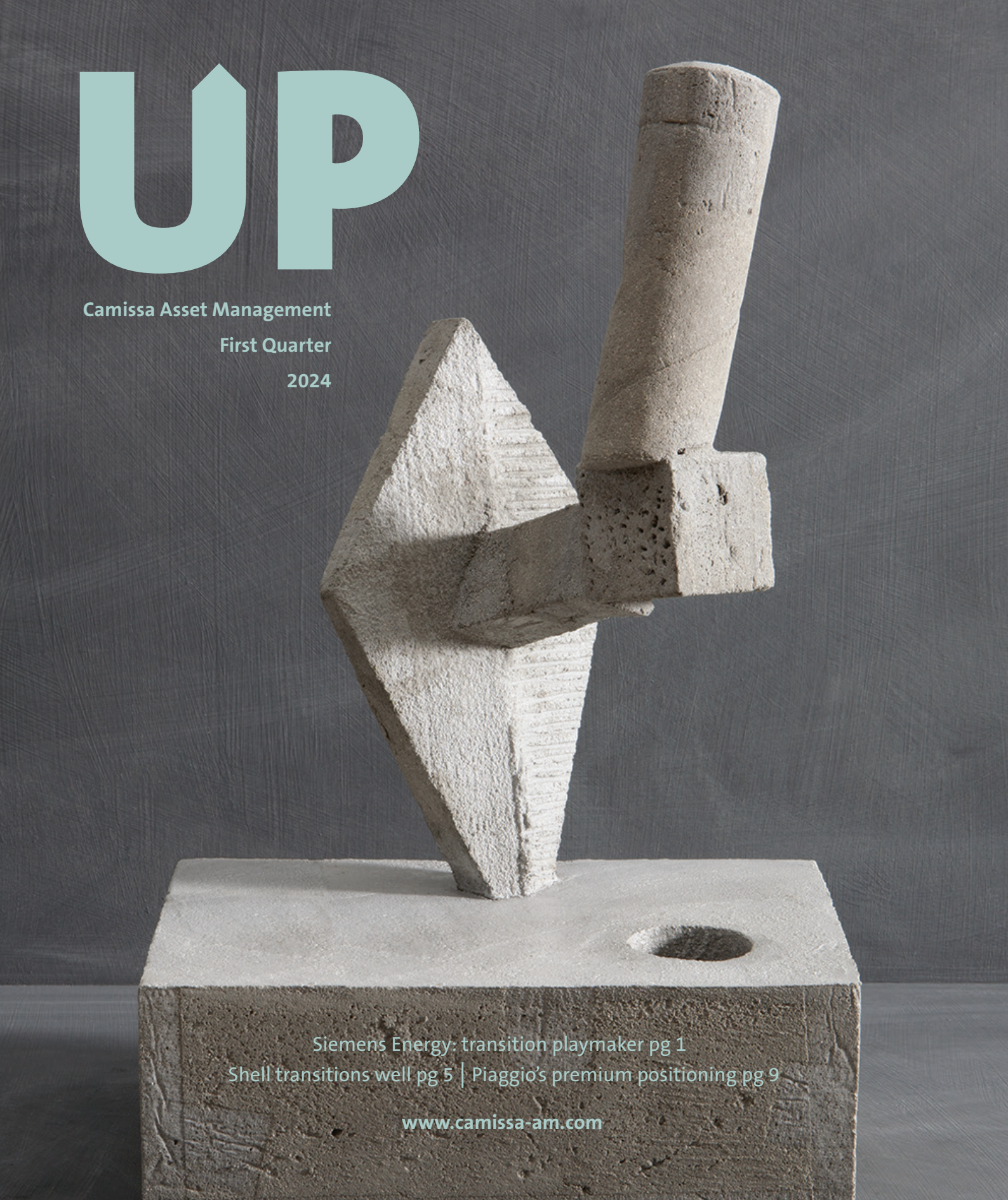


UP

Camissa Asset Management

First Quarter

2024

www.camissa-am.com

Siemens Energy: transition playmaker

Jihad Jhaveri - Head of Process

Siemens Energy is a German industrial company that manufactures heavy equipment used in the production and distribution of electricity, such as gas turbines, grid technologies and wind turbines. We investigate how Siemens Energy, which has now been mostly spun out of the Siemens group, is positioned for the material transformations underway in global energy markets. This as power grids modernise and increase capacity and flexibility, renewable energy continues to grow and gas turbines remain an indispensable source of base-load energy.

Siemens Energy: transition playmaker

Prussian engineer and soldier, Werner von Siemens - who founded Siemens Energy in 1847 - discovered the dynamo-electric principle. This revolutionised the development of electric motors, generators and the modern electric grid, and the company became a global leader in energy products. To this day, the unit of electrical conductance (symbol: S) is called the siemens.

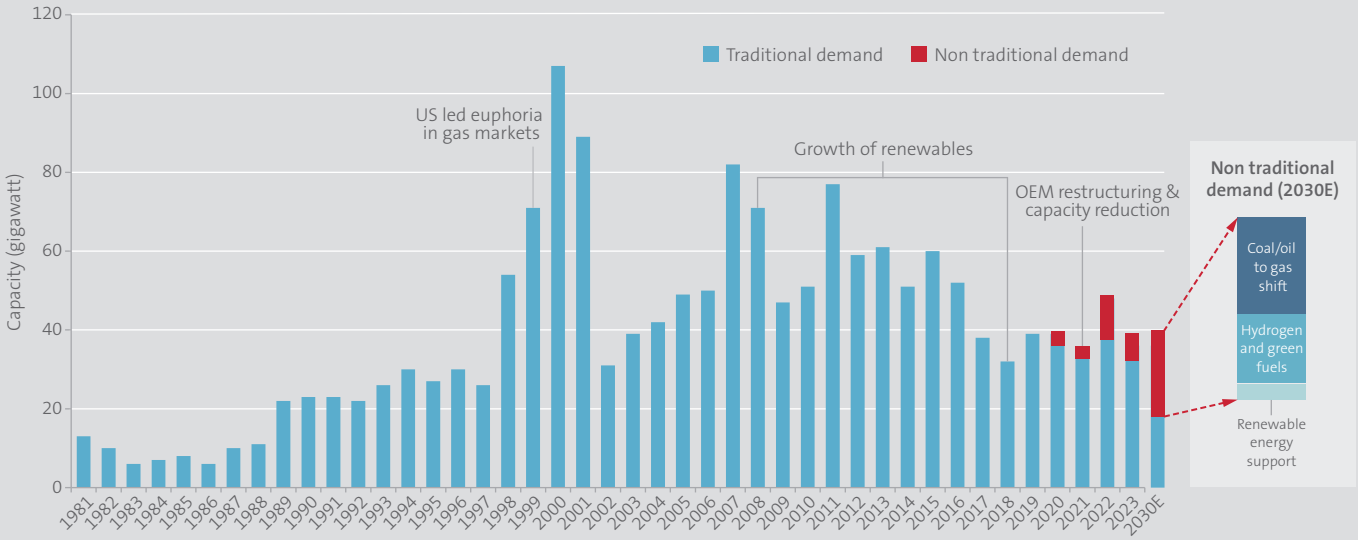
Gas turbines: advanced technology to harness heat

Gas turbine systems burn fossil fuels to produce superheated, high-speed exhaust gases that power a rotary mechanical device (turbine), which is connected to a generator to produce electrical power. The temperature extremes necessitate sophisticated technology. Turbine systems are an indispensable source of electricity generation due to uniquely useful features such as:

