

BUILDMAX HOLDS ONTO MARKET SHARE IN TOUGH ECONOMY

JSE-listed Buildmax managed to grow revenue for the six months to August 2009 (“the period”) despite tough economic conditions and operational setbacks. The group retained all long-term contracts, successfully overcame the impact on production of major industrial action at its largest subsidiary and continued to be highly cash generative. However, the financial effects of the strike at Diesel Power prevented the translation of top line growth into an increase in profitability.

The prior acquisitions of Diesel Power and the Buildco group became effective in April 2008 and were therefore included in the comparative period results for only five months. To enable comparison to the period on a like-for-like basis, the comparative period results have been restated to include the acquisitions for the full six months (“pro forma historical results”).

Compared to the pro forma historical results revenue grew 13% to R957 million. Net profit before tax, amortisation of intangibles and loss on disposal of a business (“NPBT”) at R60,6 million was 57% lower than the pro forma historical NPBT of R140.5 million. Core HEPS of 4.5 cents reduced by 58% from the pro forma historical comparative of 10.6 cents. Cash from operations was 15% higher year-on-year at R242 million and Buildmax reduced net debt from R650.8 million at the previous year-end to R605.2 million at the end of August.

Management maintained focus on financial discipline at all businesses during the period. CEO Paul de Klerk says: “Working capital management, strict cost control and limiting capital expenditure to plant at the end of its useful life remain ongoing priorities for management.”

He explains that *Mining Services* – Buildmax’s core business unit and largest contributor to group results – was buffeted from all sides during the period. “The strike by a large percentage of Diesel Power’s workforce affected production in May and June and the lead times for inducting the replacements hampered July production as well. Full production resumed at the start of August and Diesel Power is back on track.” Nonetheless the downtime cost the business unit R95 million in revenue while fixed costs continued and extra costs linked to the new workforce were incurred.

De Klerk emphasises the resilience of the business unit in that no contracts were lost during the strike period and tenure on some existing ones was even extended.

Vukuza, the group’s second *Mining Services* business, also delivered sub-par results, racking up increasing fleet costs. “Vukuza’s fleet is older than Diesel Power’s and was forced to run for longer after we decided at the end of last year to curtail capex to protect our balance sheet. As a result we incurred higher than anticipated maintenance and repair costs as well as hired-in more sub-contractors and equipment,” says De Klerk. Despite the short-term effect on the bottom-line, he is satisfied that the capex decision is the correct strategy for the group.

He says further that the drop in demand for commodities saw traditional hard rock mining specialists muscle in on the coal mining sector in which Buildmax has a strong foothold. This put added pressure on margins in *Mining Services*.

In the *Construction Materials* business unit the Aggregates & Quarries division bucked the downward trend. While volumes in the other construction materials businesses declined 30% year-on-year as demand dried up, Aggregates & Quarries sold 5% more product by targeting infrastructure projects. De Klerk says this is obviously positive although fewer contracts in the marketplace meant tight competition and lower margins for the division. He also says the slowdown in private sector residential spending still outweighs the advantages of a product mix suitable for public sector work.

“Performance at the other divisions in the business unit – Bricks & Blocks and Building Materials - has not improved as yet. The drop in demand as well as delays in commissioning a second kerb plant hurt the businesses. Both kerb plants are now fully operational.” During the period the non-core Ticktin Timbers was sold.

Regarding *Construction Materials* de Klerk remains cautious. He says the recovery of this business unit will closely track the economy, specifically the private residential market.

De Klerk believes the next six months’ results should be stronger provided the global economy fares no worse but points out possible challenges as the country’s rainy season approaches. Overall, coal demand should increase over the medium- to long-term supported by Eskom’s power generation plans and synthetic fuel production and globally, by growing and new export markets for South African coal producers, particularly India. “The *Mining Services* business unit is in a strong position to capitalise on the growth opportunities in coal.” He concludes that capex will remain conservative and primarily restricted to replacing plant at the end of its economic life.

Buildmax’s share closed Friday at R0,70.

Ends.

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