PwC's South Africa Manufacturing Analysis 2024

Resolute. Resilient. Adaptable.

October 2024

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1. Executive summary

Manufacturing contributes 13% of South Africa's gross domestic product (GDP) and will continue to play a significant role in the economy, with the sector's nominal GDP forecast to grow by an average rate of 5.7% per annum over the next decade.[1] Significant future growth opportunities available through localisation and workforce upskilling will boost the country's competitive advantage and attract new investment and needed employment opportunities.

In this, the first of our South Africa Manufacturing analyses, we review the financial performance of JSE-listed manufacturing companies and point out some of the key trends and challenges the sector faces, which will affect its ability to capitalise on opportunities in the sector and the larger economy.

Statistics South Africa (Stats SA) reports that in the first two quarters of 2024, the South African economy strengthened by only 0.4%. Despite tough conditions, manufacturers made clear strategic decisions that supported their financial results. Between the 2023 and 2024 financial years, some highlights include:

- Decrease in revenue by 2.53%
- Decrease in net operating profit by 21.04%
- Decrease in net profit by 145.66%
- Increase in net operating cash flows by 15.53%
- Decrease in total assets by 6.78%
- Decrease in total equity by 11.72%

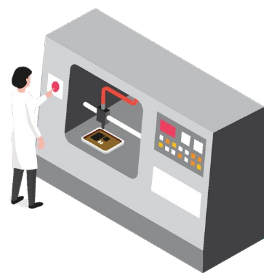
Revenue, operating profit and net profit decreased, with the top four contributors to profit also being the top revenue contributors. This shows that despite the tough economic conditions, through resolute actions and astute cost management, some industries can deliver profits. Net profit dropped significantly, with the speciality chemicals and paper & wood sectors registering losses, while packaged food saw the most significant profit increase.

Overall sector market capitalisation rose by 0.57%, from R546.96 billion to R550.08 billion, mainly due to increases in the paper & wood (R21.90 million), speciality pharma (R25.98 million) and packaged foods (R17.09 million) sectors.

Maintaining and growing the manufacturing sector involves risks, with business structure, politics, and the economy being top concerns for CEOs. Global megatrends are also pushing African CEOs to adapt, with 97% of participants in *PwC's 27th Annual Global CEO Survey in Africa* confirming they have changed their businesses in the past five years. During this period, 81% took significant actions impacting their business models, which showcases their agility and resilience. While many CEOs believe their companies will remain viable beyond the next decade, 73% think their competitors will not be viable beyond 10 years without drastic business model changes.

Leaders are also aware that skills are the golden thread for organisational success. The PwC Global CEO Survey found that 45% of CEOs in sub-Saharan Africa and 52% worldwide anticipate that labour and skills shortages will significantly impact their profitability in the next decade. Now more than ever, it is imperative for organisations to not only nurture the skills that employees will need throughout their careers, but to develop workforce skills crucial to achieving business goals and transformation.

According to *PwC's Voice of the Consumer Survey 2024: South African findings*, consumers care about sustainability and are willing to pay more for it. South African consumers say they would be willing to pay, on average, 11.9% above the mean product price for sustainably produced or sourced goods. Interestingly, the local result is 2.2% higher than the global average of 9.7%, but cost increases associated with sustainability are a fundamental challenge for consumer-facing companies.



1. Fitch Solutions, 2024. Data portal. https://www.fitchsolutions.com/

South African industries have benefited from high carbon intensity and lower export prices, but the European Union's Carbon Border Adjustment Mechanism (CBAM) and similar policies will erode this advantage, leading to higher costs, lower demand and increased pressure from EU importers for carbon footprint and sustainability compliance. However, the CBAM also offers an opportunity for South African manufacturers to rethink their business models and embrace a circular economy that minimises waste and maximises resource efficiency.

Embedding tax governance in the supply chain is no longer a compliance exercise — it's a driver of value. Tax plays a critical role in optimising and transforming supply chains in the manufacturing sector. Integrating tax considerations into supply chain decisions can significantly impact business outcomes, particularly in today's increasingly complex global environment. By strategically managing tax within the supply chain, companies can unlock cash flow, reduce costs and better manage risks associated with supply chain disruptions. Effective tax management also provides the flexibility and adaptability needed to navigate evolving tax regulations and economic uncertainties.

In the 8th edition of our Building public trust through tax reporting[2] report, we note that eight out of the top 10 performing companies in South Africa are primary-listed companies. The telecommunication sector consistently provides the most effective transparency of taxes (50%), followed by the basic materials sector (42%) and the energy sector (40%). Companies in the manufacturing sector scored 28% on average. It is interesting to note that 13 out of the 15 companies assessed in the manufacturing sector make use of the Global Reporting Initiative (GRI) standards to guide their integrated and sustainability reporting, but only four align themselves with the GRI 207[3] tax standard or other voluntary tax transparency frameworks or principles to guide the extent of their non-financial tax reporting.[4]

Procurement continues to drive broad-based black economic empowerment (B-BBEE) compliance in South Africa, with the government spending R2.04 trillion in the 2022/2023 financial year. The new Public Procurement Act No. 28 of 2024 aims to streamline procurement approaches and stimulate economic development by supporting locally produced goods and services, benefiting local and empowered manufacturers.

Investor sentiment remains cautiously optimistic, with a rise in business confidence among manufacturers. Significant mergers & acquisitions activity, particularly in the mining sector, reflects key themes such as the quest for strategic minerals and operational synergies.

Digital transformation is reshaping the sector, enhancing efficiency, reducing costs and improving product quality. Adopting Industry 4.0 tools and smart factory technologies is driving significant improvements in manufacturing efficiency and sustainability.

In conclusion, the South African manufacturing sector is navigating a complex landscape of challenges and opportunities. Despite significant headwinds such as underinvestment, escalating production costs and logistics disruptions, the sector has shown resilience.

Overall, the South African manufacturing sector holds significant potential for growth and innovation, provided it can navigate the challenges and leverage the opportunities presented by sustainability, digital transformation and strategic collaboration.

Pieter Theron

Africa Industrials & Services Leader

2. *Our focus and findings represent the level of tax transparency provided by the top 100 companies listed on the Johannesburg Stock Exchange for the financial year ended 31 December 2022 based on the PwC Tax Transparency Framework.*
3. *Global Reporting Initiative 207: Tax Standard (GRI 207).*
4. *The average overall score attained for total transparency is scored out of a possible 80 points, which is translated into an average percentage score.*

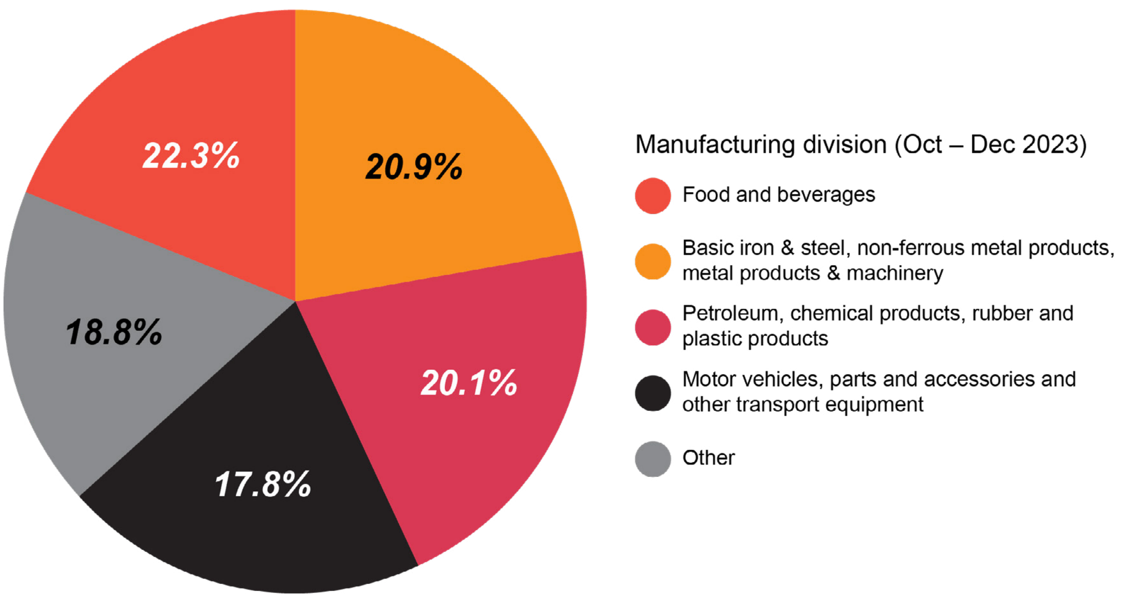
2. The impact of the manufacturing sector

South Africa is ranked 51st out of 153 countries in the United Nations Industrial Development Organisation (UNIDO) Competitive Industrial Performance (CIP) Index 2022. This measures 153 countries' capacity to produce and export manufactured goods, their technological progres, and their global influence on manufacturing activity. It placed South Africa – the continent's most industrialised economy – in the top third of manufacturing economies globally.