- **high energy efficiency** - the latest combined cycle gas technology. Excess heat from gas turbines is used to drive smaller steam turbines, offering a high level of energy extraction efficiency from fossil fuels (thermal efficiency of up to 64%). This can be improved further (up to 85%) when residual heat is used to warm buildings.
- **feedstock flexibility** - gas turbines use natural gas or various liquid fuels. Siemens Energy recently pioneered the use of very high blends of hydrogen (up to 100%) in gas turbines - a technical breakthrough, as hydrogen has a higher burning temperature than other components of natural gas. Due to the large volumes of hydrogen needed to continuously run a gas turbine, the adoption of hydrogen powered turbines will take time.
- **operational flexibility** - gas turbines offer excellent flexibility. They can be quickly ramped up or scaled down, which is essential for supplementing intermittent renewable energy supply.
- **up to 50% lower carbon dioxide emissions** - from combined cycle gas plants compared to a coal-fired power generator.
- **relatively quick, reliable turnkey installation of large power generation capacity** - Siemens Energy currently manufactures the world's most powerful gas turbine, the E9000, which can be quickly deployed to produce 411 MW of power, capable of powering 300 000 homes. The mega South African coal-fired power station plant, Kusile, has a capacity of 800 MW for each of its six generating units.

Manufacturers of gas turbines make most of their profits from the predictable, high-margin after-sales services (two thirds of revenue) that occur over the long life of the turbine. On-site servicing involves minimally invasive techniques using borescope equipment and major overhauls, where large parts of the turbine are removed and potentially replaced. Valuable on-site customer interactions from servicing often produce profitable up-selling and retrofitting related business opportunities.

Global annual large gas turbine demand



Source: Morgan Stanley, company reports

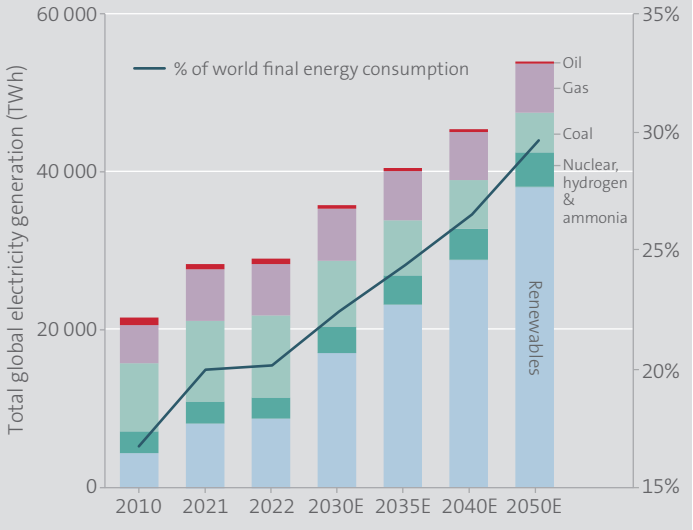
Improved outlook for gas turbines

The onset of the electrical black- and brownouts[1] experienced by the US in the 1990s, necessitated a material increase in generation capacity. Huge capital flows and capacity additions followed, and the euphoria led to exceptionally high demand for turbines from the US. In the three years to 2001, more gas turbines were bought than in the 15 years prior - followed by a market slump in 2003 (*illustrated on previous page*).

The market has subsequently recovered, driven by increased electricity demand from eastern Europe and Asia, particularly India and China. New gas turbine demand began to falter again from 2017 as the plunging cost of solar and wind power caused a redirection of capital spend towards renewables and displaced gas turbine demand. Manufacturers that had substantially invested to produce larger, more efficient gas turbines, faced acute overcapacity and undertook a period of painful restructuring, consolidation and downsizing.

In a now smaller and highly consolidated industry, the outlook has improved due to China's ongoing coal-to-gas transition and increased demand for renewable energy supplementary power. Furthermore, the significant increase in power efficiency and emission reduction of more modern turbine systems, is strongly incentivising continuous retrofitments of older plants. This increased demand, coupled with decreased capacity in this highly concentrated market, leads to a greater likelihood of higher margins in the medium term.

Global electricity generation



Source: International Energy Agency, Camissa Asset Management estimates

Grid technology demand will be strong

Global electricity usage growth is expected to accelerate as electricity's share within growing energy consumption increases (*chart below*). Electricity generation is shifting towards fragmented, often geographically remote, and intermittent renewable sources. Demand is shifting towards battery charging and data processing in the medium term, with hydrogen production forecast for the long term. The significant increase in demand and resultant complexities requires substantial upfront near-term investment[2] in global power grids to cater adequately for:

- the increased need to step up electricity voltage to enable efficient long-distance transmission and for increased high direct current (HVDC) transmission capacity.
- the greater need for stability at distribution level (delivery of lower voltage electricity to consumers).
- the sizable backlog of general system maintenance needed due to chronic underinvestment in large parts of the US and Europe where power grids are old (>60 years) relative to newer grids in Asia.

The grid technology division of Siemens Energy is well placed to supply the required infrastructure. They manufacture the required transformers and HVDC management systems for electricity transmission, switching gear to control electricity flow for local distribution and breakers needed to protect against overloads.

Given the significant grid investments in China in the last two decades, Chinese manufacturers of grid technologies have strengthened meaningfully, dominating the China market and competing formidably in the rest of Asia. They are, however, disadvantaged in developed markets, where the critical infrastructure status of grid investments amid geopolitical tensions and the need for in-country servicing capacity, favours local players.

Amid robust demand, Siemens Energy's medium-term order book has surged, allowing the company to be selective on projects and price them well. It is therefore likely that returns will be higher than normal for a period.

[1] Temporary drops in voltage.

[2] BRE estimates that the level of global capital expenditure in power grids will need to rise threefold by 2030 and could be significantly higher if net zero goals are to be met. Growth is expected to be particularly strong in Europe and North America.

Siemens Energy: transition playmaker

Turbulence for wind turbines

Illustrated below, the last 15 years have seen huge technological advancement in wind power generation amid fierce competition between wind turbine manufacturers to produce more efficient turbines. Onshore turbines are now on average 88% more powerful than in 2008, with 24% increased height and 64% increased rotor diameter. Greater heights allow for the capturing of richer wind energy and larger rotor diameters achieve larger sweep areas and therefore more energy extraction.

These are critical improvements as wind farm locations develop beyond the most wind-rich catchment areas. Over the same period, the cost of wind turbines has decreased, providing a meaningful boost to the viability of onshore wind power - now cheaper than legacy power generation in many markets.

These developments have, however, resulted in chronically low economic returns for manufacturers who, in recent years, have been challenged by continuously high development costs. Increased input cost pressures from strained global supply chains and higher commodity prices have forced manufacturers to disproportionately absorb the impact of sharp input cost price inflation. This has been compounded by poorly constructed supply contracts with customers.

