



AECI Limited (AFEJ.J)

South Africa | Basic Materials & Mining

The cost of cleaning up

There is no escaping AECI's unimpressive earnings track record and, regrettably, the H1 results have continued in this vein. However, this mostly reflects the cost of cleaning up past mistakes and investing for future growth. We have cut our numbers and downgraded to Hold but highlight that material upside exists if management can achieve its targets.

- H1 key features:** Revenue was 4% lower, EBITDA declined by 24% and dHEPS fell 57% to 256cps. Free cash flow was negative. However, one-off restructuring and investment costs accounted for a material part of the earnings disappointment; the company has guided to a much stronger H2 and an FY24E EBITDA outcome broadly in line with that of FY23A. Our own estimates are not so optimistic, but we recognise that the underlying trend is strongly positive. AECI appears on track to divest most of its non-core units by the end of 2025 and expects to realise R3bn – R4bn; this is ahead of our assumptions.
- Estimates:** We have cut our FY24/25E dHEPS estimates to 771cps (-43% vs previous) and 1,387cps (-17%). Our m-t EBITDA assumptions are mostly unchanged, but we have raised our tax rate assumption to 42% to reflect the company's guidance. Our FY26E EBITDA estimate of R4.5bn is meaningfully below the company's guidance of R5.6bn – R6.3bn.
- Valuation:** Our target price is unchanged at R110/sh as we roll forward our 8x exit multiple to reflect our FY25 dHEPS estimate. We think a considerable rerating is possible once divestments are completed and if management can achieve traction toward its medium-term growth and profitability targets. The investment narrative centred on the core mining services business is compelling and represents robust global growth prospects.

Company Research

01 August 2024

Price	10,300c	
	Current	Change
Recommendation	Hold	Downgrade
	Current	% Change
Target price	11,000c	0.0
FTR	9.9%	
EPS		
FY23	1,116.7c	0.0
FY24E	770.8c	-43.4
FY25E	1,386.9c	-16.8
Mkt Cap	ZAR11bn	
EV	ZAR15bn	
ADV	274k	

Anthony Geard
+27 21 416 1431
anthony.geard@investec.com

Financials and valuation

Year end: 31 December

	2022A	2023A	2024E	2025E	2026E
Revenue (ZARm)	35,583.0	37,500.0	34,550.0	37,633.0	39,292.5
EBITDA (ZARm)	3,544.0	3,645.0	3,210.0	4,163.3	4,508.1
EBITA (ZARm)	2,588.0	2,592.0	2,205.0	3,134.3	3,455.1
PBT (normalised) (ZARm)	2,230.0	2,118.0	1,680.0	2,679.3	3,097.6
Headline Earnings (ZARm)	1,358.0	1,200.0	836.0	1,518.2	1,787.6
HEPS - FD (c)	1,280.0	1,116.7	770.8	1,386.9	1,618.3
FCFPS - FD (c)	(1,245.9)	1,957.9	(117.1)	902.7	1,199.1
NAVPS (c)	9,841.6	11,758.3	12,254.8	13,178.8	14,231.4
DPS (c)	774.0	219.0	200.0	400.0	500.0
PE (normalised) (x)	8.0	9.2	13.4	7.4	6.4
Price/NAVPS	1.0	0.9	0.8	0.8	0.7
EV/sales (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.2	4.1	4.6	3.6	3.3
FCF yield (%)	(12.1)	19.0	(1.1)	8.8	11.6
Dividend yield (%)	7.5	2.1	1.9	3.9	4.9

Source: Company accounts, Investec Equities estimates

Price Performance



Source: FactSet

AECI Limited (AFEJ.J)

