fenced debt for its African investments, including the new mill in Zimbabwe, a new 600,000 tonnes-a-year plant in Rwanda, a 1-million tonnes-a-year cement factory being built in the Democratic Republic of Congo, as well as the 51%-owned, $135m cement plant in Ethiopia that will make 1.4-million tonnes of cement a year.

That is a lot to deliver on in the next few years, especially as the group's South African operations are suffering from the long-term stagnation of the country's building and construction markets.

Jason Muscat, senior industry analyst at FNB, says in the most recent First National Bank Bureau for Economic Research civil construction confidence index that despite a small rise in confidence, the state of the industry seems "to have worsened in the second quarter". He says the outlook is "quite bleak".

Tough competition

This means tendering competition had intensified. "In fact, according to respondents, tendering price competition is at its worst level since the end of 2011," Muscat says. This comes as competition in regional cement markets has become even tougher with the entry of Nigerian-backed Sephaku Cement and Chinese-backed Mamba Cement.

New industry capacity will take total cement production in SA to nearly 20-million tonnes a year. South African cement sales came to 12.2-million tonnes last year. This means oversupply of product will likely keep margins tight in future.

A 38% plunge in PPC's headline earnings per share in the six months to March reflects the difficulties faced by SA's construction sector, says Imara SP Reid analyst Sibonginkosi Nyanga. Since September last year, PPC's stock has dropped more than 45%. But PPC and other major cement producers in SA - Lafarge, Afrisam and Natal Portland Cement - have found temporary relief after the International Trade Administration Commission of SA recently imposed provisional anti-dumping duties on imports of Portland cement up to November 13, following an investigation into dumping of cement from Pakistan.

Source: AFP