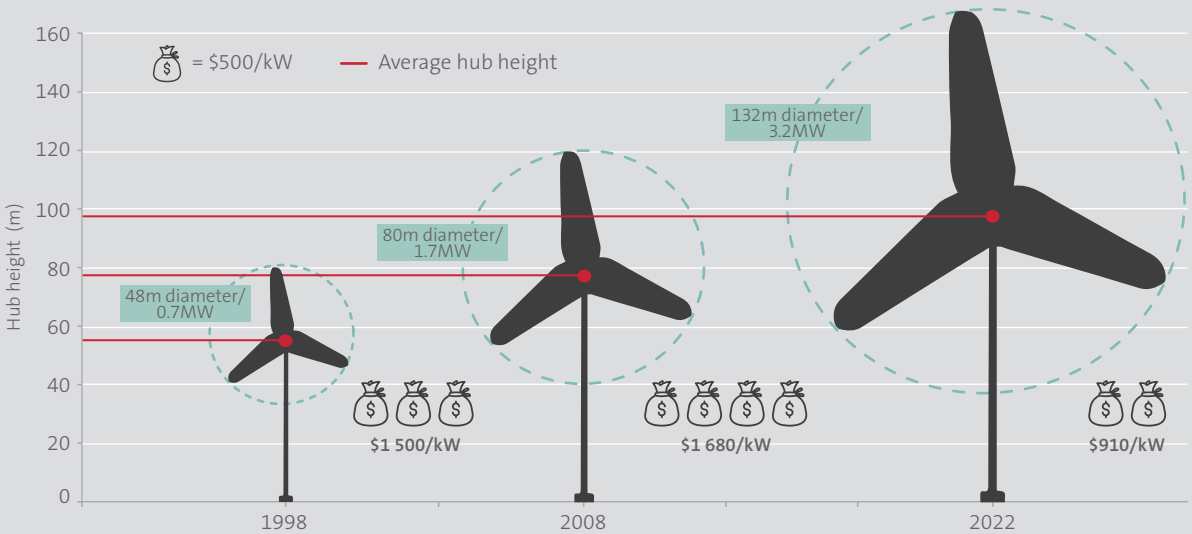
Siemens Energy's wind business has been particularly hard hit. It has also experienced disappointing and costly technical problems with its latest onshore wind platform, arguably resulting from aggressive product development in too short a space of time. Yet, industry pricing has recently improved and the outlook for demand is robust, particularly in the more technically demanding offshore wind sector where Siemens Energy has historically been a leader. It has a 70% market share of the installed offshore fleet with an even higher deep-sea market share. The immediate focus for management is to stabilise the onshore segment of the business and stem the significant losses it is currently incurring.

Siemens Energy is well placed for a greener energy future

Material shifts in the global energy market due to increased electricity demand, greater renewable energy generation and higher voltage requirements necessitates: an enduring gas power base load demand that is bigger than previously expected; urgent and substantial power grid investments particularly in Europe and the US; and substantial ongoing investment in modern wind power generation equipment.

Given this high demand and the limited market capacity, Siemens Energy is currently able to price well in its gas services and grid technology segments and should enjoy a period of higher-than-normal returns. Additionally, there is substantial positive optionality should Siemens Energy be able to turn around its deeply loss-making wind business. UP

Hub height and diameter increasing - cost decreasing



Source: US Department of Energy, Land-based wind report:2023, Camissa Asset Management research

Shell transitions well

Abdul Davids - Portfolio Manager

Founded in 1833 as a trading business, Shell began importing exotic seashells from Asia after founder, Marcus Samuel, identified a substantial demand from the interior design industry. Following his death in 1870, his sons expanded the business into oil trading. In 1892, Shell became the first company to trade and import oil via the Suez Canal using a fleet of steamboats. This reshaped the oil industry and revolutionised the transport of oil.

Shell transitions well

Over the next century, the business transitioned into the world's largest oil and liquefied natural gas (LNG) trading company. We delve into the investment case for Shell and the influential role it has played in shaping the industry.

Shell's history

Bulk shipping substantially reduced the cost of oil due to the scale benefits of the larger volumes transported. The world's first oil tanker, the Murex, was used in the maiden voyage through the Suez Canal and was one of Shell's most prized assets. At this time, Shell's primary competitor was Standard Oil (now known as Exxon), a company founded in 1865 by John D Rockefeller. Exxon is famous for the blue cans of kerosene that, when empty, could be used for anything from roofing to bed pans.

To differentiate their product from Standard Oil, Shell painted their cans bright red, marking the inception of their brand identity. This simple yet innovative early branding strategy was highly effective and, by 1896, Shell's kerosene trade was earning more than its other trading businesses combined. In 1897, the business changed its name to Shell Transport and Trading and, shortly thereafter, won the transport and distribution rights from Standard Oil.

By 1902, however, half of Shell's shipping fleet was idle and underutilised, while a smaller competitor, Royal Dutch, had begun operating its own fleet of tankers. Shell Transport and Trading merged with Royal Dutch to form the Royal Dutch Shell Group, by which stage the shortened name of 'Shell' had been adopted. During both World Wars, Shell availed its ships to the British army and was their main fuel supplier. The recent renaming of the business to Shell Plc was prompted by the relocation of its head office from The Hague to London in 2021.

Pioneering new markets

The 20th century was a period of rapid expansion and diversification for Shell, characterised by venturing into and creating new domains within the energy landscape. The discovery of oil fields in regions such as the Middle East and Africa powered the company's ascent to the forefront of the oil and gas industry. Strategic acquisitions and partnerships further bolstered its positioning, cementing it as a formidable force in the global energy market.

Alongside its exploration and production activities, Shell also made significant strides in refining its operations to meet evolving consumer needs. The company's commitment to steering industry advancement through technological innovation is evident in their pioneering of the production

Shell's oil and LNG production

Source: Statista

of fuels and lubricants that have enhanced efficiency and performance across various use cases - from automotive to aviation.

Shell's portfolio unpacked

Today, Shell is a global group of energy and petrochemical companies with over 100 000 employees and operations in more than 70 countries. It operates through a diversified and integrated portfolio, structured into its core business segments: Upstream, Integrated Gas, Downstream, and Renewables and Energy Solutions (R&ES).

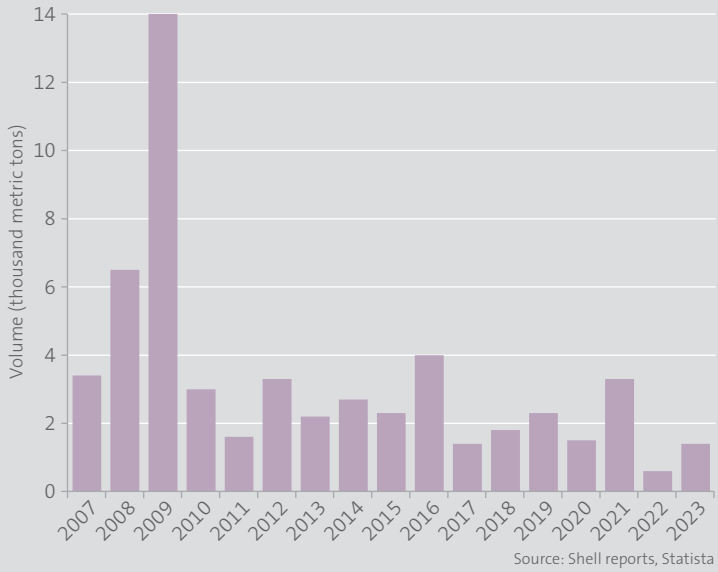
Upstream: This segment focuses on the exploration for, extraction of and production of hydrocarbons - primarily oil and natural gas. Operations span the globe, from traditional oil-rich regions like the Middle East and North America to newer frontiers in deep water and unconventional resources. Shell's leadership role in developing new ways to explore, extract and process hydrocarbons has bolstered the company's resilience and adaptability in the face of geopolitical tensions, the ongoing oil crises and shifting environmental paradigms. In 2023, Shell produced and sold over 500 million barrels of oil and its equivalents, solidifying its position as one of the top five integrated oil producers globally, as indicated in the *chart on the previous page*.