Rec: Hold

Price: 10300c

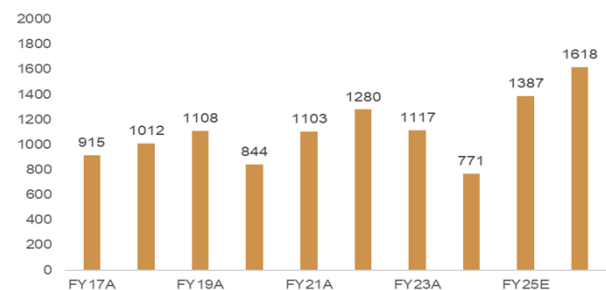
TP: 11000c

FTR: 9.9%

Mkt Cap: ZAR11bn

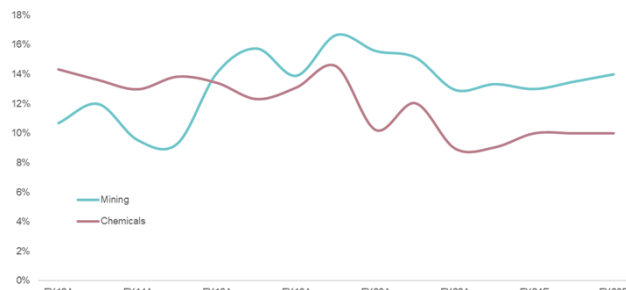
EV: ZAR15bn

dHEPS trend + estimates (cents)



Source: Company accounts, Investec Equities estimates

Key EBITDA margin trends



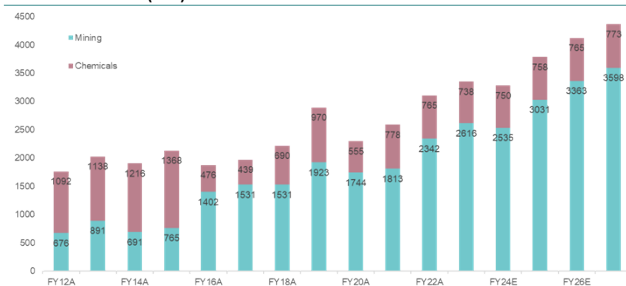
Source: Company accounts, Investec Equities estimates

Sales trends (Rm)



Source: Company accounts, Investec Equities estimates

EBITDA trends (Rm)



Source: Company accounts, Investec Equities estimates

Income statement ZARm

Year end: 31 Dec	2022A	2023A	2024E	2025E	2026E
Revenue	35,583.0	37,500.0	34,550.0	37,633.0	39,292.5
EBITDA	3,544.0	3,645.0	3,210.0	4,163.3	4,508.1
EBITA	2,588.0	2,592.0	2,205.0	3,134.3	3,455.1
PBT (normalised)	2,230.0	2,118.0	1,680.0	2,679.3	3,097.6
Net Income (norm.)	1,358.0	1,200.0	836.0	1,518.2	1,787.6
EPS Change (%)	0.0	0.0	(43.4)	(16.8)	(16.5)
DPS (c)	774.0	219.0	200.0	400.0	500.0
FCFPS - FD (c)	(1,245.9)	1,957.9	(117.1)	902.7	1,199.1
Dividend cover (x)	1.7	5.1	3.9	3.5	3.2

Source: Company accounts, Investec Equities estimates

Cashflow ZARm

Year end: 31 Dec	2022A	2023A	2024E	2025E	2026E
EBITA	2,588.0	2,592.0	2,205.0	3,134.3	3,455.1
Operating cashflow	1,270.0	4,814.0	2,460.0	3,913.3	4,397.1
Change in working capital	(2,570.0)	1,037.0	(750.0)	(250.0)	(111.0)
Capex	(1,448.0)	(1,289.0)	(1,250.0)	(1,349.0)	(1,448.0)
Capex/Depreciation (x)	1.4	1.2	1.2	1.3	1.4
Free cash flow	(1,322.0)	2,104.0	(127.0)	988.2	1,324.6
Acquisitions/Disposals	(16.0)	(150.0)	(4.7)	(4.6)	(4.4)
Net share issues	0.0	0.0	0.0	0.0	0.0
Change in net cash	(2,585.0)	1,221.0	(348.6)	545.8	767.9
Net cash/(debt)	(5,345.0)	(4,338.0)	(3,696.6)	(4,072.8)	(3,359.5)

