

BRAIT BUYS 24% OF BUILDMAX FOLLOWING BUILDMAX STRONG INTERIMS

JSE-listed Buildmax today announced both interim results for the six months to August 2008 and the buy-in to the group by private equity specialist Brait. Earlier this year Buildmax was repositioned as a leading opencast mining services group and supplier of construction materials following two major acquisitions - Diesel Power Open Cast Mining (“Diesel Power”) and the Buildco group of companies (“the acquisitions”). Brait’s investment is set to strengthen Buildmax’s balance sheet and introduce a strategic shareholder with a proven track record of partnering growth companies.

133,3 million new Buildmax shares will be issued to Brait at R1.50 a share equating to a R200 million investment. Brait has further concluded transactions to purchase an additional 120 million Buildmax shares from existing shareholders at R1.10 a share to take its total shareholding in the group to 24%.

CEO of Buildmax Paul de Klerk says: “We are pleased that South Africa’s largest private equity fund manager selected Buildmax to spearhead their exposure to the contract mining industry at a challenging time in the local and global economies. Brait’s stake in Buildmax reflects their confidence in the quality of our business and brands and in our prospects.” He points out that the transaction brings immediate financial and longer-term strategic benefit to the group.

The capital injection will be used primarily to reduce debt and to pursue new business opportunities. De Klerk says Brait’s experience and business network will help Buildmax realise these growth opportunities. “These advantages outweigh the short-term dilutionary effect on earnings resulting from the larger number of shares in issue,” he adds.

Dennis Mack, who will assume one of Brait’s two seats on Buildmax’s board, says the transaction satisfies Brait’s investment criteria. “Buildmax has a strong management team and an astute mix of institutional and individual investors behind it. We like the group’s strong cash flow and growth prospects in what can only be described as an uncertain macro-economic landscape.”

Alignment of the group’s operations with demand in the coal mining sector and continued infrastructure spend by government, delivered a 38% increase in revenue to R755,3 million and a 64% increase in HEPS to 11,8 cents (on a like-for-like basis compared to pro forma results for the prior period that include the acquisitions for the five months for which they are included in the interim results). By the same comparison EBITDA for the interim period increased by 91% to R230,8 million while profit before tax was 69% higher at R131,2 million. The group generated R209,2 million cash from operations before servicing external debt and capital expenditure.

De Klerk says the order book for the Mining Services unit approximated R5 billion at the end of the interim period. “Demand locally from Eskom and internationally for thermal coal continues to drive growth.”

He says the coal mining industry in South Africa has experienced high growth and the new mines which have been or will be opened, help Buildmax broaden its customer base and increase its contracts in hand. “Diesel Power and Vukuza Earth Works (previously part of Buildco) serve all major coal mining groups in South Africa. At the moment Mining Services has 21 mining contracts, which is expected to increase to 26 by February 2009.”

To meet demand Buildmax has escalated its capital expenditure forecast to up to R650 million, around two-thirds of which was incurred during the interim period. De Klerk points out that favourable prices were secured at exchange rates before the recent devaluation of the Rand. He says the full benefit will only be felt in the years to February 2010 and going forward due to the lag between commissioning of new equipment and rolling-out into use on contracts. “Despite the increased capital expenditure demand necessitates that in the short-term Buildmax continues hiring-in equipment.”

The Construction Materials businesses were repositioned during the interim period to participate more fully in infrastructure development. “The product mix was revised to optimally target infrastructure projects.” As a result Buildmax secured contracts in Johannesburg for SANRAL, in Pretoria for the Department of Foreign Affairs and for Greenpoint Stadium in Cape Town. The general economic slowdown and reduced private sector investment depressed margins in the Construction Materials unit, which de Klerk expects to continue at least until the second half of 2009.

Going forward he believes Mining Services will be the key driver of the group’s top and bottom line growth. He cautions though that the price of equipment and consumables together with the national skills shortage will present ongoing challenges.

With regard to the global financial crisis he says it is too early to comment on the effect, if any, on Buildmax. “To date we have traded well after the interim period. If we continue on this track we will meet our revenue forecast of R1,7 billion for the year to February 2009 resulting in HEPS of 22,5 cents.” The outlook beyond 2009 looks strong too. De Klerk concludes that with the full benefit of increased capital expenditure deployed on existing and new contracts, Buildmax should grow HEPS by not less than 40% for the year to February 2010.

Buildmax’s share closed at R1,05 yesterday.

Ends.

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