Despite the global shift towards renewable energy, the Upstream segment remains a significant contributor to Shell's revenue, reinforcing its financial stability and capacity for investment into sustainable energy solutions.

Integrated Gas: This segment incorporates the liquefaction and transportation of gas, transforming it into LNG for safer and more efficient global transportation. It also plays a crucial role in the movement towards cleaner energy sources, given the lower carbon footprint of natural gas compared to coal and oil. Shell pioneered the large-scale commercialisation of gas to liquids (GTL) technology and currently operates the world's largest GTL plants that convert natural gas to liquid petroleum products. Shell is one of the world's largest natural gas producers and has a substantial presence in the LNG market, producing around 30 million tons of LNG annually.

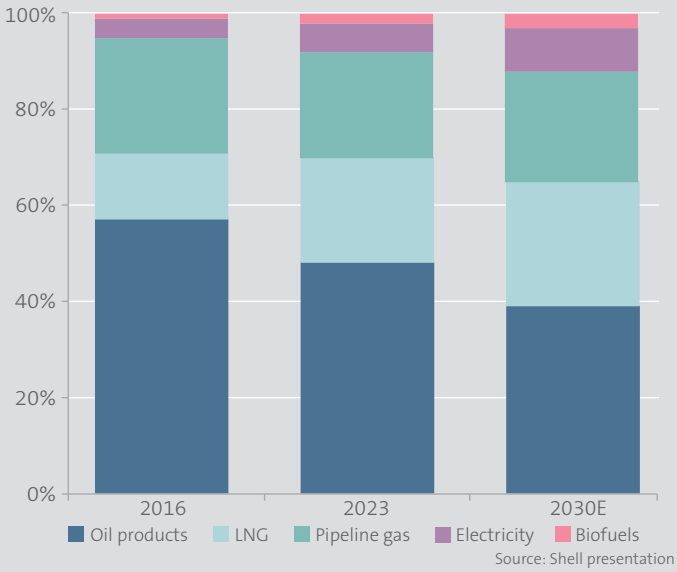
Downstream: This segment involves refining, distribution and marketing activities for oil products and chemicals, including Shell's extensive global network of service stations, its petrochemical manufacturing and marketing operations, and activities in biofuels and hydrogen. Downstream generates consistent cash flows and integrates Shell's value chain from production to consumer sales.

Volume of Shell's operational spills



Source: Shell reports, Statista

Estimated share of Shell energy sales



Source: Shell presentation

Shell transitions well

Renewables and Energy Solutions: This segment plays a pivotal role in Shell's long-term strategy, aiming to transform the energy landscape and lead the industry in low-carbon energy solutions. Investment into renewable energy projects (biofuels, wind and solar, electric charging networks and new energy technologies) has highlighted Shells commitment to mitigating greenhouse gas emissions, supporting the transition towards a low-carbon future.

Furthermore, the company's initiatives to promote energy efficiency and reduce its own carbon footprint signalled a paradigm shift in its approach to business operations. In recent years, it has intensified efforts to align the business strategy with the goals of the Paris Agreement, pledging to achieve net-zero emissions by 2050. The aim is to halve emissions from its operations by 2030, with over 60% already achieved at the end of 2023.

Environmental impact - a slippery slope

Drilling for oil and gas and the burning of fossil fuels to produce energy have a significantly negative impact on the environment. The reputations of oil companies are tarnished by high profile oil spills from drilling operations and transportation. Oil spills resulting from Shell's drilling operations have, however, seen a decline over the last 15 years (*previous page left*).

Operational oil spills reached a high in 2008, when Shell was responsible for spills amounting to 8.8 thousand metric tons after the Trans-Niger pipeline (owned by Shell Nigeria) leaked, spilling oil into the Niger Delta. Shell reached a settlement of $84 million with the local community and cleaned up the spill.

Climate change mitigation

Shell's greatest challenge of the 21st century is addressing sustainability and adopting what is needed to mitigate the environmental impact of what it produces. The energy sector has a key role in shaping the planet's future.

Shell has embarked on a transformative journey towards a more sustainable energy portfolio and committed to investing $10-15 billion in low-carbon energy solutions between 2023 and 2025. With LNG being a cleaner fuel source than oil, Shell started transitioning (2016) from an oil-dominant sales mix to favouring LNG. As illustrated on the *previous page (right),* by 2030, LNG is expected to account for over a quarter of Shell's energy sales.

A well-managed transition

On the path to becoming a zero-emissions business, Shell's transition efforts have positioned it as leader among the larger oil companies - focusing on best practice to reduce negative environmental impact. Unlike some of its competitors, Shell has not embarked on extensive investment into renewable energy (where it has no competitive advantage) organically or by acquisition. Shell has rather focused on reducing cost and capital expenditure budgets in favour of reducing future production and generating greater cash flows. Shell expects to grow cash flow by more than 10% over the next few years and distribute between 30% to 40% to shareholders. We see Shell's well-managed transition as profitable and not fully reflected in its share price and our clients are therefore invested. UP

Piaggio's premium positioning

Nicholas Brown - Associate Analyst

Piaggio is Europe's largest manufacturer of two-wheel motor vehicles and has operations in North America and Asia. It also manufactures and sells light commercial vehicles, predominantly in India. We discuss the transport dynamics of the regions in which the group operates and why we believe it is well positioned to deliver shareholder value.

Piaggio's premium positioning

Early history

Founded in 1884 by Rinaldo Piaggio, Piaggio was a producer of naval fittings before its expansion into the railway industry, manufacturing and repairing carriages. During the First World War, the business started constructing seaplanes and quickly expanded into the aviation industry via numerous acquisitions. Throughout this early period, Piaggio assembled a team of skilled engineers empowered to innovate. In anticipation of a post-Second World War boom, the team turned its attention to two-wheeled scooters and in 1946 began the production of its most celebrated brand, Vespa.

Brands

As *illustrated below*, Piaggio sells scooters and motorbikes within its two-wheeler division, with scooters contributing approximately 90% of segment sales revenue. Its scooter brands, Piaggio and Vespa, cater for metropolitan mobility needs and are positioned as premium brands - Vespa being its most stylish and aspirational brand. Motorbike brands, Aprilia and Moto Guzzi, were acquired in 2004. Aprilia is Piaggio's flagship sport brand, while Moto Guzzi is positioned for road travel.

The commercial vehicle segment comprises the Ape and Porter brands. Ape three-wheeled vehicles were first manufactured in 1948 to fulfil the need for a compact, light transport vehicle that initially played a role in reviving trade activities in Italy following the Second World War. Today, it is also used for the transport of passengers. The Porter is a four-wheel vehicle, that was first manufactured in 1992, designed for short-range cargo transport.

Two-wheel vehicles are cheaper than cars, easier to park and move around in dense urban environments, and have lower costs of ownership (ie congestion charges, insurance costs and servicing costs). Notwithstanding the relative affordability, Piaggio's two-wheel brands are positioned as premium vehicles and generally sell at higher prices than competing options.

The average selling price also differs by region. For example, Piaggio's two-wheelers sell for a substantially higher price in Europe than in Asia: in 2023 the average selling price in Italy was €4 164 compared to €1 159 in India. This differential is because manufacturing costs are substantially higher in Europe and European consumers can afford higher prices, given their far higher incomes.