Source: Company accounts, Investec Equities estimates

Calendarised valuation

Year end: 31 Dec	2022A	2023A	2024E	2025E	2026E
PE (normalised) (x)	8.0	9.2	13.4	7.4	6.4
EV/sales (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.2	4.1	4.6	3.6	3.3
FCF yield (%)	(12.1)	19.0	(1.1)	8.8	11.6
Dividend yield (%)	7.5	2.1	1.9	3.9	4.9

Source: Company accounts, Investec Equities estimates

Key metrics

Year end: 31 Dec	2022A	2023A	2024E	2025E	2026E
Net Debt/EBITDA (x)	1.5	1.2	1.2	1.0	0.7
Net Debt/Equity (x)	0.5	0.4	0.3	0.3	0.2
Interest cover (x)	8.2	5.1	4.2	6.9	9.7
ROE (%)	11.7	9.8	6.5	10.9	11.7
ROIC (%)	-	-	-	-	-

Source: Company accounts, Investec Equities estimates

Summary Financials (ZARm)

Year end: 31 December

Income Statement	2022	2023	2024E	2025E	2026E
Revenue	35,583.0	37,500.0	34,550.0	37,633.0	39,292.5
EBITDA	3,544.0	3,645.0	3,210.0	4,163.3	4,508.1
Depreciation and amortisation	(1,026.0)	(1,053.0)	(1,005.0)	(1,029.0)	(1,053.0)
Operating profit	2,518.0	2,592.0	2,205.0	3,134.3	3,455.1
Other income	26.0	39.0	-	-	-
Net interest	(314.0)	(513.0)	(525.0)	(455.0)	(357.5)
Share-based-payments	-	-	-	-	-
PBT (normalised)	2,230.0	2,118.0	1,680.0	2,679.3	3,097.6
Impairment of acquired intangibles	(471.0)	0.0	0.0	0.0	0.0
Non-recurring items/exceptionals	0.0	5.0	0.0	0.0	0.0
PBT (reported)	1,759.0	2,123.0	1,680.0	2,679.3	3,097.6
Taxation	(803.0)	(917.0)	(840.0)	(1,152.1)	(1,301.0)
Minorities & preference dividends	(29.0)	(6.0)	(4.0)	(9.0)	(9.0)
Discontinued/assets held for sale	0.0	0.0	0.0	0.0	0.0
Headline Earnings	1,358.0	1,200.0	836.0	1,518.2	1,787.6
Attributable profit	901.0	1,174.0	836.0	1,518.2	1,787.6
Basic EPS (c)	1,280.0	1,092.5	770.8	1,386.9	1,618.3
HEPS – FD (c)	1,280.0	1,116.7	770.8	1,386.9	1,618.3
DPS (c)	774.0	219.0	200.0	400.0	500.0
Average number of group shares - FD (m)	106.1	107.5	108.5	109.5	110.5
Average number of group shares (m)	105.5	105.5	106.5	107.5	108.5
Total number of shares in issue (m)	120.1	105.5	106.5	107.5	108.5
Cash Flow	2022	2023	2024E	2025E	2026E
Operating profit	2,518.0	2,592.0	2,205.0	3,134.3	3,455.1
Depreciation & amortisation	1,026.0	1,053.0	1,005.0	1,029.0	1,053.0
Other cash and non-cash movements	718.0	132.0	0.0	0.0	0.0
