RESEARCH REPORT

15 December 2009

Infrasors Holdings Limited

Attractive value proposition... will rerate on economic recovery

Investment case summary:	BUY
Target price: 239c	
Price upside: 222%	

Key forecasts	
Earnings FY10	R14,4m
Headline EPS FY10	8,1c
Dividend per share	Nil
Forward dividend yield	N/A
Forward PE	9,1

Key share statistics	
Sector:	General Mining
Share code:	IRA
Historic PE:	9,33
Market capitalisation:	R124,5m
Shares in issue:	177,8-million
Share price:	74c
12-month high:	125c
12-month low:	19c
Record high (26 October 2007):	525c
Financial year end:	28-Feb

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Attractive value proposition

- Our sum-of-the parts valuation of Infrasors' mining businesses indicate that the share is attractive at current prices. A comparison with peer's price-to-book and price-to-earnings multiplies confirms our valuation model. Short-term prospects are weak but medium to long term prospects are strong.
- Recovery in key market sectors including manufacturing and construction is already underway and will lead to improved demand for Infrasors' products including metallurgical dolomite and silica sands, leading to improved profitability.
- New developments and re-opening of Infrabric provide additional upside not included in our valuation.
- Return to favour of small-market capitalisation companies as the investment climate improves will lead to a rerating of Infrasors.

Summary of key forecasts:

Infrasors Holdings Limited [JSE : IRA]	2009A	2010E	2011E	2012E
Turnover (R'000)	239 717,0	187 844,6	278 852,9	343 630,2
EBITDA (R'000)	46 688,0	35 428,4	73 510,6	92 935,7
PBT (R'000)	38 989,0	19 987,7	63 949,9	82 608,7
Attributable income (R'000)	30 078,0	14 391,1	46 043,9	59 478,3
Headline earnings per share (cents)	17,5	8,1	25,9	33,4
PER (times)	4,2	9,1	2,9	2,2
ROE (%)	**8,4**	**3,8**	**11,2**	**13,0**

Contents:

Expected next news due:

Results for financial year ending 28 February 2010 are expected in May 2010

Focuses on construction, foundry and metallurgical industries

A steel mould made from Delf sand by a foundry

1. Company overview

Infrasors Holdings was listed as a resources holding company listed on the JSE's AltX exchange for smaller companies. Subsequent to this report, the share was transferred to the main board of the JSE in January 2010, in the general mining sector. It was formed in 2007 through the purchase of two opencast mining companies – Lyttelton Dolomite, including the Lyttelton mine in Centurion near Pretoria and the Marble Hall mine in Mpumalanga; and Delf Silica in Bronkhorstspruit which mines alluvial sands. The business has since added two development properties: Pienaarspoort, adjacent to the Delf property, which has proven reserves of quartz and silica, and Cullinan, also close to Delf, which has the prospect of further alluvial sands. The company also owns Infrabric, a cement brick producing plant.

Well established product range . . .

- aggregate stone products, used in the concrete industry,
- metallurgical dolomite, used in the metals industry as a fluxing agent in smelting operations,
- silica sands used in the metal foundry industry to create sand casts, tile adhesive
- building and construction sand and small quantities for plaster sand,
- recreational sand, mainly for use in bunkers on golf courses,
- stone dust as a fire retardant to the coal mining industry,
- cement bricks.

. . . with more to come.

The Pienaarspoort development property, when operational, will also be able to supply:

- silica for use in glass manufacturing,
- high grade silica sands for foundry industries and filter markets.

Proximity to clients important

All of the group's assets are close to the Pretoria-Witwatersrand area, with proximity to clients an important competitive advantage. Its critical client groups are foundry businesses, which use Delf sands to form casts for iron and steel products; metallurgical industries which use dolomite as a flux agent in the smelting of iron and steel; construction industries which use stone aggregates in readymix concrete; and tile adhesives industries which use fine sands in grouting and tile cement. Additional minor product lines are recreational sands for golf course bunkers and stone dust for fire retardants. Infrasors is the dominant supplier of silica to foundries in the Ekurhuleni metropolitan region where most foundries are located.

1.1 History and background

Child of the AltX listings boom

Infrasors was formed in 2007 and listed on the JSE's AltX exchange for smaller companies in July that year. On listing it raised new capital of R263m, which the group used to acquire the Lyttelton quarry for R86m, Delf alluvial sands operation in Magaliesburg for R128m, the Pienaarspoort property adjacent to Delf, and Infrabric for R22m. While the group itself is now just two years old, its main assets are older – Lyttelton first began mining in 1938 and Delf Sands began in 1995. Marble Hall first began operations in 1911. Infrabric began as K&F bricks in 2002 using slag to manufacture cement bricks and pavers. In 2008, Cullinan, a property adjacent to Delf, was acquired for R6,6m which contains further alluvial silica reserves.

Fulfills all empowerment requirements

The group was formed with three main shareholder groups – Hanchurch Asset Managers (Switzerland-based SIX SIS holds these shares on behalf of Hanchurch), the Infrasors Empowerment Trust which benefits black employees and private equity investors Lereko. Lereko and the Empowerment Trust qualify as empowerment investors ensuring that the group was fully compliant with South Africa's mining charter and therefore eligible for new-order mining rights. Those three shareholder groups remain the dominant shareholders and the group has qualifying black empowerment ownership of over 30%.

Subsequent to the listing and creation of the group, the business has invested significantly in new plant and machinery. At Delf a fifth dryer was installed to substantially increase foundry sands capacity at a cost of R14,4m during the FY2009. During the current financial year, R15m is being spent at Lyttelton with the installation of a new crushing plant.

Further prospecting has been carried out and new mining plans developed to expand the resources at Lyttelton and Delf, while a mining plan has been finalised for Pienaarspoort.

1.2 Peer group

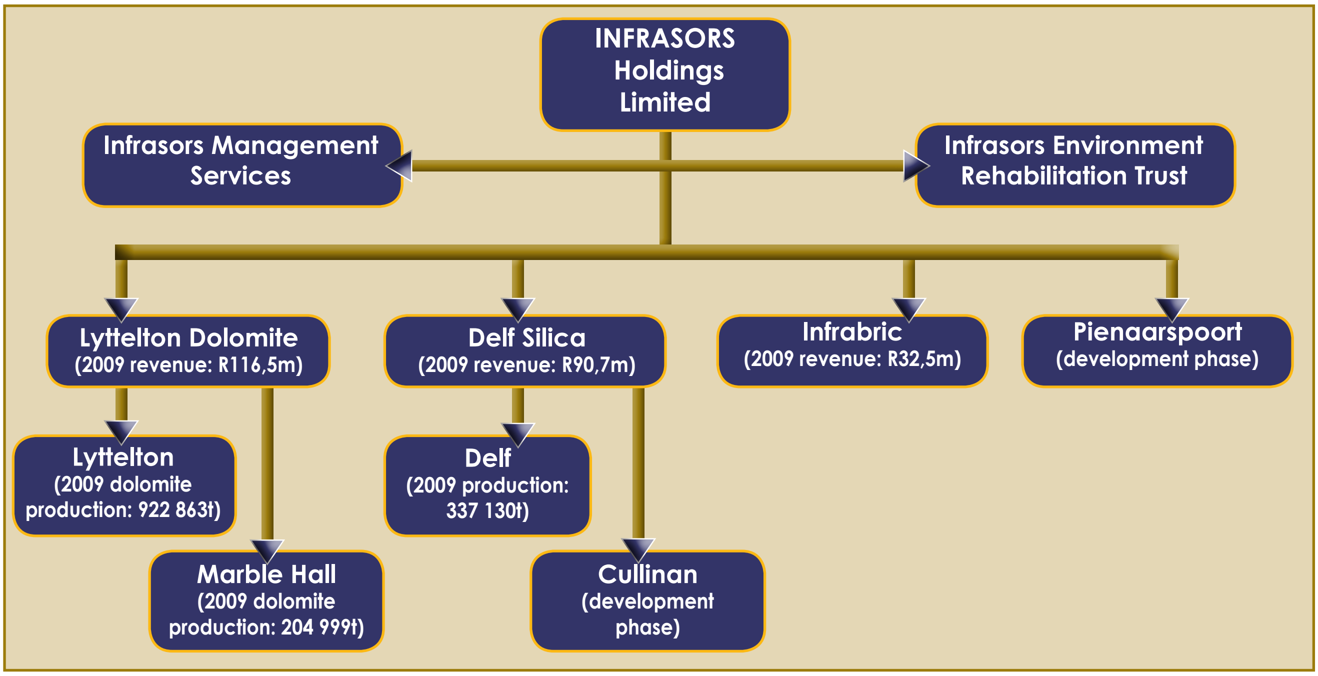
Unique operator among listed companies

There are few peers with which Infrasors can be compared. The only other focused quarrying business listed on the JSE is Petmin (formerly Petra Mining), which operates the SamQuarz mine in Mpumalanga which supplies the glass and metallurgical industries. However, Petmin also operates two collieries with fundamentally different dynamics to Infrasors' business. A further comparator is Afrimat, which produces aggregates from its quarries, but also manufactures readymix and cast concrete products. Much larger listed competitors include PPC, which has an aggregates and sands division, but this accounts for a small component of PPC's operations. Exxaro owns the Glen Douglas dolomite quarry in Vereeniging, but this accounts for a small part of Exxaro's operations. The main competitors to Infrasors are the significant number of privately held quarries and sand businesses.

