

AECI: a bold rebirth

AECI is undergoing a radical transformation, moving away from a fragmented conglomerate model to become a streamlined, global specialist in Mining and Chemicals. Historically hampered by “corporate sprawl” and a portfolio of unrelated businesses that led to significant underperformance, the company’s “Back to the Future” strategy has successfully pivoted toward a high-performance specialized engine. By divesting value-destructive assets and focusing on operational excellence, the Group’s 2025 financial results confirm a decisive inflection point, characterized by a leaner structure, a de-leveraged balance sheet, and a robust recovery in profitability



Willie Pelsler

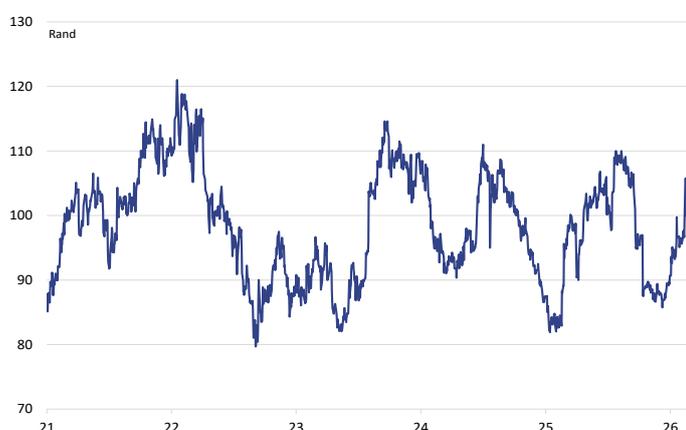
Clients might sometimes wonder why we have specific shares in their portfolios or why are we exposed to companies which you might deem as not “going anywhere”. AECI is such an example where the share price chart could lead you to question the investment case. This article sheds some light on what happened to AECI, why we have stuck with it over the past two years, and based on the latest results, why we might potentially be

increasing exposure in portfolios.

1. The Curse of Over-Diversification

Corporate sprawl is a seductive trap. In the pursuit of growth, industrial giants often accumulate a patchwork of unrelated businesses, only to find themselves paralyzed by

AECI SHARE PRICE



Share price volatility and the broadly sideways pattern reflects the wait-and-see attitude of investors on the outcome of AECI’s new strategic direction.

SPEED READ

- **Strategic Pivot to Core Growth:** AECI has exited non-core, value-destructive businesses—including Much Asphalt and Animal Health - to focus exclusively on becoming a top 3 global mining player by 2030.
- **Massive Earnings Rebound:** The restructuring led to a 53% surge in earnings per share in 2025, driven by record-breaking EBITDA in the Mining segment and disciplined margin management.
- **Balance Sheet Transformation:** Net debt plummeted by 88% (from R3.7 billion to R465 million) at the end of 2025, providing the Group with significant financial flexibility for future organic growth.
- **Operational Excellence & Digital Leap:** The company is targeting an EBITDA unlock of up to R1.2 billion by optimizing procurement and manufacturing, supported by a commitment to increase IT investment from 0.8% to 3.0% of revenue.

the very breadth they once coveted. AECI Ltd historically embodied this “highly diversified” model, operating a sprawling portfolio that ranged from road surfacing and animal health to explosives and water treatment. However, in a world defined by the “Change Compound” - a volatile mix of deglobalization, commodity fluctuations, and climate change - this lack of focus became a liability. The evidence was undeniable: a Total Shareholder Return of just 6% between 2018 and 2022, a figure that signaled clear underperformance compared to focused peers. At its 2023 Capital Markets Day (CMD), AECI signaled an end to this era of corporate drift. Through its “Back to the Future” strategy, the company is executing a radical pivot to shed value-destructive complexity and emerge as a streamlined, global specialist.

2. The “Complexity Cost”: Paying for the Conglomerate Mindset

During the CMD management stated a “Case for Change” at AECI which is rooted in the hard realization that managing multiple disparate business models simultaneously imposes a literal tax on the balance sheet. Historically, the Group attempted to juggle Asset-based, Market-based, and Technology-based models across nearly a dozen sectors. This structural confusion acted as an “alarm bell” during the 2023 strategic review. The financial toll was stark: finance costs surged by nearly 92%, jumping from R221 million to R425 million, while gearing sat at a heavy 45%. To silence this alarm, AECI is moving away from the fragmented conglomerate mindset to rally around a single core purpose:

“We are one AECI. For a Better World.”

By unifying under one identity, the Group intends to eliminate the friction of its former “Complexity Cost” and redirect its capital toward the highest-performing sectors.

3. The Great Divestment: Trimming the Fat to Find the Core

True strategic focus required humility to admit when past expansions have failed to create value. AECI optimized the portfolio, which involved moving non-core businesses into a managed portfolio for exit. This includes Much Asphalt, Animal Health, Schirm, and SANS Fibers. This is not merely “trimming the fat”; it is a necessary excision of value-destructive units. For instance, the Agri Health segment (which includes Schirm) recorded a negative Economic Value Added (EVA) of R608 million in 2022. The decision to sell Much Asphalt is particularly telling of the bravery of the leadership. It was a major acquisition in 2017/18, and admitting it no longer fits the core vision requires significant strategic maturity. AECI is now focusing exclusively on Mining and Chemicals. The synergy logic is precise: AECI Chemicals will provide the technical and manufacturing sourcing capabilities required to fuel the growth of the Mining business.