European market opportunities

In 2023, 1.6 million two-wheelers were sold in Europe, which is a mature market. Piaggio commands a 12.3% market share in the two-wheeler market and a 22.4% share in the scooter sub-segment. Its European commercial vehicle sales are less

Piaggio's brands

Two-wheelers

Commercial vehicles

Source: Piaggio

material in the sales mix, comprising 3% of volumes and 11% of revenue (*charted below*). While the annual sales of two-wheelers has declined from the early 2000s, the total number of units in use has increased substantially. Furthermore, the average age of two-wheelers in use has approximately doubled. Given the old age and large size of the existing scooter fleet in use, it is probable that annual sales increase somewhat in future as vehicle owners increasingly need to replace their old models. This should boost sales volume growth for Piaggio.

The European Union has introduced a series of emission standards that regulate the extent to which vehicles emit polluting gases. Euro 5 Plus is a new, more stringent standard that is due to be introduced before the end of 2024, to regulate vehicles sold after the date of introduction. Two-wheelers already in use will not be regulated by this standard. Nonetheless, two-wheel manufacturers have been forced to safeguard the sustainability of their future sales through innovation that addresses the reduction of harmful emissions.

Piaggio has been at the forefront of the transition to more sustainable transport. In 2009, it completed the design of the first hybrid scooter powered by twin engines, one electric and one thermal. Since then, Piaggio has introduced the Vespa Elettrica and Piaggio 1 electric scooters, in 2018 and 2021 respectively. In 2023, electric scooter sales volumes comprised approximately 12% of total European scooter sales volumes. Considering the increasingly stringent regulation of internal combustion engines, coupled with rising environmental awareness among consumers, electric vehicles should increase in market share, for which Piaggio is well placed.

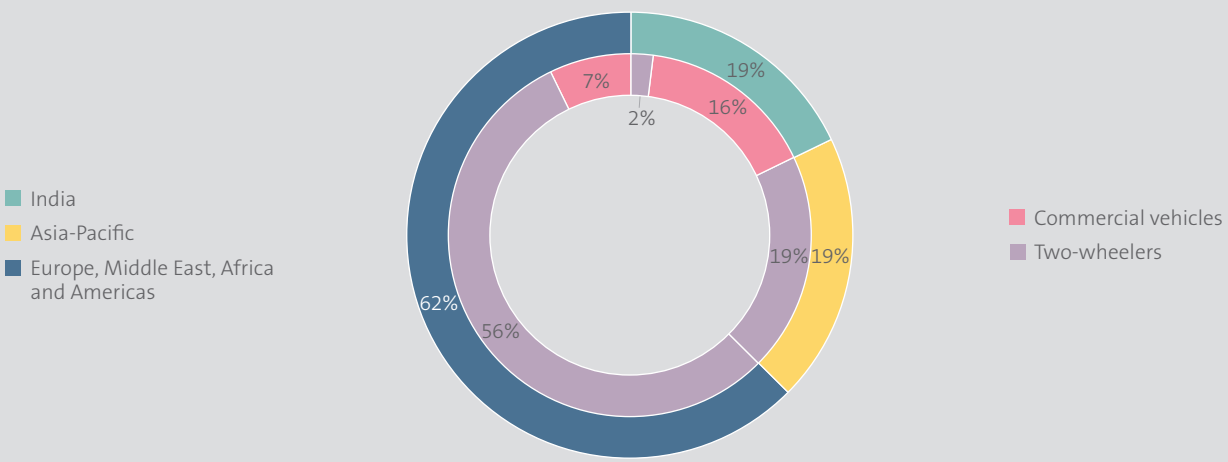
Asia-Pacific market opportunities

In 2023, the Asia-Pacific region (excluding India) tallied 19.2 million two-wheeler sales, with scooters accounting for the significant majority of the volume. Indonesia and China are the two most important markets within this region, comprising a combined 58% of regional sales.

The use of two-wheel transport for daily commuting is a deeply entrenched way of life in this region due to their effectiveness in handling the extremely high congestion in urban areas and their affordability for the large lower income population. Piaggio only sells two-wheelers in Asia-Pacific and its strategy is to increase scooter sales and explore opportunities for motorcycles with a medium-capacity engine. In China specifically, Piaggio seeks to strengthen its sales in the premium segment as real income levels rise.

In many of the Asia-Pacific countries that Piaggio sells into, incomes are growing rapidly, which has made two-wheelers

Revenue contribution by region and product segment (2023)



Source: Piaggio annual financials, Camissa Asset Management estimates

Piaggio's premium positioning

more affordable. The business is well-positioned to benefit as the addressable market grows and as individuals trade up from entry-level scooters to the premium brands.

Indian market opportunities

India is the world's largest two-wheeler market, with just over 17 million sold in 2023. Approximately two-thirds of two-wheeler volumes sold in India in 2023 were motorbikes, a product segment in which Piaggio is substantially under-indexed. Piaggio sold 41 000 two-wheelers in India in 2023, indicating its small presence yet large potential for market share growth.

Indian two-wheeler sales volumes grew consistently until 2018, when the Indian government cracked down on credit provision by non-bank finance companies. The COVID-19 pandemic also severely disrupted vehicle manufacturing activities and supply chain functioning in the following years. Two-wheeler annual sales volumes are still due for a further rebound after these disruptions.

To expand market share in India, Piaggio is seeking to enlarge its Vespa and Aprilia brand ranges. Its Baramati factory in India commenced the production of the Aprilia RS 457 motorbike towards the end of 2023, marking the inauguration of motorcycle production at the plant.

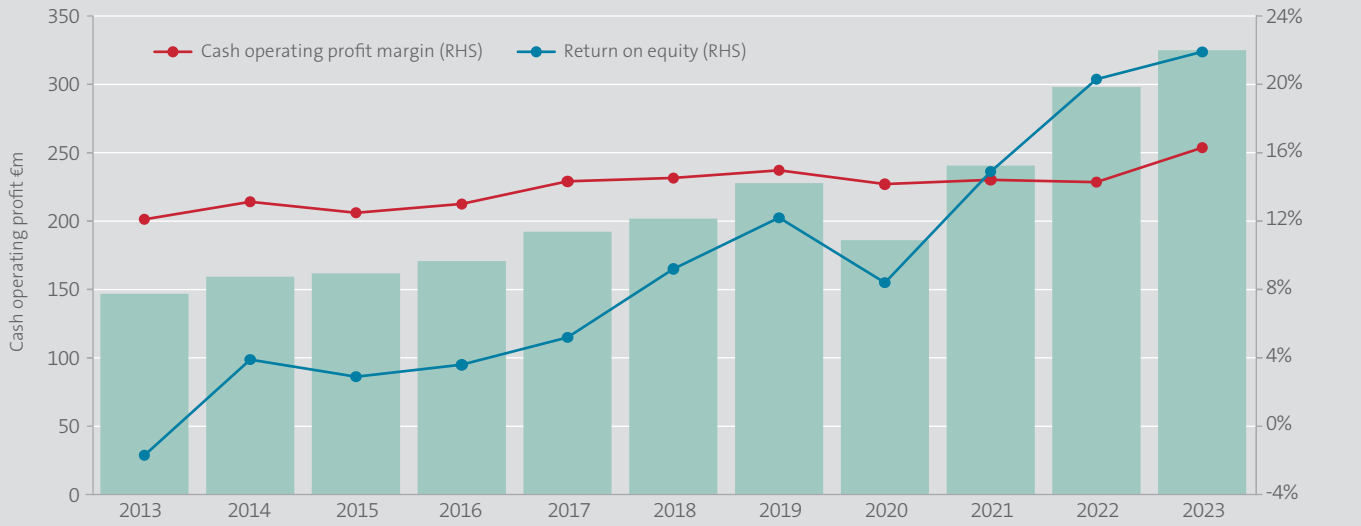
Almost 90% of Piaggio's existing revenue generated in India is from the sale of light commercial vehicles. The commercial vehicle market size in India is much smaller than the two-wheeler market, with just over 640 000 new vehicles registered in 2023. Piaggio has a large market share of commercial vehicle sales, at 15.7%.