No clearly similar peers with which to compare

Infrasors' market exposure is predominantly to the foundry industry, metallurgical industry and construction industry (aggregates, sands and bricks), but in quite clear product and geographical niches that make Infrasors' economics unique. In this report we compare Infrasors to Petmin and Afrimat, but readers should keep in mind that correlations in performance are likely to be weakened by the factors discussed above.

1.3 Group structure



1.4 *Summary of operations*

Division	Operations	Activities	Products
Lyttelton Dolomite	Lyttelton – dolomite quarry with 53Mt of reserves and life-of-mine of 26,95 years. Marble Hall – dolomite quarry with 1,9Mt of reserves and significant further resources outside the current mining plan. Indicated further life-of-mine is over 1 000 years.	The main Lyttelton cast quarry produced 922 863 tonnes of dolomite in FY2009. The Marble Hall quarry produced 204 999 tonnes of dolomite. Plant includes primary, secondary and tertiary crushers and washing plant.	Metallurgical grade dolomite used as a fluxing agent by steel and iron smelting operations. Aggregates of various stone sizes for use in readymix concrete and other construction applications. Stone dust for use as a fire retardant in coal mines.
Delf Silica	Delf – sand and silica mining in the Magaliesburg valley. Life-of- mine of six years. Cullinan is a further property with alluvial sand resources – indicated life-of-mine in excess of 22 years.	Primary historic activity is alluvial sand mining. Sold 337 130 tonnes in FY2009. A separator plant separates sands into five different granular sizes. Five large-scale drying machines produce dried silica sands. A building and plaster sand plant also operates.	High quality dried silica sands are sold to the foundry industry to use in casts for iron and steel products. Further sand is sold to the tile adhesives industry. Small amounts are also sold as building and plaster sand and sands for recreational purposes.
Pienaarspoort	In development – quartzite block quarry adjacent to Delf Sand operation. Life-of-mine in excess of 35 years.	Exploration complete. Production expected in 2011.	High quality white quartz will be sold to the glass industry. Crushed silica sands will be sold to the foundry industry.
Infrabric	One mobile production brick plant, screening and production plants.	Produced 51,2m bricks in 2009. Plant is being relocated to the Pienaarspoort/Delf site where aggregate by-product can be used as a free input and rental costs eliminated.	Cement bricks and pavers sold to retail building suppliers.

1.5 *Key management*

Infrasors' management group consists of both recent arrivals (the CEO and Finance Director) and directors since inception (Commerical Director and Chief Operating Officer). The change in leadership does introduce some risk as new management styles are established, but we take some comfort from the fact that long-term directors remain committed to the group. The new arrivals have improved management depth at Infrasors. The directors have significant mining and finance experience between them and appear to be suitably qualified for the roles.

1. Trevor Robinson (51)

Chief Executive Officer

Robinson took on the CEO role after joining the group in June 2009. Robinson had served as MD of Concor Civils and Concor Mining and was a director of Concor Holdings and Concor Limited. He joined the engineering council of South Africa in 1987 and holds a BSc (civils).

2. Stephen Courtney (56)

Commercial Director

Courtney has been involved in the firm since its inception and was a key driver of its creation and listing. He is a chartered accountant, registered in both Ireland (1977) and South Africa (1986), having completed his articles at PricewaterhouseCoopers (then Coopers and Lybrand). He has over 20 years' experience in corporate finance and has been involved in mergers and acquisitions. He has extensive experience in the manufacturing, distribution and electronics industries.

3. Frans Liebenberg (57)
Chief Operating Officer

Liebenberg has been a director of Lyttelton Dolomite since 1998 and joined Infrasors when Lyttelton was acquired in 2007. He has more than 38 years' experience as a mechanical engineer. He holds a Government Certificate of Competency in Mechanical Engineering.

4. Marius Potgieter (31)
Financial Director

Potgieter joined Infrasors in 2007. He qualified as a CA(SA) in 2003 and has since worked as a finance manager in the adhesives industry and the office furniture manufacturing industry. He holds a BCom (Hons), CTA and MCom in finance.

1.6 Director's alignment of interests

Collectively, the directors of Infrasors own 7,30% of the company. This represents a reasonable exposure by directors to the company for a company of its size. The following lists directors' interests in the company.

Director	Direct beneficial	Indirect beneficial	Total	% of issued share capital
HS Courtney	8 107 108	-	8 107 108	4,56
D Alexander	3 192 000	-	3 192 000	1,79
CH Boulle	1 000 000	-	1 000 000	0,56
M Noge	700 000	-	700 000	0,39
			12 999 108	**7.30**

Source: Infrasors

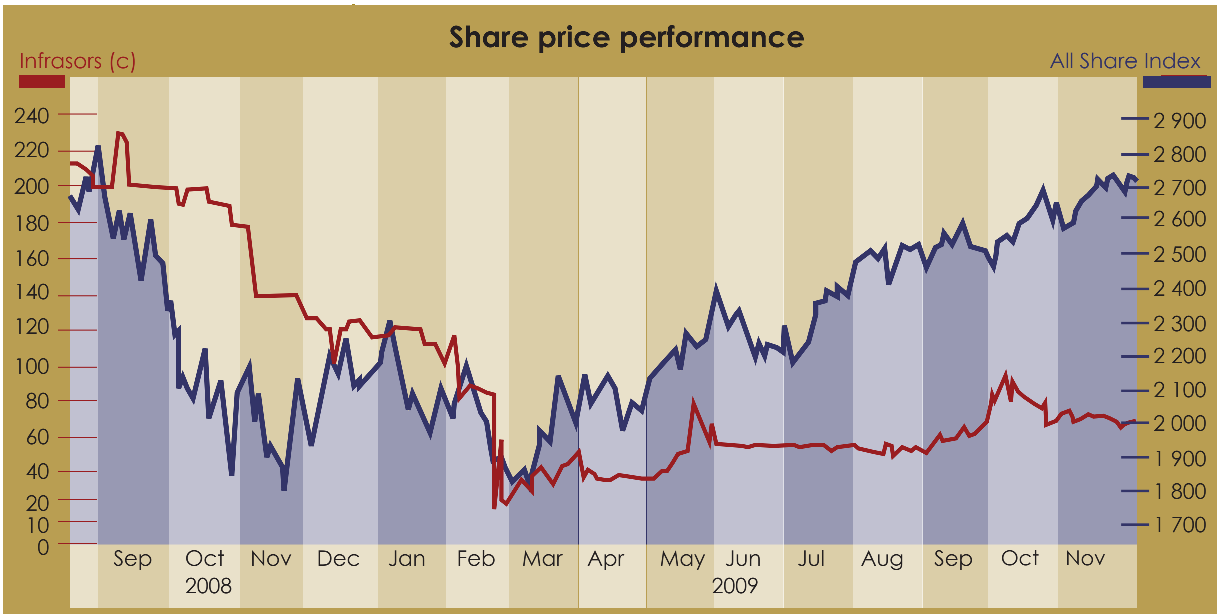
2. Share analysis

2.1 Share price performance

The company is currently trading under cautionary and is in negotiations which could have a material impact on the share price. The stated strategy of the group is to acquire companies in the base minerals open cast mining area. To date, the group has not undertaken further major acquisitions since listing due to the high cost of equity at the group and high prices demanded by potential targets.

