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AECI plans to reduce its reliance on a weak SA

By Nick Hedley

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JSE-listed AECI plans to start producing explosives in Australia by year-end, as the chemicals and explosives firm looks to reduce its reliance on South Africa's weak mining and manufacturing sectors.

AECI's Mark Dytor is looking for opportunities in other parts of the world because of strikes in SA and the weak state of the economy. Image: AECI

The Johannesburg-based company is trying to generate half of its sales from outside South Africa within three years. At the moment foreign sales account for 31% of its revenue.

Opportunities in Australia, Africa - outside South Africa - and Indonesia would help the company achieve this Chief Executive Mark Dytor said.

In the six months to June, AECI opened an office in Brisbane after one of its major clients move there.

Dytor said a bulk emulsion explosives plant was being shipped to a new operating site, which would also be used to supply other clients.

Meanwhile, AECI estimated that in the six months to June, the platinum strike cost its explosives and chemicals divisions a combined R250m in profits.

The company's headline earnings per share improved 10% to 390c, as the 161c per share cost of the platinum sector strikes was offset by its Modderfontein land sale that contributed 192c to headline earnings.

Strikes plague AECI's SA operations

Normalised headline earnings per share - which strips out the land sale, estimated costs of the platinum strike and restructuring costs associated with retrenchments - rose by 12% to 399c.

Dytor said AECI was evaluating buying an explosives business in Latin America, while it would look for other purchases elsewhere in Africa in agricultural chemicals and other sectors.

One of AECI's plants. The company plans to relocate one of its plants to an unnamed site in Australia, and African country or Latin America. Image: AECI

This was in addition to recent deals, including buying the Clariant water treatment business for R400m.

The company's international strategy was to pursue opportunities but ameans AECI needs to de-risk its business from relying on the South African economy.

The domestic manufacturing and mining sectors in South Africa remained stagnant.

"We're finding more and more need to actually look for other markets and opportunities that fit our strategic plan," Dytor said.

The company has recently established new explosives plants in Burkina Faso, the Democratic Republic of Congo and in Egypt, and has opened an office in Brazil, which is focused on mining chemical supplies.

Meanwhile Dytor said that following its sale of surplus land in Modderfontein for R1.06bn there was also buyer interest for the company's surplus land in Somerset West, which could fetch approximately R500m.

AECI is still deciding whether or not to declare a special dividend from its Modderfontein land sale.

Dytor said the board was waiting to establish the full effects of the platinum strike on cash flows and earnings, as orders from the sector were still well below normal levels.

"But we also have purchase deals in the pipeline so if we can find some really good acquisitions that are earnings-enhancing, we would rather do that than pay a special dividend," he said.