Between 2013 and 2019, the business was selling an average of 186 000 commercial vehicles per year in India, yet this declined by more than 50% during the COVID-19 pandemic to a low of 68 100 vehicles (2021). Since then, volumes have slowly recovered, seeing Piaggio vehicle sales at 110 600 in 2023. This is still 40% below its average volumes between 2013 and 2019, indicating considerable room for further recovery.

Premium positioning for progressive growth

Piaggio's focus on uncompromisingly superior quality standards that underpin its premium brand positioning, continued innovation success and resonance with its target markets has seen it consistently improve operating profits and margins (*shown below*). Piaggio is adeptly navigating a changing regulatory environment by offering more environmentally friendly mobility solutions. We believe these dynamics and its growth outlook should result in strong shareholder returns. UP

Piaggio financial delivery



Source: Piaggio annual financials

PPC sharpens its tusks

Mpendulo Ncongwane - Associate Analyst

The Pretoria Portland Company, or PPC, was founded in Pretoria in 1892 as De Eerste Cement Fabrieken Beperkt. Following various name changes over the years and listing on the JSE in 1912, PPC is the largest manufacturer of cement in South Africa today. It has the most geographically diversified footprint in the local market, with operations in Botswana and Zimbabwe. We explore the dynamics of the cement market and how PPC is beneficially positioned.

PPC sharpens its tusks

Origins of cement

Cement is undeniably a key material in the building industry, having been used over the past 12 000 years. In 1824, British bricklayer, Joseph Aspdin, experimented on his kitchen stove by heating limestone and clay to create the first Portland cement. This process was further refined using higher temperatures, of 1 400 - 1 500°C, resulting in what is known as clinkering[1]. This remains the backbone of the cement manufacturing process, now serving a global market that produces over four billion tonnes of cement annually.

Cracks on the local front

As *indicated below (left)*, the past two decades have seen the South African cement industry challenged by subdued market demand. Government infrastructure spend post the 2010 Football World Cup has been very low and the negative economic and political environment has been unconducive to the levels of private sector capital investment typically associated with an emerging economy. Limited demand has been compounded by the entrance of additional supply from new competition (*below right*), namely Sephaku (a Dangote subsidiary), Mamba Cement and Cemza (a grinding facility). Imported cement supply further limits the pricing power of domestic manufacturers, particularly in the coastal regions of the country.

[1] The formation of lumps and nodules of crude cement when limestone, clay and other materials react at high temperatures in the kiln. The product resulting from this is clinker - a simplified form of cement.

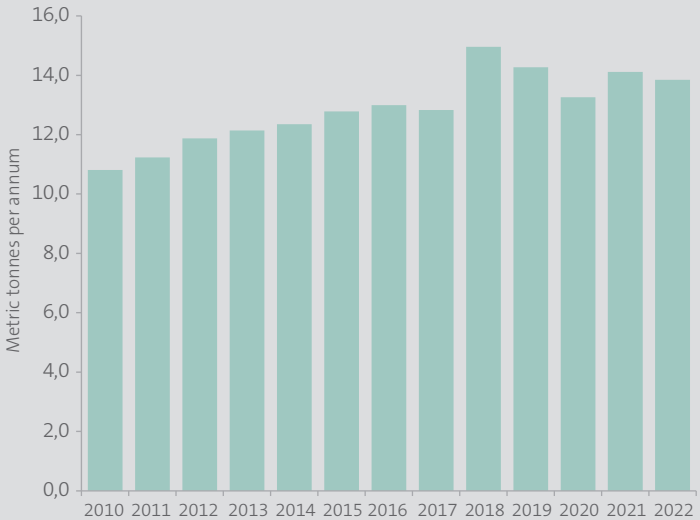
South African production capacity, currently at around 16 million tonnes per annum, exceeds the annual local cement demand of 13-14 million tonnes. Certain cement manufacturers have consequently engaged in poor pricing discipline, endeavouring to win market share to maximise their utilisation rates. This erodes margins and causes a market reluctance to increase prices in response to cost pressures. As a result, sub-economic returns are delivered as industry profitability suffers.

Route to market

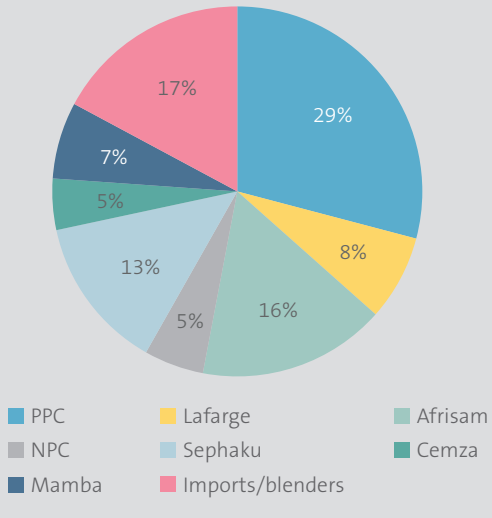
As *illustrated on the following page*, many of the South African cement manufacturers are based between the large demand centre of Gauteng and inland limestone deposits. The Western Cape has recently realised higher levels of demand due to a thriving provincial economy supported by increasing semigration trends (*shown over the page, left*). Being the sole integrated cement producer in the Western Cape, PPC is well placed to capitalise on this prevailing regional demand.

As a low value per kilogram, heavy product, transport costs are a very material input cost for a cement manufacturer. Long distance transport, particularly via road, is prohibitively expensive and therefore regional pricing trends can be quite divergent. Historically, PPC chose to outsource their distribution function, which has arguably hindered their insight into some

SA cement consumption estimates



Cement sales market share estimates (2022)



Source: Primaresearch

of the regional pricing dynamics. Taking greater control over this key capability could help optimise their distribution footprint.

'Blenders' purchase clinker from vertically-integrated cement manufacturers, such as PPC and Afrisam, and add extenders like fly ash to clinker to produce cement. If successfully managed, blenders can provide an avenue for cement manufacturers to target customer bases they would not otherwise have access to. However, unscrupulous blenders use excessive amounts of extenders, which are cheaper than clinker, to produce a cement that i) does not meet the required strength and quality standards, and ii) undercuts the price from vertically-integrated manufacturers. In South Africa at present, regulatory enforcement to ensure compliance with industry standards is inadequate and market share is unfairly being lost to these unscrupulous blenders.

Sitting on solid ground

PPC has attempted to adapt to this challenging operating environment, remaining cash generative and demonstrating reasonable cost control. The business exited territories in which they had inadequate scale (Rwanda, Ethiopia and the Democratic Republic of Congo), which helped to significantly deleverage their balance sheet. The rationalisation of PPC's international portfolio allows management to focus on optimising their Southern African operations.

One of PPC's competitive advantages is that it has greater operational flexibility than competitors, enabling them to respond quickly to changing demand dynamics. Certain production capacity can be ramped up relatively inexpensively - as was demonstrated during the temporary spike in building activity witnessed in South Africa post the COVID lockdowns.