Stats SA's Manufacturing: Production and Sales statistical release for December 2023 showed the contribution to sales of each subsector from October to December of that year. Food & beverages was the largest contributor to sales (22.3%), followed by basic iron & steel, non-ferrous metal products, metal products & machinery (20.9%) and petroleum, chemical products, rubber & plastic products (20.1%).The fourth largest contributor was motor vehicles, parts and accessories, and other transport equipment (17.8%).[5]

The manufacturing sector accounted for 13.0% of South Africa's gross domestic product (GDP) in 2023. This is on par with BRICS partners Russia (12.3%), India (12.8%) and Brazil (10.8%), but significantly behind China (31.6%). The BRICS group is a significant global manufacturing bloc that supplies factory goods to many countries worldwide , particularly developed economies in the Global North.

Figure 1: Manufacturing contribution to sales of each subsector, October to December 2023



Source: Stats SA

5. StatsSA, 2023. Manufacturing: Production and sales, December 2023. https://www.statssa.gov.za/publications/P30412/P30412December2023.pdf
6. Fitch Solutions, 2024. Data portal. https://www.fitchsolutions.com/

Exports drive the sector's significant contribution to the economy. South Africa exported R403 billion worth of machinery and complex manufactured products including medical and transport equipment in 2023, accounting for 19.7% of total goods exports. This reflects the country's industrialised and advanced factory environment that produces high-tech and precision equipment for domestic and international use. South Africa is home to factories for some of the largest German and Japanese automotive brands, which exported a wide variety of vehicles to 148 countries in 2023. South Africa also boasts one of the highest ratios of machinery and complex manufactured products exports among the BRICS nations, again showcasing the country's industrial power in a global context.

Despite its ability to export manufactured goods, South Africa remains dependent on imports for a range of factory-produced items. Machinery and complex manufactured products accounted for a third of total goods imports in 2023.[7] However, to reduce import dependence and alleviate ongoing global supply chain disruptions impacting service delivery, the country is striving for industrialisation and localisation. The Department of Trade, Industry and Competition (the dtic) has focused on localisation within the manufacturing sector. This will enable South Africa to reduce its dependence on imported manufactured goods and potentially increase exports. In addition, it can potentially improve skills development and reduce unemployment. The sector, therefore, needs consistent investment and strategic support to help drive future growth.[8]

The manufacturing sector is also a large contributor to employment in South Africa, employing 1.6 million South Africans in 2023. This represents one in every nine jobs in the country.

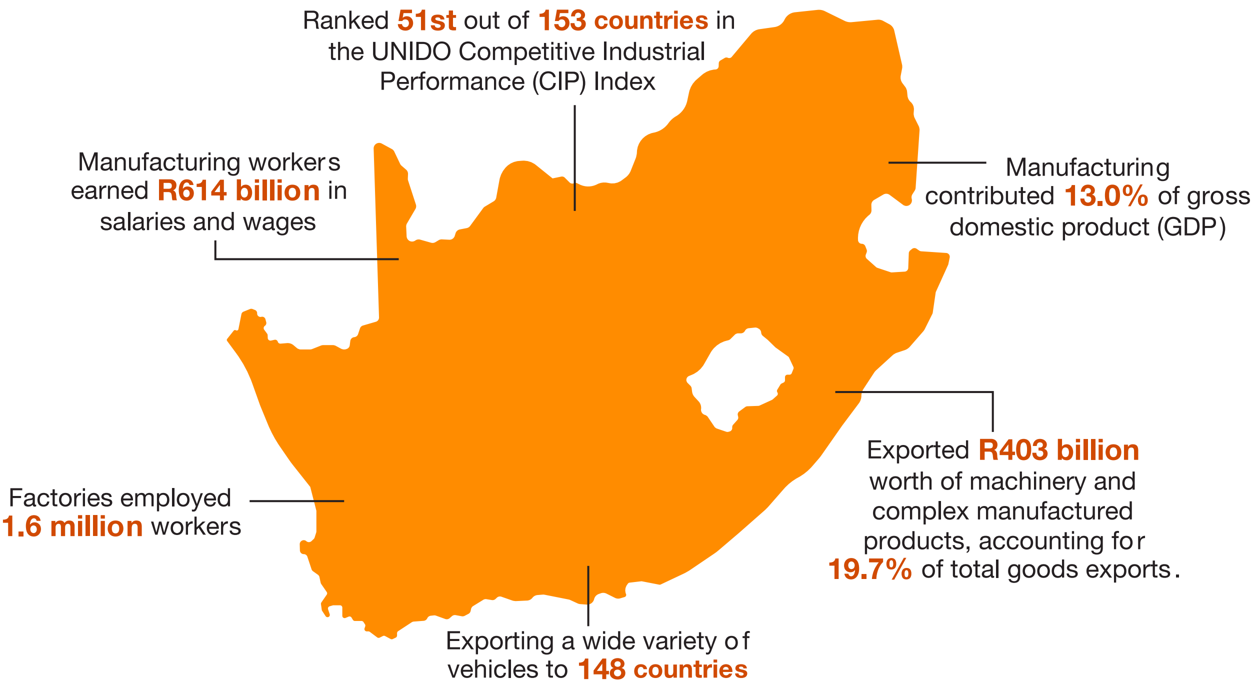
The sector has consistently represented a sizable part of the country's labour market, contributing more than 11.0% of total employment for many decades, and providing a large volume of semi-skilled and skilled jobs.[9]

Manufacturing is often skills-intensive. In our *Manufacturing Workforce 2023* publication, PwC highlights the importance of upskilling workers in new technologies and the need to create a digitally-enabled and connected workforce. Technologies such as virtual reality (VR) and augmented reality (AR) are becoming popular tools in workforce training and development by enabling workers to simulate real-world scenarios in a controlled environment, providing them with hands-on experience.[10]

South African manufacturing workers earned R614 billion in salaries and wages during 2023. While most of this remuneration was paid in urban and peri-urban areas, the economic impact of factory workers' income is also felt across the country's rural areas. Thousands of factory employees live and work far from their families and send money home to support their kin financially. These workers and their families then use their salaries to buy goods and services, supporting other economic sectors. These are the direct, indirect and induced contributions to the economy created through employment in the manufacturing sector.

The manufacturing sector will continue to play a significant role in the South African economy, with the sector's nominal GDP forecast to grow by an average rate of 5.7% per annum over the next decade.[11] Significant future growth opportunities are also available through localisation and workforce upskilling, which will boost the country's competitive advantage and attract new investment opportunities.

2023 Sector highlights



7. Fitch Solutions, 2024. Data portal. https://www.fitchsolutions.com/
8. Engineering News, 2023. "Promoting localisation in the manufacturing sector." https://www.engineeringnews.co.za/article/promoting-localisation-in-the-manufacturing-sector-2023-04-18
9. Fitch Solutions, 2024. Data portal. https://www.fitchsolutions.com/
10. PwC, 2023. Manufacturing Workforce - 2023. https://www.pwc.co.za/en/publications/manufacturing-workforce.html
11. Fitch Solutions, 2024. Data portal. https://www.fitchsolutions.com/

3. A risk multiverse driven by rapid global change

Global megatrends are creating a complex and interconnected 'risk multiverse'. [PwC's Global Internal Audit Study 2023](https://www.pwc.com/gx/en/services/audit-assurance/internal-audit/global-internal-audit-study.html) shows that today's megatrends are driving rapid global change in areas like technology, geopolitics, climate, supply chains, regulation, and work style reform. These changes are not occurring in isolation but are interconnected and interwoven, creating complex risks — a new reality we call the 'risk multiverse'.

This complexity is amplified by the globalised nature of modern markets, faster information flows, and more sophisticated expectations of consumers, regulators, and stakeholders — and greater consequences for failing to meet these expectations. This brings with it more blind spots and new types of disruption.

The result can be that organisations slow down, lose confidence in their strategy and roadmap, and are unable to steer quickly through change or avoid hazards. This can mean disruption at best or obsolescence at worst. This is forcing organisations to speed up transformation and change their core strategies.[12]

12. PwC, 2023. Global Internal Audit Study 2023. https://www.pwc.com/gx/en/services/audit-assurance/internal-audit/global-internal-audit-study.html

12 key risk themes impacting South Africa

The Institute of Risk Management South Africa (IRMSA) Risk Report 2024/25 summarises 12 risk themes in South Africa's risk profile. These risk themes have changed little over 10 years of reporting. However, in the table below, you can see that over the past five years, the need for a functional state and stable political and economic environment ranked as the top three risk themes.

