



# PROJECT SYDNEY

Independent valuation on the sale of 70% of the shareholding in Hima Cement Limited by Bamburi Cement PLC which is held through a 100% owned subsidiary Himcem Holdings Limited

Final Report

November 2023

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Our reference: RSMC/2023/915

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23 November 2023

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**RE: INDEPENDENT VERIFICATION OF VALUATION**

In accordance with the terms of our engagement letter reference: RSMC/2023/903, we enclose our valuation review report for Hima Cement Limited.

The valuations summarised therein were provided to us by yourselves, and our observations are based on the assumption that the information used in the valuations is accurate and complete. Our procedures did not include verification work or constitute an audit in accordance with generally accepted accounting standards. Accordingly, we do not express any opinion on any financial or other data or other information referred to in this report.

Based on the review, we can conclude that the most appropriate valuation methodology was used in the company valuation of Hima Cement Limited. Furthermore, we can conclude that the valuation methodology was correctly applied, and the valuation can be relied on, taking into account the recommendations made in the report.

This report supersedes all previous oral, draft or interim advice, reports and presentations, and email correspondence. The report is confidential and has been prepared for the use of the appointing authorities only. It should not be disclosed to any third party without our prior written consent. Where RSM provides such consent, it does not accept any liability to any other parties other than the engagement parties in connection with this report or the opinions therein.

The RSM team is grateful for the opportunity to work with you in this engagement.

Should you require any clarification or further information relating to any issue contained in this report, please contact the undersigned.

Yours faithfully,

**Ashif Kassam  
Executive Chairman  
RSM (Eastern Africa) Consulting Limited**

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## 1 EXECUTIVE SUMMARY

### 1.1 INTRODUCTION

Hima Cement Limited (“Hima”) is a company incorporated in Uganda, whose principal activity is the manufacture and sale of cement and related products. Hima has three sites, an integrated cement plant in Kasese, a grinding station in Tororo, and a blending station in Namanve with a total annual production capacity of approx. 1.7 million tons. Hima also has a sales unit in Rwanda, which is not currently active.

Bamburi Cement PLC (“Bamburi”) holds 70% of the shares in Hima (“Hima Shares”) through a 100% owned subsidiary. Bamburi intends to sell the Hima shares to a third party through a proposed transaction detailed in the cautionary announcement released by Bamburi dated 14th November 2023.

### 1.2 SCOPE OF WORK

RSM (Eastern Africa) Consulting Ltd (“RSM”) has been appointed to provide an independent valuation of the enterprise value of Hima to Bamburi.

In arriving at the valuation, the following factors are to be noted:

- Valuation method used is the EBITDA multiple method. This method involves several steps, which include determining the normalised EBITDA and then applying a multiple based on publicly available data of comparative companies and from precedent transactions, to determine the indicative enterprise value.
- The EBITDA multiple used in this case was not adjusted for country equity risk premium and liquidity discount as the comparatives were from companies in the Africa region and from precedent transactions from within the region.
- The valuation is based on historical figures and we have not reviewed any going-forward projections and hence we do not guarantee the future performance of Hima.
- We have not undertaken an independent review of the historical numbers and have relied solely on the audited financial statements and management information provided by the management of Hima.

This report should not be used for any other purpose except for the one defined above.

### 1.3 SUMMARY VALUATION

The table below shows the enterprise valuation of Hima:

<b>VALUATION SUMMARY : 100% EV</b>			
	<b>EBITDA Multiple</b>	<b>2022 EBITDA UGX '000</b>	<b>2020-2022 AVG EBITDA UGX '000</b>
Normalised EBITDA in UGX		46,766,760	56,703,496
Comparable EBITDA multiple for cement companies in Africa - lower end	6	280,600,560	340,220,976
Comparable EBITDA multiple for cement companies in Africa - upper end	7	327,367,320	396,924,472
<b>Valuation in USD</b>		<b>USD</b>	<b>USD</b>
Comparable EBITDA multiple for cement companies in Africa - lower end	6	73,916,558	89,621,929
Comparable EBITDA multiple for cement companies in Africa - upper end	7	86,235,985	104,558,918
Current exchange rate of 1 USD to UGX		3,796.18	

The enterprise value of Hima for 100% of the shareholding ranges from USD 74 million to USD 105 million.