Infrasors is currently trading under cautionary and is in negotiations

The company listed in 2007 after a private placing at 55oc/share. On its first day of trade it closed at 49oc, and stayed range-bound for its first six months. The share price began declining thereafter as general economic conditions deteriorated and demand for Infrasors' products declined. The price reached a record low of 19c in February 2009, from which it has recovered to trade at 74c/share at the time of writing.



Source: Inet Bridge

2.2 *Current shareholding structure*

The largest shareholder is SIX SIS Ltd, a Swiss-based custody business which holds the shares on behalf of Hanchurch Asset Management. The three largest shareholders control the company and provide a solid shareholding base. The three have been major investors since the listing of the group in 2007. There are 847 shareholders in total, most of whom are individuals. Institutional shareholders play a limited role in the shareholder base with only seven unit trusts, pension funds and insurance companies invested in the company as at FY2009.

Shares in issue: 177 839 491

Shareholder:	Number of shares:	Percentage of total equity: (%)
SIX SIS Ltd	45 016 000	25,31
Infrasors Empowerment Trust	24 325 348	13,68
Lereko Investments (Pty) Ltd	24 000 000	13,50
RMB Securities (Pty) Ltd	14 327 147	8,06
Other (with less than 5% interest each)	70 170 996	39,45

As at 28 February 2009. Source: Infrasors

2.3 *Share trading liquidity*

Liquidity of trade in the Infrasors share is weak with the three top shareholders and directors holding over 65% of the company. The average effective spread ratio is high relative to its peers, although volume traded is in line with its peers relative to shares in issue. Overall we believe the low liquidity of trade justifies a discount in our valuation model which we apply to Infrasors later in this report.

Share liquidity compared to closest peers	Infrasors	Petmin	Afrimat
Market capitalisation at end November 2009	R124,5m	R1 031,9m	R487,1m
Average value-weighted market price (VWAP) last 12 months (c)	61,1	185,1	249,4
Average midquotes (c)	59,5	185,0	248,7
Average effective spread (c)	3,3	0,25	1,2
Average effective spread ratio (%)	**5,4**	**0,1**	**0,5**
Twelve month liquidity ratio (%)	**24,3**	**25,1**	**19,6**

3. Top-down valuation approach

Our approach to valuing Infrasors is to begin with the macro-environment, proceed to specific market segments, before assessing firm-specific factors and applying our discounted cash flow valuation model and price-relative factors.

Macro-environment has emphasised the cyclicality of Infrasor's earnings

3.1 *Macro-economic environment*

The global financial crisis, led the world economy into recession in 2009. The World Bank forecasts global GDP to have shrunk by 2,9% in 2009, with growth returning to 2% in 2010 and 3,2% in 2011. Governments have responded to the recession with significant fiscal spending packages that have partly offset large declines in fixed investment spending and global trade. Such fiscal stimulus has induced large budget deficits in many developed and developing economies that could lead to further destabilisation if private sector demand does not recover in time. This has lead to significant pressure on commodity prices globally compared to the bullish conditions of early 2008.

Developing countries have also seen a major slowdown in growth rates although not reaching levels of technical recession. Developing countries as a group still managed to register growth of 1,2% in 2009, according to the World Bank, although this is far below the 7% growth rate of the preceding two years. Developing countries are, however, expected to lead a global economic recovery from 2010 with growth forecasts of 4,4% in 2010 and 5,7% in 2011.

In our view a recovery in economic growth is likely in 2010 although significant risks remain to this scenario, particularly the impact of any major sovereign debt defaults. We assume in this report that the global economy will recover in 2010, led by low interest rates, significant liquidity, and an improvement in borrowing appetite by consumers and fixed investment appetite in the corporate sector.

Real expenditure growth (%)	2007	2008	2009	2010	2011
World GDP at market prices	3,8	1,9	-2,9	2,0	3,2
Developing countries GDP at market prices	8,1	5,9	1,2	4,4	5,7
High income countries GDP at market prices	2,6	0,7	-4,2	1,3	2,4

Source: World Bank

3.2 *South African economy performance and outlook*

Though Infrasors is primarily exposed to the economic performance of South Africa, its key exposure is to the performance of its market niches and geographies rather than the macro economy. Nevertheless, Infrasors' performance will be impacted by broader economic trends which we consider below.

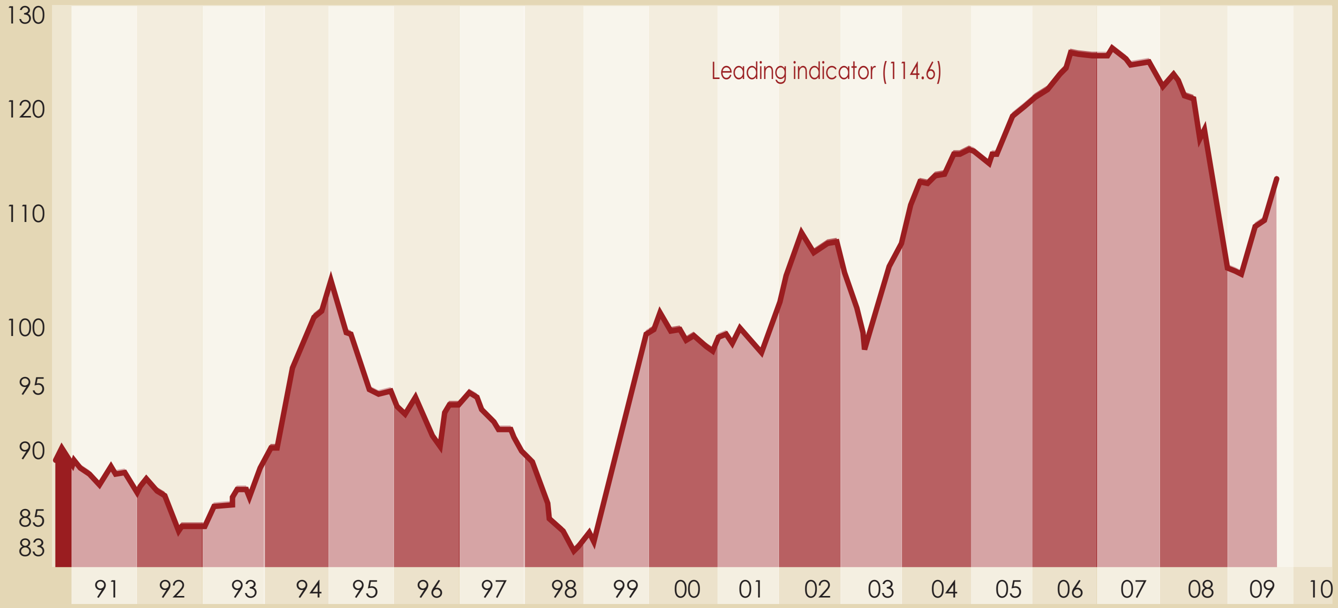
Third quarter 2009 GDP figures show that real gross domestic product at market prices increased by 0,9% quarter-on-quarter, seasonally adjusted and annualised, showing that technically the South African economy is out of recession. The largest contributors to this growth came from the manufacturing, government and construction sectors, pointing to a positive operating environment for companies exposed in these sectors. That followed three consecutive quarters of economic contraction.

End of recession is a positive signal for Infrasors' key customer group

The growth in manufacturing was driven by strong growth in the petroleum, basic metal, steel and food manufacturing industries, while the construction industry was boosted by public infrastructure spending. Despite this growth, the mining and quarrying sector continues to be under pressure, with stoppages and weak demand driving earnings down.

The improvement in the manufacturing sector is probably in anticipation of a broader recovery in 2010 with producers replenishing inventory that was sold down during the recession. The SA Reserve Bank's leading indicator has been in positive territory since the second quarter indicating an anticipated recovery in 2010. The indicator is now at 114,6 with anything above 100 indicating an expansionary stance (see graph), although the final demand side of the economy, retail and wholesale sales, was still in recession in the third quarter.