Top risk themes impacting South Africa

	2020	2021	2022	2023	2024	Risk ranking: Manufacturing
Technology — Cyber, Security, AI, Digitalisation	✓	✓	✓	✓	✓	8
Rule of law	✓	✓	✓	✓	✓	9
Economy	✓	✓	✓	✓	✓	3
Social security		✓	✓	✓	✓	4
Politics	✓	✓		✓	✓	2
Logistics — Infrastructure			✓	✓	✓	5
Skills, education	✓	✓	✓		✓	7
Climate change	✓	✓	✓	✓	✓	10
Functional state			✓	✓	✓	1
Energy	✓			✓	✓	12
Food security					✓	11
Water					✓	6

In our own analysis, the top 10 manufacturers by market capitalisation have noted the following key risks in their integrated reports for the 2023/2024 financial years, sorted in order from most to least common:

1 Cybersecurity and technological change

Cyberattacks may compromise data, leading to financial fraud and system shutdown. There is an increasing need to ensure secure IT systems and careful data management to prevent financial, reputational and brand implications. Rapid advancements in technology require continuous investment in upgrading technology and processes. Failure to keep up with technological changes can affect efficiency and competitiveness.

2 Climate change impacting supply chains and commodity prices

Climate change will have an unavoidable effect on business and disrupt supply chains. Many raw material input price fluctuations correlate with global commodity cycles and demand. Force majeure events can influence raw material supply and pricing, directly affecting the market production and supply balance. Governments are focusing on carbon trading and taxes in response to climate change, which impacts profitability. Higher input costs caused by volatile commodity prices result in increased production costs and a decline in competitiveness.

3 Critical skills shortage

Having access to the right skills and attracting and retaining skilled employees have the potential to drive company performance and deliver on objectives.

4 Safety

As manufacturing is inherently dangerous, providing a safe operating environment for employees, visitors, and contractors is important. Prioritising health and safety is essential to ensure business continuity and reputation.

5 Challenging macroeconomic landscape

The South African economy faces many challenges that may disrupt business operations and its growth potential. In an economic downturn, consumer spending is reduced, negatively impacting demand for manufactured goods.

6 Capital, funding and liquidity

Sources of liquidity are dependent on macroeconomic, competitive and regulatory factors. A negative economic environment could impact funding and cash flow.

7 Legal, regulatory and governance compliance

Regulations vary by country, including environmental stewardship, health & safety, and legislation that adds to business complexity and risk of non-compliance.

8 Country risk

Country risk arises through operations in countries with varying geopolitical, socio-economic, macroeconomic and legislative landscapes, creating an uncertain environment for business.

9 Poor market conditions

Changing global dynamics impact the supply and demand for products, which hinders the ability to remain competitive and profitable.

10 Critical infrastructure failure

The deterioration of South Africa's infrastructure, including roads, rail and port facilities, together with poor utility delivery, has negatively impacted operations, increased operational costs and constrained production.

11 Reputation, ethical conduct and stakeholder relationships

Non-compliance with legal and governance requirements, together with unethical business conduct, could negatively impact stakeholder relationships and result in reputational damage.

12 Changing consumer preferences and product substitution

Changes in consumer preferences and socioeconomic and demographic trends can affect demand for manufactured products. Response is required timeously in a competitive market to avoid market share erosion. Product substitution can be a different product or solution that meets the customer's needs. Companies' and consumers' increased awareness and focus on sustainability creates more opportunities than challenges to transition to more sustainable solutions.

Managing these risks

Effectively managing these risks is crucial to maintaining operational stability and achieving long-term success in the manufacturing sector. To succeed, organisations will need different approaches, skills, and technology.

How organisations are responding to these risks

Manufacturing companies look to embrace business model changes

Are incremental changes today enough to keep Manufacturing companies relevant into the next decade? *The PwC Pulse Survey: Finding opportunity in reinvention* finds that these companies may have a shorter window of opportunity to evolve than they think: 73% of manufacturing leaders expect their average competitor to be out of business in 10 years if they don't change how they make money.

However, a potential blind spot stands out: 73% say they only need to make small changes to their business models to continue to grow — more than other sectors, including consumer markets, energy & utilities, financial services and tech, media and telecoms.

As manufacturers do make changes, they face challenges. Forty-one percent of manufacturing leaders say transforming their operating model to support their long-term vision poses a significant challenge. Another significant challenge for manufacturing leaders is thinking beyond their current profit pools (40%). These companies are, however, actively developing solutions for the future:

- As they think ahead to what's next in 2024 and beyond, these leaders are adopting digital technologies across the business. More than half (52%) are investing in new technologies such as cloud, and 54% are investing in generative AI specifically.
- Manufacturers are also at the forefront of creating interactive digital products to reach more customers and boost loyalty. Almost 40% have already developed such products — surpassing other sectors surveyed.
- Manufacturing leaders have a bullish outlook, with 93% citing C-suite consensus around their future company vision, and 81% believing they can execute business model changes at scale.[13]

Considering other risks, some specific to South Africa, businesses are increasingly finding doing business in South Africa challenging. These include local and global unrest, the complexity of doing business, poor market conditions, accelerated climate change, a critical skills shortage, failing infrastructure, and more.

Turning challenges into opportunities for growth

Considering these challenges and the fact that investors have investment options outside South Africa, why stay? Findings in our *Africa Business Agenda 2024* suggest that CEOs in Africa are more optimistic about growth prospects, the longevity of their organisations and the revenue outlook compared to their global counterparts — 51% of CEOs in Africa expect global growth to improve in 2024 compared to 38% globally. A smaller percentage (34%) in Africa expects the global economy to decline compared to CEOs globally (45%).[14]

Global megatrends continue to compel CEOs in Africa to adapt, as a significant 97% report having taken steps to change how they create, deliver and capture value over the past five years. During this time, 81% of CEOs in Africa took at least one action that greatly impacted their company's business model. This finding reflects agility and resilience among the 57% of CEOs in Africa who think their company's current trajectory will keep them viable beyond the next decade.

CEO optimism about corporate viability appears to reflect near-term economic optimism in Africa. For example, 51% of CEOs in Africa expect global growth to improve in 2024 (Global: 38%). A smaller percentage (34%) in Africa expects the global economy to decline compared to global CEOs (45%).

CEOs in Africa also reported significant revenue growth (16%) over the last year, compared to 12% of CEOs globally. Local or regional opportunities to grow their businesses may explain the relative optimism of Africa CEOs compared to CEOs globally.

The past year's performance is also boosting forward-looking sentiment, with a higher percentage of Africa CEOs reporting growth prospects in their territory over the next 12 months (52%) compared to global CEOs (44%).

Following efforts over the past several years to reinvent their businesses, Africa CEOs are more optimistic about growth prospects, the longevity of their organisations and the revenue outlook compared to CEOs globally.

The actions CEOs in Africa took over the past five years to change how they create and deliver value reflect the agility and resilience with which business leaders on the continent deal with disruption. Crises force CEOs to question their assumptions, potentially inspiring them to do things differently and bring people together in new ways to find unconventional solutions. Crises also compel them to act fast.

When managed carefully, crises create an environment that can help kickstart profound and sustained change. Over the past five years, we have seen this across many organisations in Africa. It has arguably better-prepared CEOs in Africa for the uncertain world of 2024 than their global counterparts.

13. *PwC. 2024. PwC Pulse Survey: Finding opportunity in reinvention. Sector implications. https://www.pwc.com/us/en/library/pulse-survey/finding-opportunity-in-business-reinvention/sectors.html*
14. *PwC, 2024. Africa Business Agenda. Thriving in an age of continuous reinvention. https://www.pwc.co.za/en/publications/africa-business-agenda.html.*

Steps manufacturing companies can take to improve their businesses

1. Strengthening supply chains

Raw materials shortages, exchange rate fluctuations and inflation have increased the cost of inputs, production and other areas of the supply chain. Climate change has impacted the location, availability, accessibility, price and downstream factors such as logistics and legal requirements. Building a reliable supply chain and diversifying supply chain sources has become critical. A digital supply chain that uses reliable data, advanced analytics and disruptive technologies drives efficiency and effectiveness for better decision-making and end-to-end visibility of complex operations.

Digital twins, the Internet of Things (IoT) and specifically sensors, robotics, artificial intelligence (AI), and decision intelligence systems have already had a positive impact on supply chain management as businesses look for ways to drive operations and cost efficiency as well as ways to reduce supply chain risks caused by disruption.

Businesses can leverage digital twins to conduct scenario planning to identify the effects of specific changes in the supply chain. IoT sensors help provide visibility in the supply chain to track products or monitor manufacturing processes. Robotics and automation help reduce human error and allow businesses to focus their human resources on more strategic tasks. AI and decision intelligence systems provide businesses with real-time data to improve planning and enable them to be more agile in responding to changes or disruptions in the supply chain. When implemented and executed correctly, these technologies will make a supply chain more efficient.

2. Upskilling and reskilling the workforce

It is generally understood that the number of unskilled workers employed will decrease as a result of digitalisation. Even though new technologies can create new jobs, they can also replace existing jobs, creating a need to upskill and reskill employees to ensure they remain relevant in the workplace. As we revealed in *PwC's Insights into the I4.0 maturity of SA Manufacturing* study, manufacturers are eager to upskill employees to complete more fulfilling tasks while being open to using automation and digitisation to replace repetitive and laborious tasks.