## 2 VALUATION COMMENTARY

### 2.1 EBITDA MULTIPLE METHOD

The EBITDA valuation method is summarised below:

- **Step 1:** Compute normalised EBITDA for the period 2020 - 2022;
- **Step 2:** Identify comparable listed companies and obtain EV/EBITDA multiples;
- **Step 3:** Segregate the outliers (upper and lower) to obtain a reasonable range; and
- **Step 4:** Apply the adjusted EBITDA multiple to normalised EBITDA to obtain the enterprise value.

### 2.2 NORMALISED EBITDA

The normalised EBITDA (earnings before interest, taxation, depreciation and amortisation) is calculated by adjusting the EBITDA with non-recurring items to more accurately reflect the sustainable earnings of the company thus allowing comparison with other companies and the industry.

In this case, the adjustments to EBITDA include:

- Removal of one-off income such as profit from sale of assets and impairment on acquisition of licenses.
- Removal of medical and resettlement expenses resulting from the fire at Kasese factory.

In arriving at the EBITDA, no adjustment was made for interest expenses arising from IFRS 16 Leases as these are considered to be rental expenses.

The normalised EBITDA for Hima is presented below:

HIMA CEMENT LIMITED			
NORMALISED EBITDA CALCULATION			
	CONSOLIDATED	CONSOLIDATED	CONSOLIDATED
	AUDIT	AUDIT	AUDIT
	2022	2021	2020
	USHS'000	USHS'000	USHS'000
<b>Profit / (loss) before tax and discontinued operations</b>	<b>(1,129,481)</b>	<b>14,419,318</b>	<b>13,333,050</b>
Add: Depreciation and amortisation excluding operating lease amortisation	40,354,684	40,073,992	43,659,426
Add: Interest expense	4,606,478	3,254,046	5,500,499
Less: Interest income	991,502	732,528	461,117
<b>EBITDA</b>	<b>42,840,179</b>	<b>57,014,828</b>	<b>62,031,858</b>
<b>Normalisation adjustments</b>			
Adjustment 1 - Medical and resettlement expenses re Kasese fire	5,900,000	-	-
Adjustment 2 - Impairment on acquisition of licences from Sunbird Resources Ltd	(1,447,138)	5,119,067	-
Adjustment 3 - Profit on disposal of property, plant and equipment	(526,281)	(630,293)	(191,732)
<b>Normalised EBITDA</b>	<b>46,766,760</b>	<b>61,503,602</b>	<b>61,840,126</b>

### 2.3 MARKET COMPARABLES

We obtained the EV/EBITDA multiples for several publicly traded market players in the cement industry to determine the average EV/EBITDA multiple. In this, we noted a significant deviation in the range with a mean of 9.1 and a median of 7.2 (for the 7 active companies). The mean was greatly affected by the highest multiple from BUA Cement PLC of 21.5x and the lowest multiple from Bamburi Cement PLC of 3.6x.

Company Name	Country	EV/EBITDA LTM
Tanzania Portland Cement PLC	Tanzania	4.9
BUA Cement PLC	Nigeria	21.5
Dangote Cement PLC	Nigeria	7.2
Carthage Cement S.A.	Tunisia	8
Chilanga Cement PLC	Zambia	4.5
Bamburi Cement PLC	Kenya	3.6
LafargeHolcim Maroc S.A.	Morocco	13.7
Misr Beni Suef Cement Co. S.A.E	Egypt	NM
Cement Company of Northern Nigeria PLC	Nigeria	NM
Summary Statistics		TEV/EBITDA LTM
High (outlier)		21.5
Low (outlier)		3.6
Mean		9.1
Median		7.2

## 2.4 ELIMINATION OF OUTLIERS

We noted two outliers in the compilation of the companies' EV/EBITDA, these are BUA Cement PLC with an EV/EBITDA of 21.5x and Bamburi Cement PLC with an EV/EBITDA of 3.6x. In order to determine a rationalised multiple, the outliers were excluded.

Company Name	Country	EV/EBITDA LTM
Tanzania Portland Cement PLC	Tanzania	4.9
BUA Cement PLC	Nigeria	-
Dangote Cement PLC	Nigeria	7.2
Carthage Cement S.A.	Tunisia	8
Chilanga Cement PLC	Zambia	4.5
Bamburi Cement PLC	Kenya	-
LafargeHolcim Maroc S.A.	Morocco	13.7
Misr Beni Suef Cement Co. S.A.E	Egypt	NM
Cement Company of Northern Nigeria PLC	Nigeria	NM
Summary Statistics		TEV/EBITDA LTM
High (outlier)		None
Low (outlier)		None
Mean		5.5
Median		4.9

## 2.5 COMPARISONS WITH RECENT EXITS IN THE LAST FEW YEARS

In our analysis, we also considered the EBITDA multiples for recent exits for cement companies in the Africa region.