Change in working capital	(2,570.0)	1,037.0	(750.0)	(250.0)	(111.0)
Operating cash flow	1,270.0	4,814.0	2,460.0	3,913.3	4,397.1
Interest	(240.0)	(457.0)	(525.0)	(455.0)	(357.5)
Tax paid	(954.0)	(989.0)	(840.0)	(1,152.1)	(1,301.0)
Dividends from associates and JVs	50.0	25.0	28.0	31.0	34.0
Cash flow from operations	126.0	3,393.0	1,123.0	2,337.2	2,772.6
Maintenance capex	(1,448.0)	(1,289.0)	(1,250.0)	(1,349.0)	(1,448.0)
Free cash flow	(1,322.0)	2,104.0	(127.0)	988.2	1,324.6
Expansionary capex	0.0	0.0	0.0	0.0	0.0
Exceptionals and discontinued operations	(173.0)	0.0	0.0	0.0	0.0
Other financials	(314.0)	0.0	0.0	0.0	0.0
Acquisitions	(25.0)	(150.0)	(4.7)	(4.6)	(4.4)
Disposals	9.0	0.0	0.0	0.0	0.0
Net share issues	0.0	0.0	0.0	0.0	0.0
Dividends paid	(760.0)	(733.0)	(216.9)	(437.9)	(552.3)
Change in net cash	(2,585.0)	1,221.0	(348.6)	545.8	767.9
Net cash/(debt)	(5,345.0)	(4,338.0)	(3,696.6)	(4,072.8)	(3,359.5)
FCFPS - FD	(1,245.9)	1,957.9	(117.1)	902.7	1,199.1
Balance Sheet	2022	2023	2024E	2025E	2026E
Property plant and equipment	6,628.0	7,454.0	7,699.0	8,019.0	8,414.0
Intangible assets	3,220.0	3,193.0	3,193.0	3,193.0	3,193.0
Investments and other non current assets	1,286.0	1,115.0	1,115.0	1,115.0	1,115.0
Cash and equivalents	2,059.0	1,960.0	1,960.0	1,960.0	1,960.0
Other current assets	547.0	672.0	672.0	672.0	672.0
Total assets	28,426.0	27,942.0	28,937.0	29,507.0	30,013.0
Total debt	(7,404.0)	(6,298.0)	(6,646.6)	(6,100.8)	(5,333.0)
Preference shares	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Other long term liabilities	(583.0)	(1,113.0)	(1,113.0)	(1,113.0)	(1,113.0)
Provisions & other current liabilities	(323.0)	0.0	0.0	0.0	0.0
Pension deficit and other adjustments	0.0	0.0	0.0	0.0	0.0
Total liabilities	(16,610.0)	(15,537.0)	(15,885.6)	(15,339.8)	(14,572.0)
Net assets	11,816.0	12,405.0	13,051.4	14,167.2	15,441.0
Shareholder's equity	11,635.0	12,244.0	12,879.4	13,984.2	15,247.0
Minority interests	181.0	161.0	172.0	183.0	194.0
Total equity	11,816.0	12,405.0	13,051.4	14,167.2	15,441.0
Net working capital	6,919.0	5,791.0	6,541.0	6,791.0	6,902.0
NAV per share	9,841.6	11,758.3	12,254.8	13,178.8	14,231.4