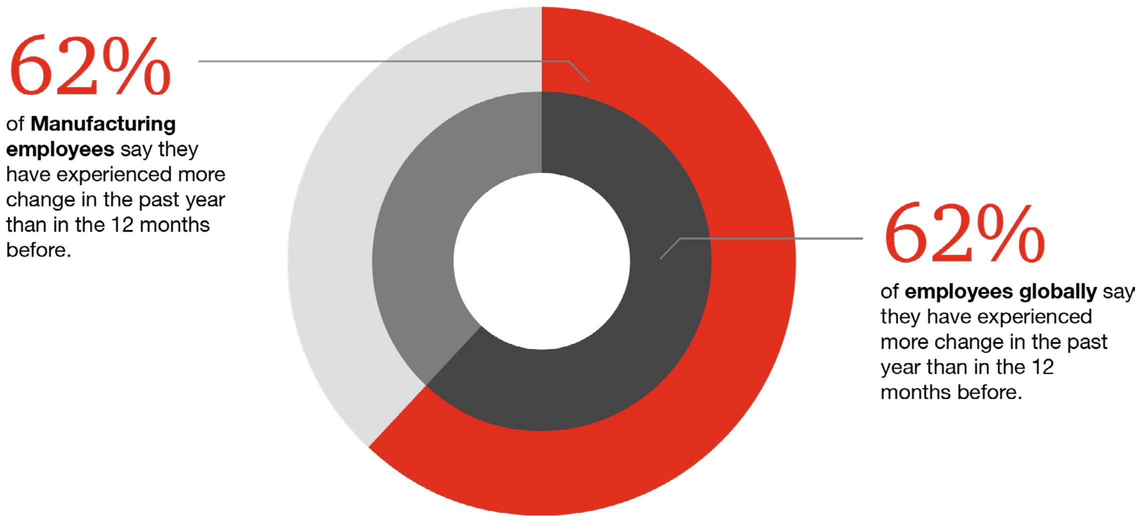
Leaders are also aware that skills are the golden thread for organisational success. The latest PwC Global CEO Survey found that 45% of CEOs in sub-Saharan Africa and 52% worldwide anticipate that labour and skills shortages will significantly impact their profitability in the next decade. It is, therefore, imperative for organisations to not only nurture the skills that employees will need throughout their careers but also develop workforce skills crucial to achieving business goals and transformation.

Most CEOs agree that there are ample learning opportunities within their organisations. This highlights the effort organisations are making to address skills gaps, provide platforms for upskilling and encourage skills development. However, even with well-developed upskilling programmes, organisations should consider whether they are reaching all employees. PwC research has found that 25% of employees feel their employer does not provide adequate opportunities to develop new skills.[15]

Many global developments are accelerating the pace of change in the job market, resulting in evolving skills requirements and increased knowledge gaps. *PwC's Global Workforce Hopes and Fears Survey 2024* found that 66% of employees recognise there will be a mismatch between skills possessed and skills required in the next five years. Organisations will need to prepare their workforce for the future by analysing the demand and supply of necessary skills and allowing employees to build the critical competencies they will need to participate fully in the workplace.

15. *PwC, 2022. Smart Manufacturing 2022. https://www.pwc.co.za/en/assets/pdf/smart-manufacturing-2022.pdf*

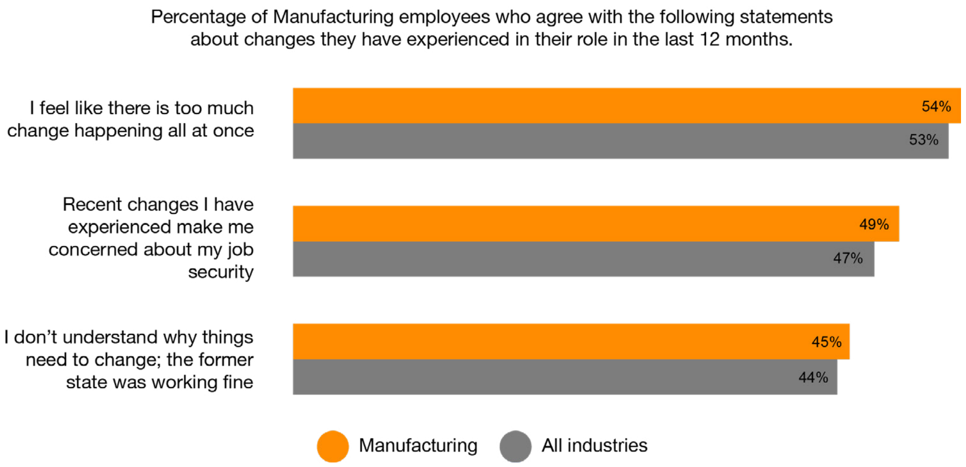
Figure 2: Change experienced by Manufacturing sector



Source: PwC's Global Workforce Hopes and Fears Survey 2024

Most Manufacturing sector employees have experienced more change in the past 12 months than in the previous year. Many express optimism about change, but it has also created stress and confusion.

Figure 3: Manufacturing sector employees who agree with statements about changes they have experienced in their role in the last 12 months



Source: PwC Global Workforce Hopes and Fears Survey 2024

To address these concerns and encourage employees to embrace change, leaders should focus on critical areas. Ensuring that employee morale is high during periods of transformation is essential. Fortunately, 60% of Manufacturing employees say they are moderately or very satisfied with their roles. Still, 29% say they are very or extremely likely to change employers in the next 12 months. Given a limited talent pool within the sector — especially for hourly workers — organisations need to create an employee experience that better attracts and retains top talent.

A number of factors could be driving this trend; a feeling of job insecurity created by changes could well be one of them. Nearly half of Manufacturing employees (49%) say that recent changes at work make them concerned about their job security. However, only 16% of Manufacturing CEOs plan to reduce headcount in the next 12 months. Investing in workers' careers by providing upskilling opportunities and taking steps to improve the employee experience could help demonstrate the company's commitment to employees and improve overall satisfaction.

These findings emphasise the importance of fostering a culture of continuous learning to provide employees at all levels with opportunities to develop relevant, adaptable skill sets. This focus on skills development benefits both employees and employers. As businesses aim for long-term economic viability through model reinvention and workers strive to remain future-fit, skills become the nexus of these aspirations.[16]

16. *PwC, 2024. PwC's Global Workforce Hopes and Fears Survey 2024 - African Perspectives. https://www.pwc.co.za/en/publications/global-workforce-hopes-and-fears-survey.html.*

3. Embrace sustainability as a competitive advantage

Companies can expand the impact of compliance and regulatory work, such as the Corporate Sustainability Reporting Directive (CSRD), by reporting non-financial, sustainability-related information to find bottom-line benefits but also to report on negative impacts. In addition, they can publish key performance indicators (KPIs) and be clear about the progress made toward achieving targets. Companies can build more resilient, efficient, less energy-intensive supply chains through network optimisation, integrated visibility, and technological innovation. Efficiencies can be exploited in areas such as truck loading, warehouse operations, routing, and waste and inventory reduction through machine learning, AI and analytics. Embrace the opportunity for premiumisation through product differentiation valued by consumers (e.g. products that commit to doing no harm), opening new market opportunities.

According to *PwC's Voice of the Consumer Survey 2024: South African findings*, care about sustainability and are willing to pay more for it. On average, South African consumers are willing to pay 11.9% above the mean product price for sustainably produced or sourced goods. Interestingly, this result is 2.2% higher than the global average of 9.7%.

Consumers say the sustainability incentives that would have the greatest impact on their purchasing are mainly tangible attributes, including eco-friendly packaging (41%), production methods that emphasise waste reduction and recycling (37%), and making a positive impact on nature and water conservation (37%). Supply chain transparency or community engagement (20% and 17%, respectively) are seen as less important. Providing consumers with information related to these attributes that will enable them to make informed decisions will become more important in future.[17]

Cost increases associated with sustainability are a fundamental challenge for consumer-facing companies. Thinking about how to stay ahead of the competition and how to become increasingly efficient should be central to sustainability discussions. The *Africa Business Agenda: South Africa Perspective 2024* found that over three-quarters of companies have efforts in progress to improve energy efficiency, and over half are creating innovative climate-friendly products or services.

4. Utilise incentives to broaden participation and innovation

The government provides incentive programmes that promote broader participation in the economy, as well as additional and increased investment and job creation in the sector. This includes tax incentives and grants, among other programmes, to stimulate and facilitate the development of sustainable and competitive enterprises.

17. PwC, 2024. Voice of the Consumer 2024: South African Findings. https://www.pwc.co.za/en/publications/voice-of-the-consumer-survey.html

5. Smart manufacturing

In manufacturing, there is always a battle between achieving agility and effectively producing against demand while maintaining a sustainable cost base. This conflict has been fuelled by the globalisation of manufacturing and the imperative of chasing price and quality competitiveness, which has been driven by customers demanding cheaper, more customised products. 'Manufacturing excellence' is a generalised term used to describe the overarching improvement programmes businesses deploy to extract value. This usually consists of the more traditional terminology of lean thinking, Six Sigma or continuous improvement. The objective is to induce a culture of continuous improvement and innovation that sustains businesses' ability to innovate.