SA Reserve Bank leading indicator



Source: Inet Bridge

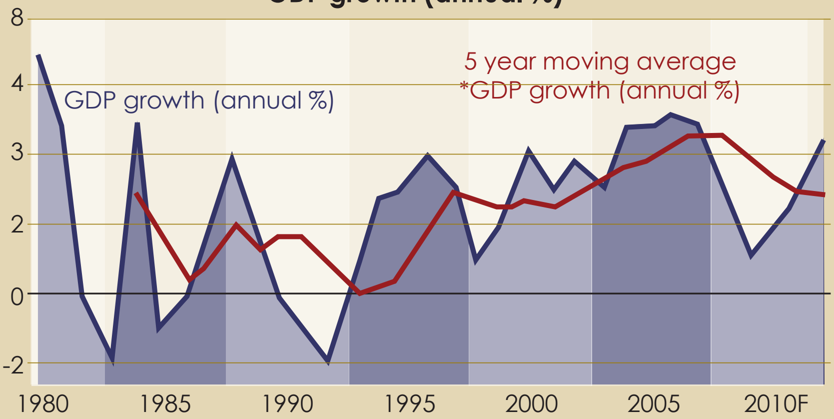
The economy is now substantially reliant on the South African government's R787bn infrastructure spending programme, which will provide a key pillar to aggregate demand in the economy in the coming two to three years, with the private sector gradually recovering during the period.

For the purposes of our valuation, we estimate GDP growth in the forecast period to average 2,6% per annum.

3.2.1 Inflation analysis & outlook

Inflation was on a downward trend from 1980 to 2004. It then began an upward trend, triggering a tightening monetary stance. The Reserve Bank uses interest rates to manage inflation, which is targeted to be within a 3%-6% range. The inflation rate crossed the upper limit in early 2007; however the Bank began raising rates six months earlier in June 2006 when the prime overdraft rate was 10,5% – this was raised by five percentage points by the final quarter of 2008.

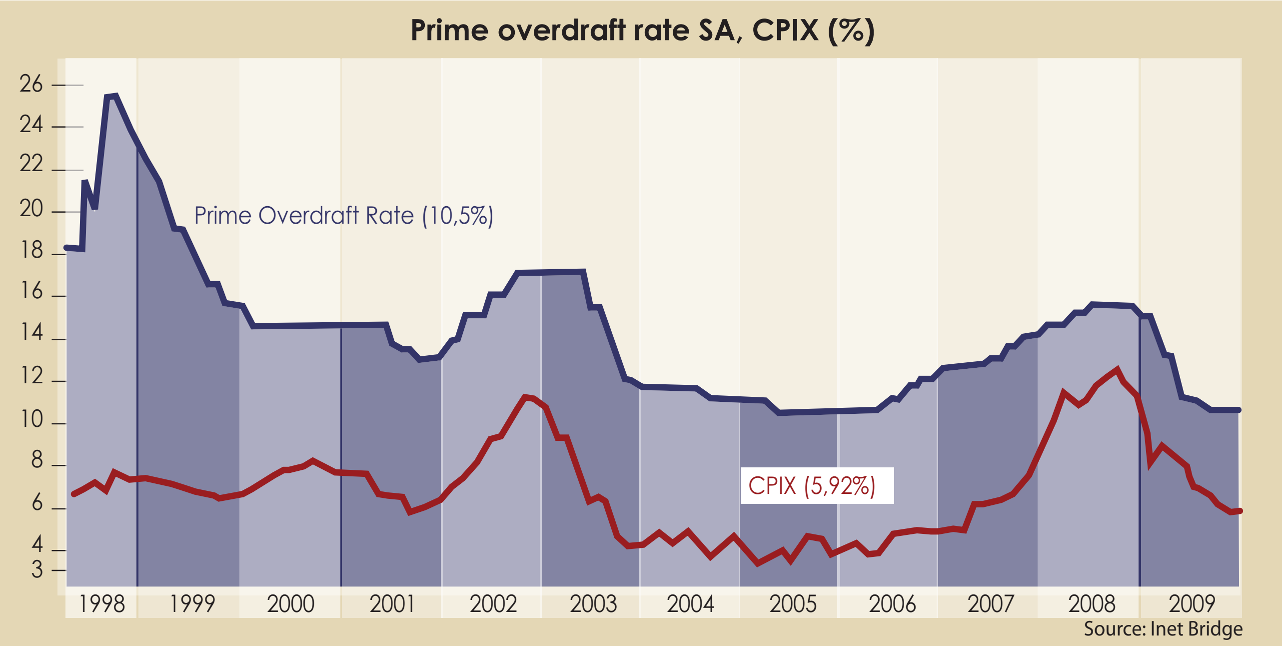
GDP growth (annual %)



From November 2008, inflation has been on a downward trend and the SARB has since cut interest rates by 500 basis points. Inflation returned to the upper limit of the inflation target in October 2009 at 5,9% and, as at November 2009, stood at 5,8% (CPIX at 5,9%). Though it is expected that this downward trend will continue, the key risk to inflation will be the planned annual 35% increase in electricity tariffs for three years from 2010.

For the purpose of our valuation model we assume inflation will hold in the long term at the midpoint of the target range, 4%.

For the purpose of our valuation model we take as the risk-free rate the yield on R157 currently at 8,39%.



3.2.2 *Political overview*

The end of apartheid in 1994 brought dramatic changes to the economy. This has changed the wealth distribution in the country, creating a large new black middle class which has been a key driver of durable goods spending in the economy. In general, government policies have been market friendly, maintaining a tight control over fiscal spending, lowering tax rates, and ensuring tough competition regulation. Against this, however, labour regulations have tightened while Apartheid era foreign exchange controls have been only partly relaxed.

Political environment seen as moderate to low risk

South Africa has recently seen political instability, with the ejection from power of Thabo Mbeki and the April 2009 elections which saw Jacob Zuma elevated to the presidency. Zuma has consistently said that ANC policy will remain on course – there has been continuity in key economic and political policy since Zuma came into power as shown by the key ministerial appointments. The appointment of Pravin Gordhan as Finance Minister and Gill Marcus as Reserve Bank governor after the elections was well received by the market. For now we are cautiously optimistic that the ANC under Zuma will maintain its solid macro-economic positions.

The key test of market-friendly policy positions will be government's response to the current decline in tax receipts caused by the recession. A sharp increase in tax rates may lead a decline in business and consumer confidence. Instead, tight fiscal discipline and moderate deficit spending would be seen as pro-business. We see political risk in South Africa as mild to moderate with little risk to overall macroeconomic performance.

3.3 *Industry analysis*

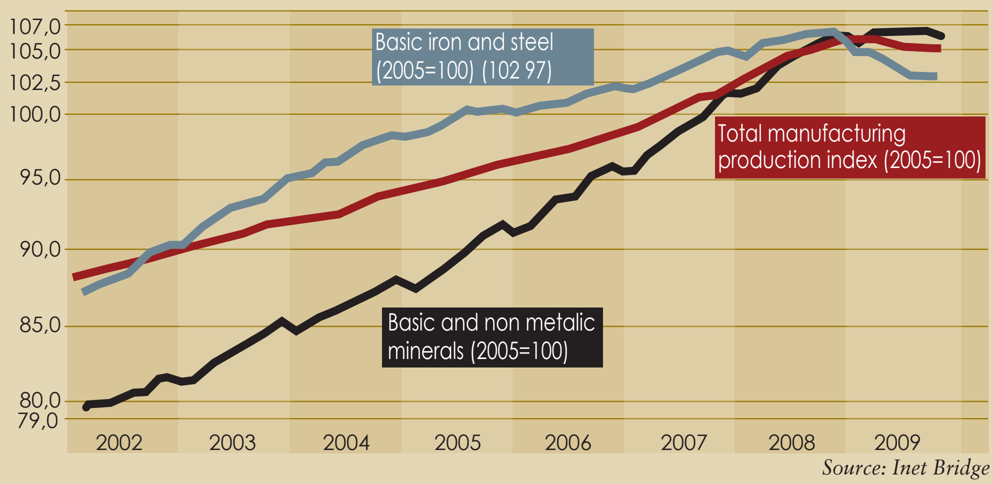
Infrasors operates in a number of market segments which each display different basic economic drivers. Infrasors is exposed to the broad performance of the foundry industry and the steel industry. It is also exposed to the construction industry, although with a geographic focus on the Gauteng area. It has limited, but growing, exposure to the glass industry broadly. It also has a growing exposure to the tile adhesives industry in which it currently has a small market share and consequently is not exposed to the overall industry performance. Infrabric is exposed to the housing sector, but in the focused geographic area of Mamelodi.