Precedent transactions				
Date	Target	Acquirer	Country	EV/EBITDA
Jun-23	Intercement Africa	Huaxin	South Africa	4.8x
Apr-23	Oman Cement	Huaxin	Oman	5.6x
Dec-22	Lafarge Zimbabwe	Fossil	Zimbabwe	7.0x
Dec-21	Lafarge Malawi, Zambia	Huaxin	Malawi, Zambia	5.4x
<b>Average EV/EBITDA multiple</b>				<b>5.7x</b>

## 2.6 BASIS OF MULTIPLE SELECTION

Using the above analysis, we determined that the appropriate multiple range between 6x to 7x as the lower and upper range. In determining this, we have not discounted the EBITDA multiple for country risk as all the comparables are for the Africa region.

VALUATION SUMMARY : 100% EV			
	EBITDA Multiple	2022 EBITDA UGX '000	2020-2022 AVG EBITDA UGX '000
Normalised EBITDA in UGX		46,766,760	56,703,496
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Common valuation techniques for cement manufacturing companies are listed in **Section 3** of this report.



### **3 COMMON VALUATION TECHNIQUES**

#### **3.1 ASSET BASED VALUATION/COST BASED APPROACH**

The net asset basis of valuing companies is based on the values reflected at a particular point in time. This is a commonly used method either alone or accompanying the valuation of a controlling interest on an earnings basis. The method is commonly used to value companies faced with financial difficulties, merging companies with similar businesses or companies which are highly asset or investment-based.

This method is not appropriate for a manufacturing and trading entity as it is more applicable to investment holding and real estate companies or loss making companies where their market value is tied to the underlying assets.

#### **3.2 INCOME APPROACH TO VALUE (CAPITALISATION OF EARNINGS)**

The capitalisation of earnings is a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalisation rate. This method is relevant for a manufacturing and trading entity as it is expected to have a constant growth of earnings. The business value under this method is equal to the cash profits generated by the company in a year multiplied by a capitalisation rate to reflect the market multiple.

#### **3.3 INCOME APPROACH TO VALUE (DISCOUNTED CASH FLOW)**

The DCF method is based on formulating assumptions about the future. This method takes into account the size and the timing of the net cash flows and discounting them at the weighted average cost of capital to the company or the required investor rate of return. The business values depend on the perceived risk associated with earnings and cash flows. The higher the risk, the higher the discount rate the investor will use in capitalising the earnings or cash flows. The method represents the value of the company based on the company's continued operations without any significant new changes to management and operational structures, which makes it not a suitable method for this valuation.

#### **3.4 MARKET APPROACH TO VALUE**

This method utilises market indications of value such as publicly traded comparable company stock. The financial metrics of public companies can be used to create valuation multiples that are then used to calculate business value. With readily available data from key market players and their current performance, this was the most applicable method as a basis for conducting a more accurate valuation.

#### 4 MATTERS OF SCOPE

This report and the valuations therein have been prepared using the information provided to us by the management of the Holcim group, Bamburi and Hima and our conclusions have been based on the assumption that the information is accurate and complete, and includes all relevant information that may affect the valuation.

Our analysis was limited to reviewing information made available to us by the Holcim group, Bamburi, Hima and other publicly available information sources we considered appropriate. Whilst we have no reason to believe that these sources are not reliable and accurate, we do not warrant their accuracy, completeness or correctness.

Furthermore, the valuation of Hima is not based on future projections hence the future performance of Hima's business has not been evaluated by us.

The audited financial statements that we have been provided are the sole responsibility of the Holcim group, Bamburi and Hima and RSM accepts no responsibility for them. Our procedures did not include verification work or constitute an audit in accordance with generally accepted accounting standards. Accordingly, we do not express any opinion on any financial or other data or other information referred to in this report.

This report is confidential and has been prepared for the use by Bamburi and the Holcim group only. While we understand that this report will be used in the public disclosure in relation to the Proposed Transaction, this report should not be copied or disclosed to any third party without our prior written consent. Where RSM provides such consent, it does not accept any liability to any third party in connection with this report.

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