The need for manufacturing excellence is stronger than ever in the South African context and it is imperative that manufacturers understand their maturity to chart a course to performance excellence. The effort required to institute change and optimise processes has been reduced significantly since the introduction of digital tools to monitor and sustain manufacturing excellence solutions. The use of technology can address most of the common challenges organisations face. Implementing data acquisition tools and visualisation has become cost-effective and has benefits beyond the shop floor. Business trade-offs can be understood by the wider organisation, bringing top management closer to the realities of the shop floor. The creation of a single source of truth can break functional silos and dispel myths about the performance of the shop floor.

6. Capital investment to drive strategic interventions

Investment in the manufacturing sector to support and drive strategic interventions as needed, including leveraging manufacturing finance for expansion, strengthening supply chains, incentivising innovation, and investing in workforce skilling and reskilling, is critical. Attracting investment is, however, a function of timing and appetite, in line with broader economic turnaround and improvement in sentiment. In addition, manufacturing companies will need access to sustainable financing, which may also be a function of government intervention — for example, through grants, sustainable loans and a broader allocation to infrastructure spending.

4. Market performance and mergers & acquisitions

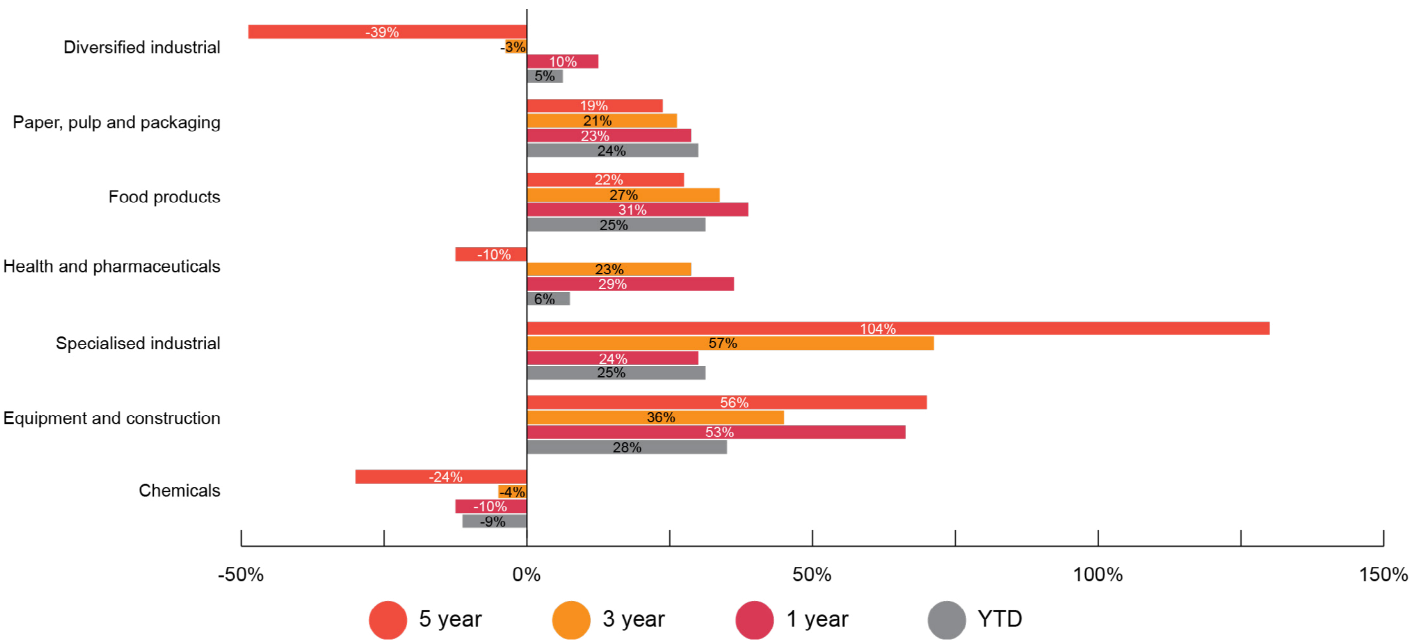
The South African manufacturing sector is at a pivotal moment, balancing the need for sustainability with the challenges of carbon-intensive practices. Embracing green technologies and renewable energy sources is crucial for maintaining competitiveness and capturing new market opportunities.

The sector has faced some headwinds, such as underinvestment, escalating production costs, stiff competition from imports, and pervasive investor uncertainty. Additionally, inadequate infrastructure, inefficient transportation networks, energy supply constraints, and poor logistical services have hindered manufacturing growth.

Developing a deep understanding of the challenges within the sector and current sector themes (locally and in other markets) presents opportunities for market participants to adapt and pursue growth through strategic collaboration, innovation, and mergers and acquisitions (M&A). Increased access to finance, strengthening supply chains, incentivising innovation, and investing in workforce reskilling are examples of strategies to address critical issues and drive sustainable development. The sector's interconnections with other key sectors, such as logistics, banking and retail, among others, also presents opportunities for broader commercial alignment.

Market performance

Figure 4: Share performance of the South African manufacturing sector



Source: S&P Capital IQ, PwC analysis

Note: The above are indicative categories of the select companies for which we have calculated average growth in share price on a non–weighted basis.

Diversified industrial companies showed mixed results, with slight positive growth in the shorter term as sentiment improves, but negative growth over a longer period, as most of the sector headwinds were felt within the five-year time frame shown above. In other words, the benefits of diversification did not outweigh the challenges faced over the last five years.

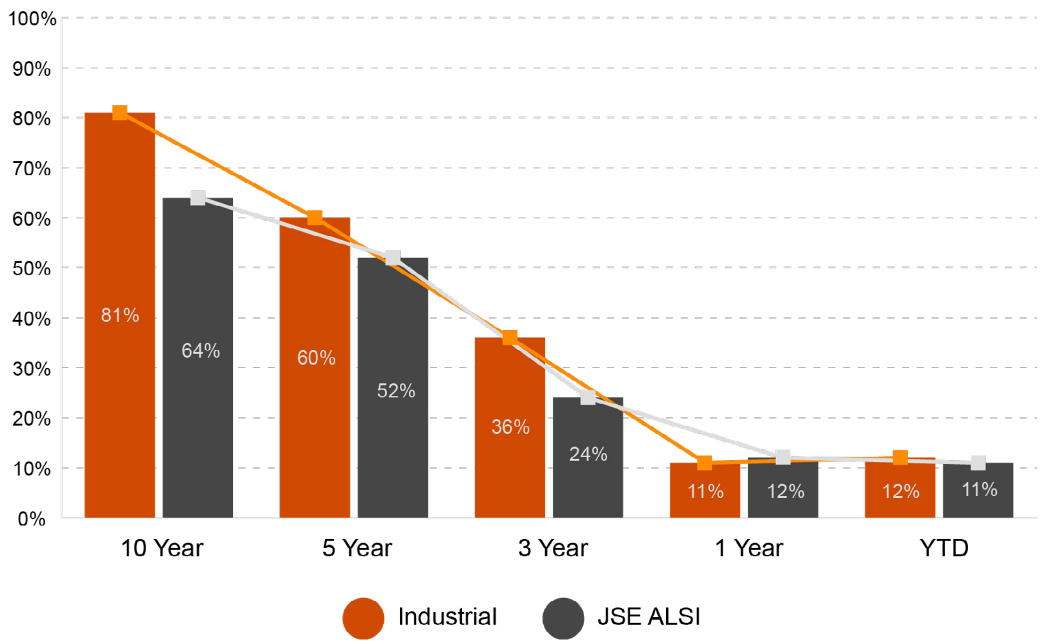
Paper, pulp, and packaging companies showed consistent positive growth across all periods analysed, outside of one or two key players that struggled. The most significant share price improvements have been over the past year, with the South African paper & pulp market experiencing strong growth, driven by a demand surge for packaging, printing, and publishing products.

Food products fared well, demonstrating strong positive share price growth, with the most significant growth in the last year. Health and Pharmaceuticals produced generally positive growth, with the highest increase being over the three years at 29%, although there was a 10% decline over the full five-year period. Outside of the sector challenges mentioned, these subsectors generally remain resilient and defensive, given the continued demand for food and healthcare products in the context of a growing population with evolving consumer needs.

Performance in the industrial and equipment segments, shown above, has been driven by a few key players that have shown strong earnings growth over the last few years, supported by strong demand in the building and machinery industries, as well as support from adjacent sectors such as mining, where commodity prices and infrastructure projects (local and offshore) played a role.

Chemical companies have struggled over the past five years, contracting 24%, which has not improved in the short term either as sector players continued to produce negative results and see their share prices decline.

Figure 5: JSE Industrials Index vs JSE All Share Index (ALSI)



Source: S&P Capital IQ, PwC analysis

Please note: The above graph represents the Industrials index on the JSE, and not a specifically created index of the selected companies in this publication.

Over the past 10 years, the Industrials Index has shown resilience, driven by growth and stability in adjacent sectors, with constituent companies benefitting from both domestic and international demand. Despite this, there have been challenges, including fluctuating commodity prices and economic slowdowns, which have occasionally dampened performance.