For the purposes of analysis, we have examined historical data on the construction, manufacturing and mining & quarrying sectors of the South African economy. While these sectors are broader than Infrasors' niches, they provide an approximate basis on which to analyse demand for Infrasors' products. In our view, earnings are correlated mainly with the construction and manufacturing sectors broadly. The construction sector correlates with Infrasor's sales of aggregates, tile adhesives, building sand and bricks. The manufacturing sector correlates with sales of foundry silica, metallurgical dolomite, and silica for glass. Broad GDP performance correlates with Infrasors' sales of recreational sands for golf courses.

Sector:	Infrasors products:	Peculiarities:
Construction	Aggregates, building sand, tile adhesive.	• Due to transport costs, geographical proximity to construction sites is critical. Local performance may differ from national averages. • Market share in tile adhesives is small, so significant volume increases can be achieved irrespective of overall economic performance. • Brick sales are to local communities so the growth rates of those communities drive demand, although demand is to some extent a function of national housing demand.
Manufacturing	Metallurgical dolomite, foundry silica, glass silica.	• Supplies 95% of foundries in Ekhuruleni which in turn is closely correlated with national manufacturing performance. • Supplies fluxing agent to major steel manufacturers. Performance is a function of overall manufacturing performance. • Limited current glass supplies, but demand a function of overall manufacturing performance.
Mining	Quarrying and coal mining.	• Infrasors' own economic sector. National performance should correlate with manufacturing and construction performance described above. • Lyttelton also supplies minor amounts of stone dust to the coal mining industry as a fire retardent, demand for which is a function of overall coal mining performance.

Manufacturing contributes on average 16,5% of South African GDP while mining follows at 6% with construction trailing at about 3%. These key sectors have been on upward trend from 2002 as shown by the key manufacturing indices in the graph below, reaching a peak late 2009 and showing weakness into 2009. The recovery of the key indices into 2010 points to a positive operating environment for Infrasors after a difficult 2009.

Key manufacturing indices, smoothed



Source: Inet Bridge

Breakdown of GDP and growth rates in Infrasors' key sectors

Industry	Contribution to GDP (%)	Real annual percentage change			
		2005	2006	2007	2008
Manufacturing	16,5	4,6	6,4	5,0	2,7
Mining and quarrying	6,0	2,2	-0,6	0,0	-5,4
Construction	2,8	12,4	10,4	14,3	9,3

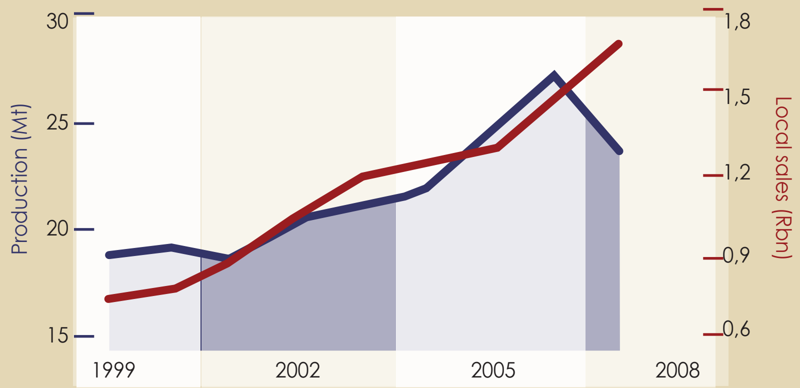
Source: Statistics South Africa

We analyse the growth prospects and risk factors in each economic segment below.

3.3.1 Dolomite & limestone industry:

The South African dolomite and limestone industry supplies the four principal industries in South Africa – cement, metallurgy (steel refining), manufacturing and agriculture. Other uses include construction. According to the national Department of Mineral Resources, the SA limestone and dolomite industry is dominated by 11 limestone producers: three dolomite, four cement, two lime and two dolime producers. The 11 producers supply 80% of the South African market. The industry is competitive although supplies are geographically sensitive due to high transport costs.

Production & local sales revenue. Limestone & dolomite for non-aggregate use



Source: DME, Directorate of Mineral Economics

In 2007, SA's total limestone and dolomite production reached 23,9Mt with a sales value of R1,7bn.

Opportunities

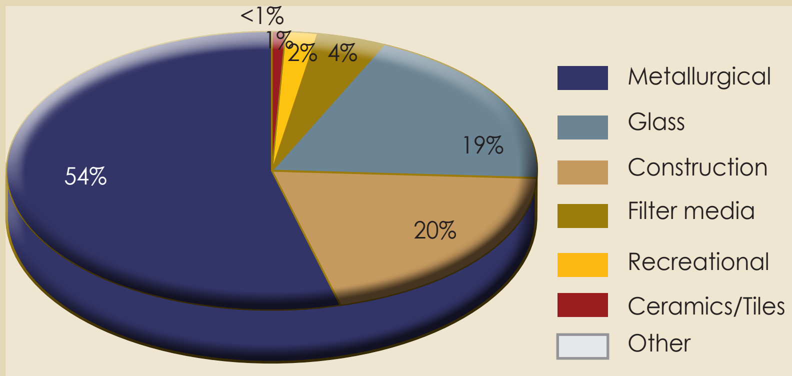
1. Public-sector infrastructure spending increases demand for aggregates in the use of construction. Infrasors aggregates used in concrete are particularly useful in precast concrete objects due to their relative hardness. These have been used extensively in the Gauteng Freeway Improvement Programme and the Gautrain project. Infrastructure spending has a further life of at least two years.
2. Recovery of the economy – fixed capital formation in the private sector should recover from next year leading further construction demand.
3. Replacement of the use of steel structures in favour of cement structures in the construction industry.

Risk factors

1. Fiscal pressure could lead to a slow-down in government infrastructure spending.
2. Economic recovery could be delayed or the global economy could enter a "double-dip" recessionary scenario in which fixed investment would be curtailed.
3. New technologies promoting the recycling, and reuse of ready-made objects.

Gauteng public infrastructure developments have been a significant consumer of Infrasors aggregates

Silica market sectors



Source: DME

3.3.2 Silica industry:

Silica demand is a function of growth in the steel, construction and glass industries with over 92% of all silica mined in South Africa going into these industries.

The proximity of deposits to manufacturers and end-users is a critical competitive tool in the industry. Infrasors' Delf and Lyttelton mines are well positioned to supply across Gauteng (with Marble Hall in Mpumalanga able to supply its rural customer base).

Opportunities for growth

1. Recovery of the economy will see growth in demand from the manufacturing and construction sectors. This is already evident from our GDP analysis above.

Risk Factors

1. Intense competition and regulatory and quality compliance issues.
2. Inconsistent power supplies causing operational disruptions.
3. Power tariff and oil price increases impact operating costs.
4. Regeneration and reuse of spent products – such as foundry sands, silica fines.

3.3.3 Brick industry:

The group is exposed to the building industry through its brick business, Infrabric. This industry has been under pressure from the economic recession.

Opportunities

1. Recovery of the residential housing sector will drive demand for bricks for localised developments.
2. Growth of Mabopane alongside the Pienaarspoort property and site location for Infrabric.
3. Reinvegoration of the South African housing plan.

Risk Factors

1. Continued depression of demand in the housing sector.
2. Competition from a plethora of smaller players in the sector.
3. Substitution of bricks with other building materials.

4 Earnings outlook

4.1 Group earnings outlook

The three-year average revenue growth for the group has been 21% mainly driven by strong growth within the Delf Silica business.

Divisional analysis (Revenues - Rm)	2007	2008	2009	Avg 3-yr growth (%)
Lyttleton Dolomite	88,5	115,5	116,5	16
Delf Sand/Pienaarspoort Silica	68,4	87,0	90,7	29
Infrabric	_	23,7	32,5	18

The business is cyclical: the group's interim results for FY2010 showed the impact of the recession with revenues down 24% while attributable earnings came off 71% because the business has a high fixed cost base. Volumes fell as the manufacturing and construction sectors came under pressure.