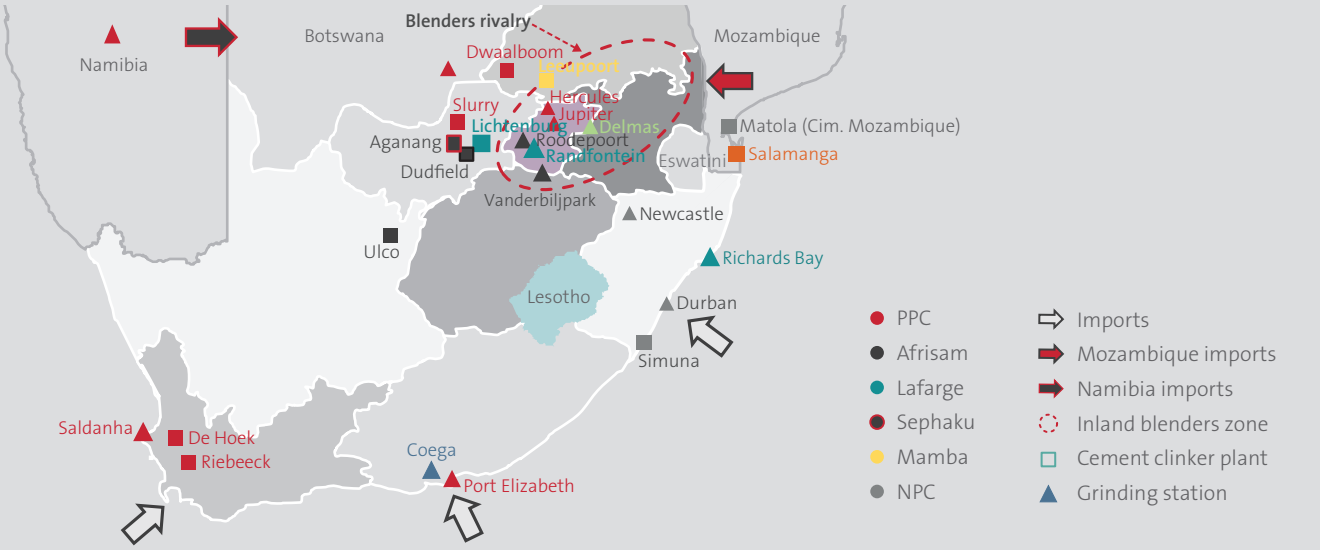
Despite the cost curtailment that has occurred to date, opportunities remain to further limit cost growth. The recent appointment of a new CEO and executive team, with a strong operational track record, should initiate a rigorous interrogation of the existing cost base. Additionally, they should correct market practices that leak economic value, particularly via a renewed distribution strategy to market.

Longer-term initiatives such as the potential use of alternative raw material inputs (eg calcined clay) can, if successful, materially reduce energy consumption in the production of clinker, delivering the added benefit of lower carbon emissions.

Zimbabwe - a diamond in the rough

PPC retains a market-leading position in Zimbabwe, where they have operated since the early 2000s. Despite the very challenging political and economic environment, these operations have delivered a commendable performance over an extended period (*charted following page right*). Robust demand continues to be

Regional supply dynamics



Source: PPC

PPC sharpens its tusks

buoyed by development finance-funded infrastructure projects and residential construction supported by diaspora remittances. Property continues to be seen as a means to preserve wealth in an unstable, inflationary economy. Furthermore, an in-country shortage of clinker, alongside rational pricing by local competitors, has resulted in significantly higher profit margins being achieved than those in PPC's South African operations. Cement prices in Zimbabwe can exceed South African prices by well over 50% per bag in US dollar terms.

In addition, the rapid US dollarisation of the Zimbabwean economy has protected PPC from being exposed to the consistent devaluation of the local currency. PPC has been able to consistently repatriate profits to South Africa over the past few years. PPC Zimbabwe's solid performance has attracted the interest of investors, who have been rumoured to be keen to acquire the Zimbabwean operations at a favourable price. This could potentially represent a material percentage of PPC's market capitilisation.

The rise of the concrete jungle

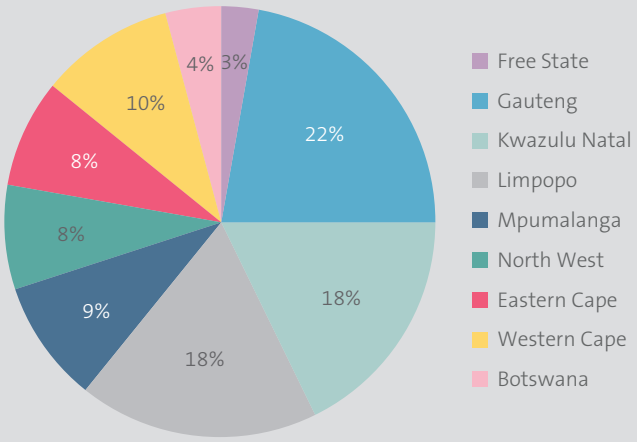
South Africa's cement consumption levels remain well below global averages. It is estimated that Sub-Saharan Africa consumes 190 kg per capita per annum, whereas South Africa, a vastly higher income country, is at 230 kg per annum. In comparison, the global average is at 550 kg per annum (314 kg per annum in the USA and 1 620 kg per annum in China).

New housing development is a key cement demand driver. The gradual formalisation of housing structures and increased urbanisation is supportive of greater cement usage. Any recovery in building plan completions, which are at a multi-decade low, can significantly improve South African cement demand dynamics and the resultant profitability of the sector. The underinvestment in infrastructure spend is also increasingly evident, with persistent challenges across energy, logistics, housing, water and sanitation. Improvements here from a very low base should be very positive for cement demand.

Value despite the slump

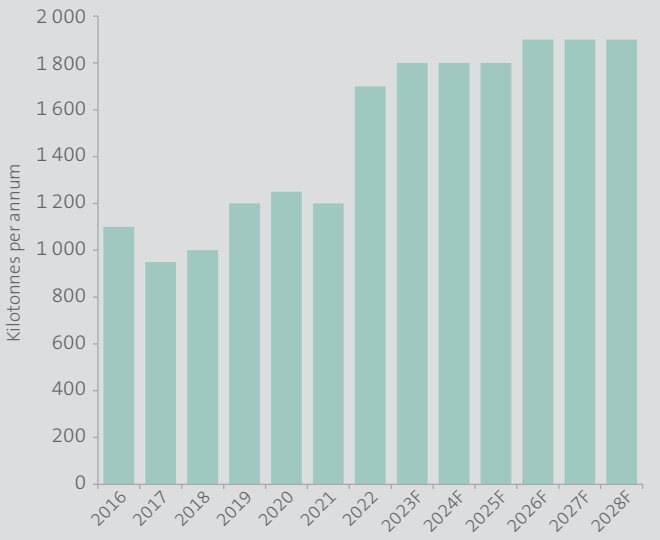
PPC has demonstrated its ability to sustainably generate cash flows despite industry and broader economic challenges. Although demand is unlikely to change materially in the short term, PPC is well placed to respond to any uptick in demand, incurring negligible capital investment to restart their mothballed operations. Higher volumes will significantly improve profits. Even in an environment where volumes remain stable, continued efforts to reduce costs will aid cash generation from the business. We view PPC as attractively valued, with the current share price failing to adequately capture the cash generating ability of the business. UP

SA/Botswana regional demand (2022)