The JSE All Share Index has also shown growth over the past decade, significantly influenced by solid performance in certain sectors which include resources, financials, and industrials, all having top-performing companies bolstering their respective indices. The All Share Index's performance has been closely tied to global economic conditions, currency fluctuations and investor sentiment.

While both indices in the above comparison show generally positive growth, the Industrials Index has, especially over a longer time span, exhibited the pronounced impacts of sector-specific opportunities and challenges. In the context of known global challenges within the last decade, the comparison highlights not only the resilience and growth opportunities but also the dynamic nature of the Industrials sector, as part of and representing the wider manufacturing sector.

South African manufacturing M&A activity

The general volume and value of M&A transactions in South Africa has declined in recent years, most notably since the Covid-19 pandemic, with a 60% decrease in the first half of 2020 compared to the previous year. Over the last year, the M&A landscape for local listed manufacturing sector players has also been muted as companies focused on navigating operational challenges, in line with the current themes highlighted. The following select key transactions are highlighted from the manufacturing sector, which illustrate investors looking for growth in the sector, as well as sector players seeking growth opportunities elsewhere :[18]

enX Group

A South Africa-based private banking and financial services provider acquired a 51.2% stake in enX Group Limited, a local diversified industrial group, for a total consideration of R600 million ($31 million). An offer was made to investors in May 2023, which closed in September for a cash offer price of R6.41 per share. An earlier offer by the same bidder, as a part of a consortium, had been submitted unsuccessfully in 2022 for 62% of the company. enX Group currently trades at a 15% to 20% discount to the entry price.

Aspen Pharmacare

Aspen Pharmacare, through its subsidiary, Aspen Global Inc, announced its acquisition in December 2023 of a China-based pharmaceutical operator focused on drug development from a Switzerland-based global research-based pharmaceutical and nutrition group. The purchase consideration was €92.6 million ($100.783 million), consisting of €74.1 million ($80.648m) paid in cash and €18.5 million ($20.135 million) paid in earnout. The transaction was completed in April 2024.

Through the same subsidiary, Aspen acquired commercialisation and related intellectual property rights from the Latin American subsidiary of a global pharmaceutical and healthcare corporation. The consideration consisted of $150 million paid in cash and an undisclosed amount paid in other considerations. The transaction was completed in October 2023 following approval by the competition authorities in Ecuador and Colombia. Key products within the portfolio are sold under the brand names Lipitor, Viagra, Lyrica, Zoloft, Norvasc and Celebrex.

18. CapIQ and MergerMarket, 2024.

Nampak Limited

In September 2024, RMB Corvest, in partnership with Dlondlobala Capital, concluded a successful management buyout of Nampak Liquid Cartons, Nampak Zambia and Nampak Malawi for a total purchase consideration of R450 million ($23.77 million).

Nampak Liquid Cartons manufacturers, sells and supplies paper products to package beverages, including Pure-Pak and Conipak (conical) cartons in South Africa, with core operations in South Africa, where Zambia and Malawi are considered smaller businesses. These businesses will become part of a newly formed group and retain current operations and staff.

The acquisition aimed to drive a well-positioned business with a good client base towards success as a smaller stand-alone, privately-owned group. The group would be seen as providing fully integrated packaging solutions to customers, including delivery of cost-effective, environmentally–friendly solutions.

Opportunities for expansion for local manufacturing companies

Offshore expansion opportunities

South African manufacturing companies listed on the JSE have several opportunities for offshore expansion. These opportunities are driven by the need to diversify revenue streams, access new markets, and mitigate risks associated with the local economic environment. Manufacturing-adjacent companies like Bidvest Group and Barloworld Limited (both not included in this report per the selection criteria) have successfully expanded their operations offshore, leveraging their strong financial positions and operational efficiencies.

Offshore expansion allows South African manufacturers to tap into high-growth markets, access advanced technologies, and benefit from economies of scale. For instance, the global demand for high-value-added products such as automotive components, industrial machinery, and chemicals presents significant growth opportunities. Additionally, adopting advanced manufacturing technologies and digital transformation can enhance competitiveness and drive growth in international markets.

African expansion opportunities

Locally-listed South African manufacturing companies generally have significant offshore and African expansion opportunities. By leveraging their strong financial positions, operational efficiencies, and strategic investments, these companies can tap into high-growth markets, access advanced technologies, and benefit from economies of scale. The African Continental Free Trade Area (AfCFTA) is a key driver of this expansion and further enhances these opportunities by providing a unified market and reducing trade barriers across the continent. As South African manufacturers continue to navigate the challenges and opportunities of the global market, strategic expansion initiatives will play a crucial role in driving sustainable growth and competitiveness.

Broad-Based Black Economic Empowerment

Procurement continues to be the principal driver of Broad-Based Black Economic Empowerment (B-BBEE) compliance in South Africa. The South African Government spent R2,04 trillion in the 2022/2023 financial year. As the custodian of B-BBBEE, the government must ensure that all entities that supply goods and services to it have competitive B-BBEE ratings.

As has been the case since the revised codes introduced in 2013, the achievement of these ratings for any entity wishing to supply the government relies significantly on their evidencing procurement expenditure on other appropriately-rated entities, thus cascading empowerment requirements throughout the economy (even for those entities that do not contract with or directly sell to government).

Section 217(1) of the Constitution requires organs of state to contract for goods and services "in accordance with a system which is fair, equitable, transparent, competitive and cost-effective". To this end, state organs are permitted to implement their own procurement policies, but these policies must be implemented in accordance with a framework prescribed by national legislation to ensure both transparency and expenditure control in the procurement process. However, these myriad procurement policies are often developed in accordance with specific individual organs of states' legislation, thus creating differences and complexities in the approaches adopted by different organs of state.

The newly approved Public Procurement Act No. 28 of 2024 (the Act) aims to streamline this previously fragmented set of approaches by organs of state. One of the stated objectives of the Act is to stimulate economic development by supporting the procurement of goods and services produced and provided in South Africa. This bodes well for local manufacturers (and empowered local manufacturers in particular) as the Act requires all state entities to implement a procurement policy that makes provision for the advancement of:

- Black people
- Black women
- Women
- Black people with disabilities
- People with disabilities
- Military veterans
- Persons referred to above within a particular geographical area
- Small enterprises
- Small enterprises owned by:
    - Black people
    - Black women
    - Women
    - Black people with disabilities
    - People with disabilities
    - Military veterans
    - Black people who are youth
    - Youth
    - Persons referred to above within a particular geographical area
- Small enterprises within a particular geographical area
- Co-operatives
- Co-operatives that consist of members who are black people
- Co-operatives within a particular geographical area

It is unclear what the minimum levels of ownership small enterprises will be required to achieve to comply with or benefit from these empowerment categories. We expect these targets to be clarified in regulations that will need to be published in the next 12 months to enable state entities to implement the Act.

From now on, all state tenders will include pre-qualification criteria geared to promote preferences for bidders who:

- Themselves procure a prescribed minimum percentage[19] of goods and services from black-owned and managed suppliers
- Subcontract a prescribed minimum percentage[20] to those entities earmarked for advancement above:
    - Small enterprises owned by:
        - Black people
        - Black women
        - Black people with disabilities
        - People with disabilities
        - Military veterans
        - Black people who are youth
    - Small enterprises
    - Small enterprises within a particular geographical area
    - Co-operatives
    - Co-operatives which consist of members who are black people
    - Co-operatives within a particular geographical area

Bidders who do not meet the pre-qualifying criteria will be disqualified from participation in a bid at the outset.

The Act may stimulate economic activity in the manufacturing sector, as it allows the minister of trade, industry and competition to designate locally produced or manufactured goods as meeting the stipulated minimum threshold for local production and content for a particular industry, sector or subsector. Consequently, all bids published concerning a relevant industry, sector or subsector will be obligated to include the stipulated minimum threshold for local production. Any bidders failing to meet the stipulated threshold will be unacceptable and disqualified. Multinational companies that import goods required by the South African economy and the government will need to understand these procurement rules and the basis for compliance.

The Act has only been approved by the President, and several regulations need to be gazetted before it can be implemented. The regulations are expected to be published in the first half of 2025, which provides local manufacturers with some time to start exploring ways in which they can prepare themselves to (i) address the structure of their ownership and (ii) meet the pre-qualification criteria in terms of their own procurement practices.

Outlook for the manufacturing sector

The South African manufacturing sector is navigating a complex landscape of challenges and opportunities. Despite facing significant headwinds such as underinvestment, escalating production costs, and logistics disruptions, the sector has shown resilience. Key factors driving developments in the sector include sustainability, digital transformation, automation and employee reskilling. Investor sentiment remains cautiously optimistic, with a rise in business confidence among manufacturers. B-BBEE remains a critical policy issue, impacting various aspects of business competitiveness in South Africa.

Overall, the South African manufacturing sector holds significant potential for growth and innovation, provided it can navigate the challenges and leverage the opportunities that arise.

19. The prescribed minimum percentages have not yet been published. We expect these to be published in the first half of 2025.

20. Ibid.

5. The manufacturing regulatory landscape

Tax governance and transparency: A sector perspective

Embedding tax governance in the supply chain is no longer a compliance exercise — it's a driver of value.