4. The Mining Moonshot: Aiming for Global Top 3

The cornerstone of the “Back to the Future” strategy is a massive step-change in ambition. AECI has set two primary financial and market targets:

- a) Double the profitability of the core business (Mining and Chemicals) by 2026.
- b) Attain a global market position in Mining of #3 by 2030.

To achieve this “Mining Moonshot,” AECI is pivoting from a generalist industrial player to a top-tier integrated

explosives and chemicals solutions provider. This involves leveraging its world-class underground expertise and expanding its geographic footprint into high-growth markets in the Americas and Asia-Pacific. Furthermore, the company is implementing region-specific sourcing strategies for Ammonium Nitrate to ensure supply chain resilience in a volatile global market.

5. Unlocking R1.2 Billion Through “Operational Excellence”

AECI is no longer pursuing revenue for revenue’s sake. Instead, the focus has shifted to operational and functional excellence to unlock hidden value within the core. The Group has identified four critical workstreams to drive a potential EBITDA unlock of R0.9 billion to R1.2 billion:

- Procurement: Implementing targeted initiatives across all direct and indirect spending categories to capitalize on the Group’s scale.
- Manufacturing Excellence: Driving plant productivity, reducing waste, and consolidating the manufacturing footprint to optimize fixed costs.
- Logistics: Reducing costs through volume bundling, improved planning, and contract renegotiation.
- Utilities and Energy: Building renewable energy capacity and deploying management systems to reduce consumption and future-proof the P&L against rising energy costs.

6. The Digital Leap: From 0.8% to 3.0%

A critical - and often overlooked - enabler of this transformation is the “Digitise Business and Future Proof Systems” initiative. Currently, AECI’s investment in IT stands at a mere 0.8% of revenue, a figure that pales in comparison to the 3.0% Industrial Goods average.

This digital gap (some might refer to this as the application of AI) is the bottleneck holding back AECI’s 2026 profitability targets. To bridge it, the company is committed to reaching that 3.0% aspiration. This digital leap is the “silent engine” behind the R1.2 billion operational value unlock; without a modern digital backbone, initiatives like strategic procurement and manufacturing excellence cannot be sustained at a global scale. Only through advanced data systems can the Group achieve the flatter hierarchy and rapid decision-making required to compete globally.

7. A New Blueprint for Value

AECI’s “Back to the Future” strategy is more than a restructuring; it is a fundamental shift from a high-gearing, low-Total Shareholder Return diversified model to a focused, high-performance specialized engine. By divesting from value-destructive assets like Schirm and Much Asphalt, the company is finally clearing the path for its high-margin core.

As the company marches toward its goal of becoming a top 3 global mining player, its journey serves as a powerful reminder of the importance of corporate discipline.

Have they succeeded?

2025 annual results confirm the restructuring success.

The 2025 financial year marks a decisive inflection point for AECI, signaling the successful conclusion of its intensive portfolio optimization and “right-sizing” phase. This strategic pivot has prioritized the quality of earnings over sheer scale, concentrating capital and management focus on the Group’s high-margin core pillars: Mining and Chemicals. By divesting lower-margin managed businesses, AECI has emerged with a leaner, more resilient structure.

The FY25 results validate this strategy, delivering a robust recovery in profitability despite a challenging macroeconomic environment and demonstrating the Group’s enhanced ability to convert operational performance into shareholder value.

Bottom-line outperformance was primarily driven by disciplined pricing, structural margin management, and the removal of dilutive non-core assets.

Comparative Earnings Performance (2025 vs 2024)			
Metric	FY 2024	FY 2025	% Change
Headline Earnings Per Share (HEPS)	716c	1 098c	+53%
Total Dividend Declared	219c	228c	+4%

The 53% surge in HEPS to 1 098 cents, reflects a powerful rebound from the prior year’s base. These gains were underpinned by record-breaking EBITDA in the Mining segment and a significant 33% reduction in net finance costs, due to the significantly lower levels of debt. This recovery underscores the effectiveness of management’s

operational discipline, extracting higher earnings even as reported Group revenue saw a slight 4% decline due to the disposal of managed businesses.

Shareholder returns have been further bolstered by a fundamental revision of the dividend policy (dividends were cut to assist in the process of rightsizing. The Board has shifted from a historical dividend cover of >3.0x to a new target range of 1.5x – 3.0x. This lower cover floor is a clear signal of management’s intent to increase the payout ratio now that the balance sheet has been successfully de-leveraged. The 4% increase in the total dividend to 228 cents per share, despite the lower reported revenue, reflects strong confidence in the Group’s durable cash-generative profile, supported by the operational turnaround in the core divisions.

Furthermore, AECI’s financial standing improved dramatically by the end of 2025:

- **Debt Reduction:** Net debt decreased by 88%, falling from R3.74 billion in 2024 to R465 million.
- **Leverage Multiple:** The Net Debt/EBITDA multiple improved to 0.1x, significantly below the company’s covenant threshold.
- **Liquidity:** Cash and cash equivalents increased by 65% to R3.9 billion.

This strengthened balance sheet is intended to provide the company with greater flexibility for future capital allocation and investment in sustainable organic growth. Given the surge in commodities and the renewed focus on mining, AECI’s recovery appears well-timed. Having understood the strategic pivot well, we believe AECI is poised for better times, and that bodes well for shareholders too.



AECI’s restructuring has yielded positive results.



The topic for our first Insight presentation for the year, to be held in March, is “The Trend is Your Friend”. More detail will follow but we will explore trends across various topics



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Topic: **The trend is your friend.**

Natal Midlands

Date:	12 March 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	10 March 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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