Source: Company accounts, Investec Equities estimates

Calendarised Valuation

Year end: 31 December

	2022	2023	2024E	2025E
Calendar PE (x)	8.0	9.2	13.4	7.4
Calendar Price/NAVPS (x)	1.0	0.9	0.8	0.8
Calendar EV/sales (x)	0.4	0.4	0.4	0.4
Calendar EV/EBITDA (x)	4.2	4.1	4.6	3.6
FCF yield (%)	(12.1)	19.0	(1.1)	8.8
Dividend yield (%)	7.5	2.1	1.9	3.9

Source: Company accounts, Investec Equities estimates

Ratios and Metrics

Year end: 31 December

Ratios and metrics	2022	2023	2024E	2025E	2026E
Revenue growth (y-on-y) (%)	36.6	5.4	(7.9)	8.9	4.4
EBITDA growth (y-on-y) (%)	14.9	2.8	(11.9)	29.7	8.3
Headline earnings growth (yoy)	14.4	(11.6)	(30.3)	81.6	17.7
HEPS (y-on-y) (%)	16.0	(12.8)	(31.0)	79.9	16.7
FCFPS growth (y-on-y) (%)	-	-	-	-	32.8
NAVPS growth (y-on-y) (%)	2.0	19.5	4.2	7.5	8.0
DPS growth (y-on-y) (%)	13.0	(71.7)	(8.7)	100.0	25.0
Interest cover (x)	8.2	5.1	4.2	6.9	9.7
Net debt/EBITDA (x)	1.5	1.2	1.2	1.0	0.7
Net debt/equity (%)	45.2	35.0	28.3	28.8	21.8
Net gearing (%)	31.1	25.9	22.1	22.3	17.9
Dividend cover (x)	1.7	5.1	3.9	3.5	3.2
EBITDA margin (%)	10.0	9.7	9.3	11.1	11.5
Operating profit margin (%)	7.3	6.9	6.4	8.3	8.8
ROE (%)	11.7	9.8	6.5	10.9	11.7
ROCE (%)	11.5	9.6	7.9	11.0	11.9
NWC/revenue (%)	19.4	15.4	18.9	18.0	17.6
Tax rate (normalised) (%)	36.0	43.3	50.0	43.0	42.0
Tax rate (reported) (%)	45.7	43.2	50.0	43.0	42.0

Source: Company accounts, Investec Equities estimates

Target Price Basis

FY25 P/E of 8x

Key Risks

Divestment of loss-making non-core operations may take longer than hoped. Mining customers may slow activity levels.

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Stock ratings for European/Hong Kong stocks

	Expected total return 12m performance	Count	Stock ratings for research produced by Investec Bank plc	
			All stocks % of total	Corporate stocks Count % of total
Buy	greater than 10%	275	76%	111 40%
Hold	0% to 10%	70	19%	1 1%
Sell	less than 0%	16	4%	0 0%

Source: Investec Equities estimates

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			All stocks % of total	Corporate stocks Count % of total
Buy	greater than 15%	148	54%	0 0%
Hold	5% to 15%	79	29%	0 0%
Sell	less than 5%	47	17%	0 0%

Source: Investec Equities estimates

Stock ratings for African* stocks

	Expected total return 12m performance	Count	Stock ratings for research produced by Investec Securities Limited	
			All stocks % of total	Corporate stocks Count % of total
Buy	greater than 15%	38	49%	15 39%
Hold	5% to 15%	25	32%	5 20%
Sell	less than 5%	14	18%	1 7%

Source: Investec Equities estimates

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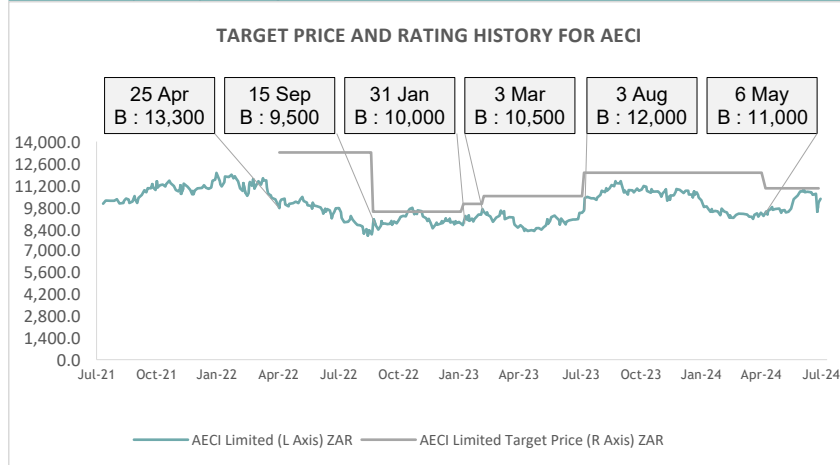
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AECI Limited (AFEJ.J) – Rating Plotter as at 31 Jul 2024



Source: Investec Equities, FactSet

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Registered Office Address:

10 East 53rd Street, 22nd Floor

New York, NY 10022

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Analyst(s)

Anthony Geard

+27 21 416 1431

anthony.geard@investec.com

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