Economic volatility, energy crises and geopolitical tensions, among other forces, have created a new reality for businesses. The world of products and services is thoroughly globalised. The Internet of Things, digitalisation and automation of processes have made the manufacture and distribution of goods increasingly interconnected. The more complex a supply chain, the bigger the risks.

In today's business environment, tax leaders face a relentless rise in global and local regulatory demands, creating a strong need to reinvent their approach to tax. To navigate the competitive manufacturing and supply chain transformation landscape, they must reconsider how tax integrates into this complex operating environment and evaluate the robustness and adequacy of their company's *tax governance framework*.

A more transformative approach to tax functions, operations and narratives is essential to meet these challenges. By embracing innovative methods in governance, risk management, process improvement, engagement and leveraging a connected, data-driven strategy, they can accelerate their ability to transform and effectively manage the evolving challenges.

Integrating tax considerations into supply chain decisions

Tax plays a critical role in optimising and transforming supply chains in the manufacturing sector. Integrating tax considerations into supply chain decisions can significantly impact business outcomes, particularly in today's increasingly complex global environment.

By strategically managing tax within the supply chain, companies can unlock cash flow, reduce costs and better manage risks associated with supply chain disruptions. Effective tax management also provides the flexibility and adaptability needed to navigate evolving tax regulations and economic uncertainties.

Tax technology plays a vital role in this process, enabling businesses to leverage data and automation to streamline compliance, enhance transparency, and make informed decisions aligned with both operational and financial goals. Aligning tax strategies with broader business objectives, including digital transformation and risk management, helps manufacturing companies maintain competitiveness and resilience in the face of global challenges. This alignment ensures that tax functions contribute to overall value creation within the organisation, particularly as supply chains become more digitised and interconnected.

Managing tax effectively is crucial to maintaining stakeholder trust in a world where social media can influence politics and markets. The quality of an organisation's *tax governance framework* is key in demonstrating to governments and other stakeholders that the business takes its obligations seriously. Stakeholders often look at how companies manage their tax affairs as an indicator of how they might manage other aspects of their sustainability agenda and business more generally.

Understanding and defining good governance can be complex. While there is no universal tax governance standard — due to the diversity in operations, jurisdictions and business structures among enterprises — there is an increasing wealth of best practices emerging from the experiences of large companies as they strive to establish robust tax governance frameworks.

Communicate the broader sustainable tax strategy to remain relevant.

Communicating the broader sustainable tax strategy in line with converging global and local corporate reporting and sustainability disclosure standards and guidelines is essential to remaining relevant.

Manufacturers significantly influence how people live, eat, work and play, with supply chains spanning various locations, involving complex tax considerations and facing numerous regulatory demands. Manufacturing businesses must consider a broader and dynamic ecosystem of issues to manage tax effectively. Customers, investors, business partners, policymakers, tax authorities and sustainability activists increasingly seek more information about how and where products are assembled and delivered.

To meet these demands, companies should present a comprehensive view of their supply chain tax strategies, including how they address tax risks in different jurisdictions, adapt to disruptions, and ensure alignment with broader business objectives.

The manufacturing sector in South Africa often faces scrutiny over its environmental impact, labour practices and economic contributions. The message is increasingly loud and clear: Businesses must invest now to identify and manage their societal impact through operations and supply chains so that they can address issues, prevent harm and protect their reputation and right to operate.

South African manufacturers often operate within global supply chains where tax transparency is increasingly required. Multinational companies and international trade partners may demand transparency from their suppliers to ensure compliance with global standards and to mitigate risks associated with tax avoidance or evasion.

A complete, interconnected and balanced narrative is necessary to demonstrate how a company's approach to tax aligns with its purpose, strategic priorities, and commitment to long-term value creation. Including tax in *materiality evaluations* and communicating it effectively to stakeholders is crucial for enhancing understanding of the risks, opportunities and sustainability impacts associated with the business.

Building trust in this environment requires doing the right thing and clearly communicating topics such as approach to tax, tax planning strategies, and tax policy engagement, to name a few. Stakeholders, including investors, highly value companies that prioritise responsible tax practices and that are transparent about their economic contributions. Taxes paid by the sector, including those collected on behalf of governments, can represent its most significant monetary contribution to society. By being transparent, manufacturing businesses can enhance their reputation, demonstrating their fair contribution to public finances and responsible corporate citizenship.

Tax transparency is not universally mandatory, but it is vital for corporate reporting, sustainability and tax teams to engage with and understand the key governance, regulatory and reporting frameworks[21] applicable to the company and prepare for what is on the horizon. Global tax policy changes and legislation[22] enacted in jurisdictions where an organisation operates may directly impact public tax reporting requirements.

Many companies in South Africa recognise that tax transparency sends a powerful message about their commitment to the environment and society. They understand the positive impact transparency has on their reputation and the opportunities it brings, leading them to provide voluntary "non-financial"[23] disclosures and explanatory narratives that go far beyond the statutory requirements. Public disclosure of additional tax information may also influence how investors evaluate an organisation's tax position. Investors often rely on assessments by rating agencies[24] to gain deeper insights into a company's position on tax and related risks.

In the 8th edition of our *Building public trust through tax reporting*[25] report, we note that eight of the top 10 performing companies in South Africa are primary-listed companies. The telecommunication sector consistently provides the most effective transparency of taxes (50%), followed by the basic materials sector (42%) and the energy sector (40%). The best-performing company is in the financial sector. Companies assessed in the manufacturing sector, on average, scored 28%.

It is interesting to note that 13 out of the 15 companies assessed in the manufacturing sector use the GRI standards in some way to guide their integrated and sustainability reporting. However, only four align themselves with GRI 207[26] or other voluntary tax transparency frameworks or principles to guide the extent of their non-financial tax reporting.[27]

Looking outward, *tax transparency builds trust*, improves business reputation, reinforces the licence to operate and enables better stakeholder engagement. Open dialogue and providing easily accessible information about tax can demonstrate value creation for all stakeholders. However, tax transparency is only "the tip of the iceberg". Looking inward, tax transparency provides visibility and insight-driven participation from the tax function throughout the business value chain. Bear in mind that reporting is never a "tick-the-box" exercise, but rather an opportunity to assess and communicate how these tax governance and risk management initiatives are embedded and applied in the business.

The tax transparency landscape is rapidly evolving and becoming more complex. Tax executives must navigate this landscape with the support of boards, audit committees, CFOs, investor relations, and sustainability officers. As a major employer and economic driver in South Africa, the manufacturing sector can benefit from transparent tax reporting, which helps highlight the sector's contribution to national development, including infrastructure, education, and social services funded by tax revenues.

21. *e.g. International Financial Reporting Standards (IFRS); the Integrated Reporting Framework; King IV Report on Corporate Governance for South Africa, (King IV); the JSE Limited (JSE) Listings Requirements; JSE Sustainability Disclosure Guidance, the Global Reporting Initiative's Sustainability Reporting Standards, United Nations Global Compact (UNGC), UN Sustainable Development Goals (SDGs).*

22. *An increase in quantitative reporting is expected owing to mandatory reporting initiatives, such as the EU's public Country-by-Country Reporting (pCbCR) and the Corporate Sustainability Reporting Directive (CSRD). The EU is leading the way in this respect, but many other jurisdictions are following, including Australia and the US.*

23. *Non-financial information typically refers to information that isn't based on the usual financial figures but which nevertheless gives stakeholders an understanding of the essential areas of value creation in your business that goes way beyond your financial statements.*

24. *Methodology. etc.*

25. *Our focus and findings represent the level of tax transparency provided by the top 100 companies listed on the Johannesburg Stock Exchange for the financial year ended 31 December 2022 based on the PwC Tax Transparency Framework.*

26. *Global Reporting Initiative 207: Tax Standard (GRI 207).*

27. *The average overall score attained for total transparency is scored out of a possible 80 points, which is translated to an average percentage score.*

South African manufacturing: Future-proofed and CBAM-ready

The world is changing rapidly, as are the rules of the game for international trade. As more countries adopt ambitious climate policies to reduce their greenhouse gas (GHG) emissions and foster a low-carbon economy, they are also introducing new measures to ensure a level playing field for their domestic industries. One of these measures is the Carbon Border Adjustment Mechanism (CBAM), implemented by the European Union (EU), which aims to impose a carbon price on imports of certain carbon-intensive goods, such as iron, steel, cement, aluminium, fertilisers, hydrogen and electricity. The initial (transitional) phase, which commenced on 1 October 2023 and ends on 31 December 2025, imposes reporting on importers of in-scope goods into the EU. The financial impact of CBAM is expected to take effect by 2026 and will affect South Africa's exports to the EU, one of its largest trading partners. The United States, with the Inflation Reduction Act; the United Kingdom, with its own CBAM; and Australia, Türkiye and Japan, similarly considering implementing versions of a CBAM, are each at different stages of their processes.