Source: PPC

Zimbabwean cement consumption



Source: PPC

Camissa Asset Management Funds

Performance to 31 March 2024	1 year	3 years[1]	5 years[1]	10 years[1]	15 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]									
Equity Alpha Fund	-2.1%	4.0%	8.9%	7.1%	12.1%	14.5%	Apr-04	1.76%	0.33%
SA Equity General funds mean	3.0%	7.1%	7.5%	5.6%	10.1%	11.4%			
Outperformance	-5.1%	-3.1%	1.4%	1.5%	2.0%	3.1%			
SA Equity Fund#	-3.5%	-	-	-	-	-1.0%	Sep-22	1.67%	3.29%
SA Equity General funds mean	3.0%					7.5%			
Outperformance	-6.5%					-8.5%			
Global Equity Feeder Fund	21.7%	7.8%	-	-	-	9.4%	Nov-19	1.93%	0.18%
FTSE World Index (ZAR)	33.2%	17.8%				17.6%			
Outperformance	-11.5%	-10.0%				-8.2%			
Balanced Fund	6.2%	6.8%	8.6%	7.5%	-	8.9%	May-11	1.51%	0.25%
SA Multi Asset High Equity funds mean	9.4%	8.3%	8.2%	6.9%		8.3%			
Outperformance	-3.2%	-1.5%	0.4%	0.6%		0.6%			
Protector Fund	4.6%	6.8%	8.1%	7.4%	8.2%	9.4%	Dec-02	1.55%	0.20%
CPI + 4%	9.3%	10.0%	9.1%	9.4%	9.7%	10.2%			
Outperformance	-4.7%	-3.2%	-1.0%	-2.0%	1.5%	-0.8%			
Stable Fund	-2.3%	8.4%	7.4%	7.5%	-	8.0%	May-11	1.47%	0.24%
CPI + 2%	7.3%	8.0%	7.1%	6.6%		6.3%			
Outperformance	-5.0%	0.4%	0.3%	0.9%		1.7%			
Institutional funds[5]									
Managed Equity Fund	-2.4%	4.6%	8.9%	6.6%	11.9%	10.7%	Sep-06		
FTSE/JSE Capped SWIX Index	2.9%	7.5%	7.6%	6.9%	12.0%	10.4%			
Outperformance	-5.3%	-2.9%	1.3%	-0.3%	-0.1%	0.3%			
Domestic Balanced Fund	-1.1%	6.0%	8.7%	7.1%	10.3%	8.6%	May-07		
Peer median[6]	3.6%	8.3%	7.6%	6.8%	10.7%	8.7%			
Outperformance	-4.7%	-2.3%	1.1%	0.3%	-0.4%	-0.1%			
Global Balanced Fund	7.8%	8.4%	10.2%	8.9%	-	9.9%	Jul-13		
Peer median[7]	10.0%	9.9%	9.4%	8.3%		9.3%			
Outperformance	-2.2%	-1.5%	0.8%	0.6%		0.6%			
Bond Fund	2.4%	8.0%	7.2%	8.0%	8.3%	8.1%	May-07		
BESA All Bond Index	4.2%	7.4%	7.1%	7.7%	8.1%	7.9%			
Outperformance	-1.8%	0.6%	0.1%	0.3%	0.2%	0.2%			
Money Market Fund	9.7%	7.8%	7.5%	7.8%	7.3%	7.8%	Jan-04		
Alexander Forbes STeFI Composite Index	8.4%	6.1%	6.0%	6.5%	6.4%	7.0%			
Outperformance	1.3%	1.7%	1.5%	1.3%	0.9%	0.8%			
Shariah unit trust funds[4]									
Islamic Equity Fund	0.7%	5.2%	8.2%	7.0%	-	10,2%	Jul-09	1.50%	0.20%
SA Equity General funds mean	3.0%	7.1%	7.5%	5.6%		9.6%			
Outperformance	-2.3%	-1.9%	0.7%	1.4%		0.6%			
Islamic Global Equity Feeder Fund	10.4%	6.0%	8.2%	-	-	9.7%	Jan-19	1.85%	0.10%
Global Equity General funds mean	29.9%	12.5%	14.3%			16.5%			
Outperformance	-19.5%	-6.5%	-6.1%			-6.8%			
Islamic Balanced Fund	3.5%	5.6%	8.5%	6.8%	-	7.5%	May-11	1.50%	0.12%
SA Multi Asset High Equity funds mean	9.4%	8.3%	8.2%	6.9%		8.3%			
Outperformance	5.9%	-2.7%	0.3%	-0.1%		-0.8%			
Islamic High Yield Fund	7.2%	6.7%	-	-	-	6.9%	Mar-19	0.59%	0.04%
Short-term Fixed Interest Index (STeFI)	8.4%	6.1%				6.0%			
Outperformance	-1.2%	0.6%				0.9%			

Highest and lowest monthly fund performance	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Equity Alpha Fund	*10.1%*	*-5.4%*	*11.7%*	*-5.4%*	*12.6%*	*-21.6%*	*12.6%*	*-21.6%*	*12.6%*	*-21.6%*	*12.6%*	*-21.6%*
SA Equity Fund	*9.9%*	*-5.9%*	-	-	-	-	-	-	-	-	*11.5%*	*-5.9%*
Global Equity Feeder Fund	*12.7%*	*-7.0%*	*14.5%*	*-8.2%*	-	-	-	-	-	-	*18.1%*	*-15.6%*
Balanced Fund	*9.5%*	*-3.8%*	*9.5%*	*-4.5%*	*9.5%*	*-15.7%*	*9.5%*	*-15.7%*	-	-	*9.5%*	*-15.7%*
Protector Fund	*7.6%*	*-3.0%*	*7.6%*	*-3.7%*	*7.6%*	*-13.9%*	*7.7%*	*-13.9%*	*7.8%*	*-13.9%*	*9.5%*	*-13.9%*
Stable Fund	*7.1%*	*-4.4%*	*7.1%*	*-4.4%*	*7.1%*	*-11.4%*	*7.1%*	*-11.4%*	-	-	*7.1%*	*-11.4%*
Islamic Equity Fund	*7.4%*	*-5.7%*	*7.4%*	*-8.9%*	*9.6%*	*-14.3%*	*9.6%*	*-14.3%*	*9.6%*	*-14.3%*	*9.6%*	*-14.3%*
Islamic Global Equity Feeder Fund	*8.8%*	*-7.8%*	*10.6%*	*-7.8%*	*14.6*	*-8.4%*	-	-	-	-	*14.6%*	*-8.4%*
Islamic Balanced Fund	*5.3%*	*-4.1%*	*5.3%*	*-6.2%*	*8.0%*	*-9.3%*	*8.0%*	*-9.3%*	-	-	*8.2%*	*-9.3%*
Islamic High Yield Fund	*1.6%*	*-0.4%*	*2.7%*	*-2.4%*	-	-	-	-	-	-	*2.7%*	*-2.4%*

Footnotes and disclaimer follow overleaf.

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Footnote: [1]Annualised (ie the average annual return over the given time period); [2]TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 31 March 2024; # over 12 months to 31 March 2024.[3]Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Camissa Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 31 March 2024; # over 12 months to 31 March 2024.[4]Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5]Source: Camissa Asset Management; gross of management fees; [6]Median return of Alexander Forbes SA Manager Watch: BIV Survey; [7]Median return of Alexander Forbes Global Large Manager Watch.

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Performance is based on a lump sum investment into the relevant portfolio(s) and is measured using Net Asset Value (NAV) prices with income distributions reinvested. NAV refers to the value of the fund's assets less the value of its liabilities, divided by the number of units in issue. Figures are quoted after the deduction of all costs incurred within the fund. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Camissa may close a portfolio to new investors in order to manage it more effectively in accordance with its mandate. Please refer to the relevant fund fact sheets for more information on the funds by visiting www.camissa-am.com.

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