We do not see a significant improvement in demand in the 2H10 as the key market sectors are yet to fully recover. With the relocation of the Infrabric plant to Pienaarspoort/Delf sand, we expect an insignificant contribution from the brick business to the group's full year performance. We therefore expect that full year earnings for FY2010 will show similar comparatives to that of 1H10.

Summary group earnings forecasts:

Infrasors Holdings Limited	Actual results			Forward estimates			
Year ended/ending 28 February	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Turnover	**156 861**	**237 027**	**239 717**	**187 845**	**278 853**	**343 630**	**400 715**
% Growth	27,3	51,1	1,1	-21,6	48,4	23,2	16,6
Operating profit (EBIT)	**31 858**	**117 780**	**38 733**	**28 976**	**65 192**	**84 533**	**96 999**
% Growth	46,0	269,7	-67,1	-25,2	125,0	29,7	14,7
% Margin	20,3	49,7	16,2	15,4	23,4	24,6	24,2

4.1.1 Note on mining royalty levy

The Mineral and Petroleum Resources Royalty Act specifies that the State, may, in consultation with the South African Revenue Service (Sars) determine and levy, any fee or consideration payable in terms of any relevant Act of Parliament for the extraction/mining of mineral and petroleum resources within South Africa. This levy would be based on revenue on the exploration and extraction of mineral and petroleum resources. In our view, this levy was mainly targeted towards high value mineral resources such as gold, platinum and diamonds. We do not think that levies to be charged on resources like sand and dolomite will be onerous. It is expected that the levy will commence during 2010. On this basis we have ignored it in our computation of operating costs and our earnings forecast, although investors should bear in mind that the levy could impact the effective tax rate paid by the company.

4.2 Divisional earnings analysis

4.2.1 Lyttelton Dolomite (incl. Marble Hall)
(Forecast FY10 - 56% of revenues)

Revenue for Lyttelton Dolomite, which grew 1% in FY09, will be driven by increased production capacity following expansion capital expenditure. Due to Lyttelton's proximity to customers, it benefits from excess demand from the construction industry which consumes as much as possible from Lyttelton before turning to other suppliers that are further away. In response to this scenario capacity has been expanded with the commission of the Lunar crushing plant, which will drive further earnings growth.

Lyttelton experiences excess demand due to close proximity to major building works

The Lunar plant, for which R15m capex has been approved for 2H10, will increase capacity by 18 000 tonnes/month to 135 000 tonnes/month, with further growth in the medium term. The primary crusher is now the main production capacity constraint at 6 000 tonnes/day. The benefit of the increase is expected be felt from February 2010 which means limited impact on FY10.

Demand for Lyttelton products has been outstripping production capacity and any capital expenditure to increase capacity will drive revenue growth.

Approximately 20% to 25% of production is metallurgical grade dolomite with the balance in aggregates. Metallurgical dolomite is transported by train directly from the site to steel smelters such as Highveld Steel in Witbank. An onsite plant crushes the dolomite to finer grades for metallurgical applications.

Aggregates are collected directly by customers at the site by truck. Aggregates are beneficiated through secondary and tertiary crushing plants into various stone sizes to suit various applications.

In the medium term, the group is targeting an annual production capacity of 1,8m tonnes/annum by FY2011. The division's key market sectors include road construction and upgrades – which has been seeing strong growth on the back of the current road construction and refurbishment programmes, as well as the iron and steel industry.

A new mining plan and prospecting project undertaken during 2009 has substantially increased total reserves at Lyttelton and the life-of-mine.

The Marble Hall quarry in Mpumalanga produced 110 778 tons in 1H10. The Marble Hall quarry contains extensive resources that are not currently economically viable to mine due to limited demand in the area. Life-of-mine is in excess of 1 000 years. Marble Hall's performance depends substantially on general economic growth and urbanisation in the area.

Summary Lyttelton Dolomite earnings forecasts:

Lyttelton Dolomite	Actual results			Forward estimates			
Year ended/ending 28 February	2007	2008	2009	2010	2011	2012	2013
Turnover	**88 454**	**115 495**	**116 485**	**104 760**	**143 625**	**180 765**	**216 918**
% Growth	11,7	30,6	0,9	-10,1	37,1	25,9	20,0
Operating profit (EBIT)	**12 965**	**28 044**	**18 618**	**22 314**	**36 028**	**43 686**	**50 189**
% Growth	-28,6	116,3	-33,6	19,9	61,5	21,3	14,9
% Margin	14,7	24,3	16,0	21,3	25,1	24,2	23,1

Value chain:

Production costs for wet sand:	**R27/tonne**
Drying costs:	**R60 to R67/tonne**
Transport cost:	**R8 to R11/tonne**
Total:	**approx. R94/tonne**

4.2.2 *Delf Sand/Pienaarspoort division*
(Forecast FY10 - 40% of revenue)

Delf supplies the foundry market, construction sector, tile adhesives and golf & leisure markets. These market segments have been impacted by the recession and Delf has experienced declining revenues and earnings as a result. In the 1H10, foundry demand was down 23% while construction was down 47% and the small level of recreational sand supplies fell off completely. Delf has been able to displace the fall in foundry and construction demand with increasing supplies to the tile adhesive market. Delf does not currently supply silica to the glass market which is highly competitive and low-margin.

Currently, 14 000 tonnes of monthly output is supplied to tile adhesive manufacturers in the Alrode and Olifantsfontein areas; 6 000 tonnes is supplied to foundries in the East Rand. Total capacity is 30 000 tonnes/month.

Foundry demand is crucial to profitability as the higher-value-added product commands margins double that of tile adhesive supplies. Delf operates its own transport fleet of 12 tankers that transport dry silica to the foundries.

Prices vary dramatically from below cost to over R200/tonne depending on silica quality and value-added.

Delf Sand is expected to see steady demand of its products in 2H10 with demand expected to improve during FY11. The plant has also undertaken capital expenditure to expand capacity with the commission of a fifth dryer to increase capacity in dry silica supplied to foundries. This increased capacity has, however, not been matched by increased demand. Total plant capacity is now 360 000 tonnes/annum of dry silica. Profitability would improve dramatically if foundry demand increased, leading to full production and a displacement of tile adhesive sales by foundry sales.

The commissioning of the Pienaarspoort mine during 2H11, will further boost production capacity at a time demand is expected to be rising as the economy recovers. This will see Infrasors enter the glass supplies market. The Cullinan property close to Delf has further alluvial deposits, extending the overall mineral resource. Cullinan's reserves have not been certified and, to be conservative, is not included in our calculations here.

Demand recovery will see significant increase in foundry silica sales

Summary Delf Silica earnings forecasts:

Delf Sand/Pienaarspoort	Actual results			Forward estimates			
Year ended/ending 28 February	2007	2008	2009	2010	2011	2012	2013
Turnover	**68 407**	**87 004**	**90 733**	**75 142**	**135 227**	**162 866**	**183,797**
% Growth	55,5	27,2	4,3	-17,2	80,0	20,4	12,9
Operating profit (EBIT)	**18 893**	**37 437**	**24 178**	**6 635**	**29 163**	**40 847**	**46 810**
% Growth	415,9	98,1	-35,4	-72,6	339,5	40,1	14,6
% Margin	27,6	43,0	26,6	8,8	21,6	25,1	25,5

4.2.3 Infrabric
(Forecast FY10 - 4% of revenue)

The South African residential and private building and construction sectors have been under recessionary pressure despite the robust growth within the public-financed construction sector on the back of the R787bn stimulus programme. In the interim period, the Infrabric business saw a 60% decline in revenues. The group's management has taken a decision to relocate the business to Delf in response to the low sales, high rental at current location and opportunity to capture business synergies, particularly as the Pienaarspoort operation will provide brick-suitable slag at no cost to the operation. In our view, however, the group will not focus on Infrabric in the medium term.

The development of Pienaarspoort will restore the viability of the Infrabric plant. It has direct access to the fast-growing Mamelodi urban settlement which borders the Pienaarspoort property and should provide a viable market for low cost housing. We have taken a very conservative view on the business assuming no sales after FY10 and therefore place no value on the Infrabric business. On recovery of the private and residential construction sectors, we see some upside on this business.

Summary Infrabric earnings forecasts:

Infrabric	Actual results			Forward estimates			
Year ended/ending 28 February	2007	2008	2009	2010	2011	2012	2013
Turnover	**0**	**23 728**	**32 499**	**7 943**	**0**	**0**	**0**
% Growth	—	100,0	37,0	-75,6	-100,0	—	—
Operating profit (EBIT)	**0**	**4 412**	**5 619**	**27**	**0**	**0**	**0**
% Growth	—	100,0	27,4	-99,5	-100,0	—	—
% Margin	—	18,69	17,3	0,3	—	—	—

5 Group financial analysis

5.1 Detailed financial statements & forecasts

Income statement	Actual results			Forward estimates			
	2007	**2008**	**2009**	**2010F**	**2011F**	**2012F**	**2013F**
Turnover	**156 861**	**237 027**	**239 717**	**187 845**	**278 853**	**343 630**	**400 715**
Gross profit	**56 096**	**99 384**	**71 799**	**67 381**	**100 027**	**123 263**	**143 739**
EBITDA	35 594	122 937	46 688	35 428	73 511	92 936	106 546
Depreciation and amortization	3 736	5 157	7 955	6 452	8 319	8 403	9 547
Operating profit (EBIT)	**31 858**	**117 780**	**38 733**	**28 976**	**65 192**	**84 533**	**96 999**
Net finance cost	16 999	2 717	256	(8 989)	(1 242)	(1 924)	(2 202)
Profit before taxation	**48 857**	**120 497**	**38 989**	**19 988**	**63 950**	**82 609**	**94 797**
Taxation	(9 759)	(17 185)	(8 911)	(5 597)	(17 906)	(23 130)	(26 543)
Net profit	**39 099**	**103 312**	**30 078**	**14 391**	**46 044**	**59 478**	**68 245**
Attributable earnings	**39 099**	**103 312**	**30 078**	**14 391**	**46 044**	**59478**	**68 254**
Dividend	-	(21 208)	-	-	(10 130)	(13 085)	(15 016)
Retained earnings	**39 099**	**82 104**	**30 078**	**14 391**	**35 914**	**46 393**	**53 238**

Balance sheet	Actual results			Forward estimates			
	2007	**2008**	**2009**	**2010F**	**2011F**	**2012F**	**2013F**
Tangible fixed assets	237 902	253 452	288 672	299 779	343 796	364 092	377 323
Intangible non-current assets	37 120	89 449	89 449	89 449	89 449	89 449	89 449
Other non-current assets & Investments	-	62 006	76 051	76 051	76 051	76 051	76 051
Current assets	274 393	128 159	111 970	115 254	102 755	120 198	147 723
Total assets	**549 415**	**533 066**	**566 142**	**580 533**	**612 051**	**649 790**	**690 545**
Interest bearing debt	36 113	14 629	116 076	116 076	116 076	116 076	116 076
Other liabilities	97 852	162 910	90 435	90 435	86 039	77 384	64 902
Total liabilities	**133 965**	**177 539**	**206 511**	**206 511**	**202 115**	**193 460**	**180 978**
Shareholders equity	415 450	355 527	359 631	374 022	409 936	456 329	509 568
Total shareholder's equity	**415 450**	**355 527**	**359 631**	**374 022**	**409 936**	**456 329**	**509 568**

Analysis of Cash flows	Actual results			Forward estimates			
	2007	**2008**	**2009**	**2010F**	**2011F**	**2012F**	**2013F**
Cash flow from operating activities	28 432	46 953	46 566	7 275	36 399	45 659	51 750
Net capital expenditure	(11 357)	(21 792)	(45 620)	(17 559)	(52 336)	(28 699)	(22 777)
Unlevered free cash flow	**17 075**	**25 161**	**946**	**(10 284)**	**(15 937)**	**16 960**	**28 973**
Equity raised/(buy back)	187 817	252 215	(4 500)	-	-	-	-
Dividends paid	(28 516)	-	(21 208)	-	(10 130)	(13 085)	(15 016)
Net increase/(decrease) in borrowings	20 514	(3 938)	29 023	-	-	-	-
Other financing and investment cash flows	(535)	(215 858)	(12 786)	-	-	-	-
Net cash flow	**196 354**	**57 580**	**(8 525)**	**(10 284)**	**(26 067)**	**3 875**	**13 957**

Source: Infrasors, Intellidex estimates

5. 2 *Key ratio analysis*

	Actual results			Forward estimates			
	2007	**2008**	**2009**	**2010F**	**2011F**	**2012F**	**2013F**
Profitability							
Sales growth (%)	27	51	1	(22)	48	23	17
Gross profit margin (%)	36	42	30	36	36	36	36
EBITDA margin (%)	23	52	19	19	26	27	27
Operating margin (%)	20	50	16	15	23	25	24
Net profit margin (%)	25	44	13	8	17	17	17
Effective tax rate (%)	20	14	23	28	28	28	28
Return on equity (%)	9	29	8	4	11	13	13
Return on total assets (%)	7	19	5	2	8	9	10
Dividend payout ratio (%)	-	21	-	-	22	22	22
Sustainable growth factor (%)	9	23	8	4	9	10	10
ROE Du Pont analysis (%)	**9**	**29**	**8**	**4**	**11**	**13**	**13**
NP/PBT (%)	80	86	77	72	72	72	72
PBT/EBIT (%)	153	102	101	69	98	98	98
EBIT/Sales (%)	20	50	16	15	23	25	24
Sales/assets (times)	0,3	0,4	0,4	0,3	0,5	0,5	0,6
Assets/equity (%)	132	150	157	155	149	142	136
Liquidity & efficiency							
Current ratio	9,7	1,1	2,2	1,3	1,2	1,6	2,3
Interest cover ratio(times)	(1,9)	(43,3)	(151,3)	3,2	52,5	43,9	44,1
Total asset turnover (times)	0,3	0,4	0,4	0,3	0,5	0,5	0,6
Revenue/employee (R'000)	327	495	565	443	658	810	945
Net profit/employee(R'000)	82	216	71	34	109	140	161
Capex/sales (%)	7	9	19	9	19	8	6
Capex/depreciation (times)	3	4	6	3	6	3	2
Leverage							
Interest bearing debt/equity (%)	9	4	32	31	28	25	23
Total assets/equity (%)	132	150	157	155	149	142	136
Financial summary & statistics							
Earnings per share (cents)	35,6	74,5	17,0	8,1	26,0	33,5	38,5
Headline earnings per share (cents)	18,8	44,6	17,5	8,1	26,0	33,5	38,5
Dividend per share (cents)	-	12,0	-	-	5,7	7,4	8,5
Book value per share (cents)	207,7	200,2	207,9	210,8	231,1	257,2	287,3
Dividend payout ratio (%)	-	16	-	-	22	22	22
Shares in issue ('000)	200 000	177 839	177 389	177 389	177 389	177 389	177 389
Weighted average shares ('000)	200 000	138 649	177 131	177 389	177 389	177 389	177 389
Number of employees	479	479	424	424	424	424	424

Source: Infrasors, Intellidex estimates

5.3 *Commentary on financial statements*

1. **Profitability –** the group's profitability level is not expected to recover immediately from the dip during the FY10. But as the economy recovers margins should improve. We estimate the sustainable operating margin for the group should be in the region of 25%.

2. **Liquidity and efficiency –** we expect current ratio to improve to 2:1 in the medium term while asset turnover will show improvement though from a low base. Should there be no significant increase in the employee level, revenues and profits per employee will see growth as the group increases its production capacity and sales. Liquidity is reasonable to meet the company's needs.

3. **Leverage –** we expect the group to show gearing (interest bearing debt: equity) averaging 25% and declining in future. The low debt debt level is shown by the robust interest cover multiple. We do not expect a significant jump in the debt: equity ratio as long as the demand forecast comes through.

6 Valuation of Infrasors Holdings Limited

To value Infrasors Holdings in this report we have used the discounted cash flow (DCF), price-to-earnings (P/E) and price-to-book value (P/BV) multiple methods, based on FY09 earnings and BVPS estimates. The DCF method values the stream of future cash flows discounted to the present using the company's cost of capital and as such is a good measure of the company's value in absolute terms. Comparative valuation using P/E and P/BV provides a check of our valuation model by comparing the company's price with its peers.

6.1 *Discount rate and sustainable growth rate determination*

We have assumed a risk free rate of 8,39% based on the current government bond (R157) yield. We have used an average beta of 0.51 for the stock derived from the share price performance since listing in 2007. This gave us a cost of equity of 11,24% based on the Capital Asset Pricing Model.

Our cost of debt is based on the average finance cost for FY09.

We have included an additional premium for share trading illiquidity of 4,09%. This is derived from the average trading prices and the effective spread ratios between bid and offer prices in recent history. The illiquidity premium makes up for the fact that the beta of the share price does not fully reflect the risk as price volatility is limited due to the thin trade in the stock.

Working through all these variables we obtain a weighted average cost of capital (WACC) of 15,08% which we used to discount our estimated free cash flows (see table opposite).

Discount Rate - Weighted average cost of capital [WACC]	
Weight of equity (%)	64,22
Weight of debt (%)	35,78
Cost of debt (%)	10,51
Before tax cost of debt (%)	13,62
Marginal tax rate (%)	22,86
Cost of equity (%)	11,24
Risk free rate: R157 (%)	8,39
Unlevered beta	0,51
Risk premium (Rm-Rf) (%)	5,65
Weighted average cost of capital (%)	10,98
Illiquidity premium (%)	4,09
Adjusted WACC (%)	15,08

In determining the sustainable growth rate we take a conservative view based on the average real growth rates of key industries which drive Infrasors' earnings – manufacturing, construction, and mining & quarrying. There is some weakness in this approach in that in some business areas it is the performance of the locality of operations that matter. Therefore using general macroeconomic economic growth factors might not capture the potential of the localities within which Infrasors operates, although there is no systematic way to determine these growth trends.

Assuming an average inflation rate of 4% per annum, we obtain a long term real earnings growth rate of 4,2% per annum – 8,2% nominally – which we used as our terminal earnings growth rate.

Conservative view taken of long-term growth rates

Industry	Contribution to GDP (%)	Real annual percentage change				Average growth rate (%)
		2005	2006	2007	2008	
Construction (%)	2,8	12,4	10,4	14,3	9,3	1,3
Mining and quarrying (%)	6,0	2,2	-0,6	0,0	-5,4	-0,2
Manufacturing (%)	16,5	4,6	6,4	5,0	2,7	3,1
Average annual inflation rate (%)						4,0
Average nominal earnings growth rate (%)						**8,2**

6.2 *Valuation & sensitivity analysis*

6.2.1 *Discounted cash flow model*

We calculated an intrinsic value range for the Infrasors by applying the equity DCF model to each division and then we applied a sum-of-parts to come up with the group value. As part of the equity DCF method, we determined free cash flow (FCF) for each division by deducting the division capital expenditure. We developed explicit FCF estimates for FY10 to FY13. Thereafter, we have assumed a sustainable growth rate of 8,2% per annum. The resultant enterprise value represents the current as well as potential dividends accruable to shareholders.

We have taken a conservative view of the Infrabric division by assuming that this division will be not a focus for the group hence no earnings will accrue after the current financial year. The Infrabric business provides some upside potential should it be re-established and be able to market its products to the Mamelodi area.

We discounted the cash flows using the weighted average cost of capital of 15,08%

Sum of parts valuation - using DCF model	Value (R'000)
Lyttelton Dolomite (incl Marble Hall)	332 286
Delf Sand (incl Pienaarspoort, Cullinan)	260 548
Infrabric	45
Total for group	**592 879**
less Net group debt as at 31 August 2009	73,312
Equity value	**519 567**
Weighted average number of shares ('000)	177,839
Value per share (cents)	**292**

Based on these assumptions, we obtained at an equity value of R520m which translates into our target price of 292cents/share.

DCF intrinsic value sensitivity analysis:

We show below a guide with respect to sensitivity of Infrasors' value to changes in the earnings growth rate and the cost of capital.

	Terminal growth rate		
Cost of capital (%)	**6,2%**	**8,2%**	**10,2%**
13,08	343	473	779
14,08	279	367	543
15,08	231	**292**	404
16,08	192	237	312
17,08	162	195	248

6.2.2 Price multiples models

1. Price-to-earnings multiple - Infrasors Holdings has traded in the PE range of 5,7 to 1,3 with a 2-year average of 3,5; undemanding compared to the peer group's 3-year average of 14,3. We expect Infrasors multiple to return to at least the average of the group. At that rating, we value Infrasors at 115c/share based on FY10 earnings. We however note that this valuation underrates the stock due to the exceptionally difficult trading conditions in FY10 in which we expect attributable earnings to be 54% less than FY09 earnings. This is a particularly low base for the price-to-earnings comparison. We do not think that FY10 earnings represent the true potential for the group.

Price/earnings approach	Price-to-earnings				
Company	**JSE Code**	**FY2007**	**FY2008**	**FY2009**	**Average**
Infrasors Holdings Limited	IRA	-	5,7	1,3	2,3
Petmin Limited	PET	49,2	31,7	8,8	29,9
Afrimat	AFT	16,2	10,6	4,8	10,5
Peer group average		**21,8**	**16,0**	**5,0**	**14,3**
Valuation - FY10 estimate					
P/E - valuation estimate					14,3
Forecast earnings (ZAR'000)					14 391
Weighted average number of shares ('000)					177,839
Target price (cents)					**115**

ii. Price-to-book value multiple – The average price-to-book for the peer group stands at 1,6, which is way ahead of Infrasors' average of 0,5. We expect the multiple for Infrasors to come into line with the industry average of 1,6. If this is applied to our expected book value at FY09, the intrinsic value at the 1,6 multiple is 337c. However, the book value includes values for mining rights and goodwill. Looking at the tangible net book value we obtain a target price of 254c/share.

Price/book value approach	Price-to-book value				
Company	**JSE Code**	**FY2006**	**FY2007**	**FY2008**	**Average**
Infrasors Holdings Limited	IRA	-	1,3	0,1	0,5
Petmin Limited	PET	2,8	2,6	1,0	2,1
Afrimat	AFT	4,0	2,1	0,5	2,2
Peer group average		**2,2**	**2,0**	**0,5**	**1,6**
Valuation - FY10 estimate					
P/E - valuation estimate					1,6
Forecast book value (ZAR'000)					284 573
Weighted average number of shares ('000)					177,839
Target price (cents)					**254**

6.2.3 Weighted average valuation

We assigned a 50% weighting to the DCF valuation and a 25% weighting each to the valuations based on the P/E and P/BV. The DCF method is in our view the most reliable valuation mechanism for Infrasors as price multiples have downsides such as the valuation of mining rights and different lives-of-mines and cyclical fluctuations of earnings, hence our overweighting of the DCF model results. The price-multiples based valuations value the group on the basis of comparison to industry and peer valuations rather than the intrinsic worth of the business.

Applying the above weighting we obtain a 6-to-12 month weighted average target price of 239c/share representing a 222% upside from current price of 74c.

Valuation model	Weight (%)	Target price (c)	Weighted price (c)
DCF valuation model	50	292	146
Price multiples: Price/earnings	25	115	29
Price/book value	25	254	64
Weighted average target price (cents)			**239**
Current price (cents)			**74**
Upside			**222%**

6.3 Downside risks to the fundamental rating

1. **Protracted recovery –** a weaker than expected economic recovery will mean that the benefit of production expansion will take longer to benefit the group pointing to weaker earnings growth in the short term.

2. **Electricity tariff hikes** - the planned 35% increase in the next three years will increase operating costs and reduce operating margins. Unless sales prices can be increased to offset the increase in electricity costs, margins will be under pressure.

3. **Oil price increase –** as the world economy recovers, demand for oil is expected to increase pushing oil prices high. This will negatively impact Infrasors in its transport business as fuel cost is a key element and the Delf operation which uses heavy tar oil in its sand dryers.

end

Notes

7. Important disclosures

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1. BUY - recommendations are expected to improve, based on consideration of the fundamental view by at least 10%

2. SPEC BUY - recommendations are expected to improve, based on a speculative view

3. HOLD - recommendations assume that value is fully reflected in the current share price

4. SELL - recommendations are expected to deteriorate, based on consideration of the fundamental view by at least 10%.

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