The CBAM poses significant challenges for South African manufacturers who rely heavily on coal as their primary energy source. Until now, high-carbon intensity and the lower prices of South African exports have given South African industries a competitive edge over international rivals. However, with the CBAM and similar policies emerging in other markets, this advantage will erode, potentially becoming a disadvantage. South African exported goods will face higher costs, lower demand, and increased pressure from EU importers and other territories implementing their own CBAM to provide detailed information about their carbon footprint and compliance with sustainability standards and reporting.

The business case for decarbonisation is a commercial one. South African manufacturers have a limited time to reduce their exposure to the CBAM and other carbon border policies and, most importantly, gain a competitive edge in the global market, access new customers and markets, improve their reputation and brand value, and contribute to the global fight against climate change.

Preparing for the CBAM and a circular economy

Here are some practical steps businesses can take to maximise the opportunities presented by a climate-focused future economy:

- **Data management**
  The starting point is to measure and monitor GHG emissions throughout the value chain, from raw materials to final products. This is a crucial process to identify carbon hotspots, benchmark performance against competitors, and report emissions to importers and regulators required to comply with CBAM. Data management is useful for tracking resource use, waste generation and recycling rates, and identifying opportunities for improvement. As part of this process, assessing current and future exposure to environmental taxes and CBAM, taking into account the different types, rates, and regimes of environmental taxes in each jurisdiction and the potential impact of CBAM on a group's import and export activities, will be crucial.
- **Decarbonisation**
  Where the impact of CBAM is expected to be significant, the next step is to invest in decarbonisation processes. Decarbonisation will reduce carbon tax liability and CBAM exposure. Implementing best practices and technologies to reduce emissions will improve energy efficiencies, as will switching to cleaner energy sources such as renewable energy, biogas or hydrogen.
- **Design**
  The third step is to design products and processes with circularity and sustainability in mind. This is done by applying eco-design principles, such as durability, modularity, repairability, reusability, recyclability, and biodegradability. Designing for circularity will extend the lifespan of products, reduce material and waste costs, create new revenue streams from repairing, refurbishing, and remanufacturing, and meet the expectations of customers and consumers who are increasingly demanding more sustainable and responsible products.
- **Collaboration**
  An important aspect is collaborating with suppliers, customers, peers, industry associations, research institutions, civil society and government to create a supportive ecosystem for low-carbon economy business. Collaboration is valuable for sharing best practices, learning from others, accessing new technologies and innovations, developing synergies and partnerships, and influencing policies and standards.

Depending on the perspective, the CBAM does not have to be a threat to carbon-intensive businesses in South Africa. South African manufacturers have a chance to play a valuable role in the global transition to a low-carbon and resource-efficient economy. By taking proactive and strategic actions, the local manufacturing market can turn the challenges into advantages and create value for themselves and their stakeholders.

6. The case for sustainable manufacturing

New challenges to navigate

Since the Covid-19 pandemic began in 2020, the manufacturing sector has faced increasing pressure to change and adapt. A number of events in the geopolitical and regulatory landscapes have exacerbated this. The case for sustainable manufacturing and a sense of urgency is becoming more apparent. Some of the challenges that need to be addressed include:

- Environmental challenges
- Resource constraints and cost pressure
- Societal and stakeholder expectations
- Upholding human rights
- Stringent global and local regulations
- Geopolitical instability.

What is sustainable manufacturing?

The United States Environmental and Protection Agency (EPA) defines sustainable manufacturing as "the creation of manufactured products through economically sound processes that minimise negative environmental impacts while conserving energy and natural resources, and also enhances employee, community and product safety.[28]" There are, therefore, a number of levers that can be used to pivot any manufacturing business onto a more sustainable path.

Sustainable manufacturing is an essential component of future industrial success for many reasons. We explore the business case for sustainable manufacturing, the principles of sustainable manufacturing, and how to overcome some of the challenges that may arise.

The business case

Sustainable manufacturing can lead to short-, medium- and long-term operating margin improvement (increased profits or cost savings) through adopting energy-efficient technologies, waste reduction, and resource optimisation, among others. However, it is essential to adopt a long-term view when embarking on the journey towards sustainable manufacturing, as significant investment may be required upfront.

There are several reasons why clients are pursuing sustainable manufacturing:

- To increase operational efficiencies by reducing costs and waste. In some instances, a dual benefit can be observed. For example, advances in green technology have resulted in lower costs for renewable electricity than fossil fuel-generated electricity. This decreases both operational expenditure and the environmental impact of the product.
- To respond to or reach new customers and increase competitive advantage
- To protect and strengthen the brand and reputation and build public trust, enhancing their licence to operate
- To obtain access to finance by appealing to investors looking for investments with stronger environmental and social awareness credentials. Investors are starting to recognise that organisations that are aware of their sustainability risks and have embedded sustainability mechanisms may ultimately be at lower risk.
- To build long-term business viability and success
- To respond to regulatory constraints and opportunities
- To improve employee loyalty and talent retention
- To identify longer-term trends and reduce risks from short-term shocks.

28. *United States Environmental Protection Agency, 2024. "Sustainable manufacturing." https://www.epa.gov/sustainability/sustainable-manufacturing#:~:text=Sustainable%20manufacturing%20is%20the%20creation,employee%2C%20community%20and%20product%20safety.*

Sustainable manufacturing principles

There are a number of sustainable manufacturing principles that can be used as levers to move towards more sustainable manufacturing processes. These may be implemented in combination with one another or individually over time.

Extending sustainability thinking from the site level to a value-chain approach

While most specific manufacturing activity is often done at a single site or location, it is part of a broader value chain. It can be easy to focus only on the measures to make the site more sustainable. However, to ensure the site is truly sustainable, a value-chain approach needs to be undertaken to consider the upstream and downstream risks and opportunities that arise. This includes potential challenges such as disruptions to supply routes for raw materials or difficulties getting the final product to market, often due to geopolitical instability and climate change (e.g. the challenges in moving the cargo through the Red Sea due to attacks on ships or the impact of the drought around the Panama canal reducing the amount of traffic the canal can accommodate). There is also a need for increased scrutiny of how suppliers produce products and services and an increased responsibility on organisations to ensure the responsible sourcing of products from their suppliers. For example, the EU passed the Corporate Sustainability Due Diligence Directive (CSDDD) in 2024 to ensure that companies in scope identify and address the adverse human rights and environmental impacts of their actions inside and outside Europe — with a key focus on the supply chains of European companies.

Circular economy thinking

Historically, global production and consumption have followed a "take-make-dispose" model, which has resulted in unsustainable levels of waste generation, resource depletion and biodiversity loss. As consumers become more conscious, resource constraints drive input costs, and other stakeholders call for responsible business practices, we must pivot towards more circular strategies. Maximising the reuse and recycling of materials significantly reduces the demand for new raw materials and conserves natural resources. It is critical for resource conservation, environmental protection, economic benefits, reducing carbon footprint, energy efficiency and social inclusion.[29]

29. PwC, 2024. Circular Economy: Transforming waste into opportunity https://www.pwc.com/m1/en/sustainability/circular-economy.html

Case Study: Coca-Cola Beverages South Africa

In line with circular economy thinking, Coca-Cola Beverages South Africa (CCBSA) has introduced a 2l returnable bottle made from PET plastic, which can be reused up to 14 times and then recycled and made into new bottles. This ultimately creates a cost saving (value) for the consumer as the beverage is cheaper once the bottle deposit of R9 has been paid[30]. Furthermore, this initiative also saves space and costs for municipal landfills, while also improving Coca-Cola's brand image and positioning.

Energy and resource efficiency

There are a number of different ways to achieve energy and resource efficiency. It is critical to do an assessment that will enable the business to understand where the most significant opportunities for improvement and reduction lie. In the best possible scenario, this would entail scenario development and modelling to aid in the decision-making process and ensure investment results. Some efficiency considerations include:

- Energy transition, which entails a move away from traditional fossil-fuel energy to renewable energy sources
- Adapting existing processes or implementing new technologies to enhance energy efficiency throughout the manufacturing process
- Adapting existing processes or implementing new technologies to enhance water efficiency throughout the manufacturing process
- Ensuring that resources are not utilised or wasted unnecessarily
- Ensuring sustainable supply chains by considering the impact that suppliers have on their operating contexts, especially with regard to their environmental footprints and human rights-related issues

Electricity generated from renewable sources is becoming less expensive due to scale and technological advances, while electricity generated by fossil fuel is becoming more expensive. Efficiencies are short-term gains, resulting in a decrease in the energy facilities needed. However, it is important to solve the challenge of moving towards more sustainable sources when considering the scale of power required by manufacturing facilities. Self-generation is generally not sufficient, and power purchase agreements may need to be secured.

30. Coca-Cola Company, 2024. Sustainability & Plastic Waste - Coca-Cola SA https://www.coca-cola.com/za/en/media-center/coca-cola-company--sustainability---plastic-waste--coca-cola-sa#:~:text=Coca%E2%80%91Cola%20Beverages%20South%20Africa,also%20good%20for%20the%20environment

The critical role of technology and smart manufacturing

Smart manufacturing uses a cyber-physical system that uses advanced technologies to analyse data, drive automated processes and learn as implementation progresses. IoT and AI is utilised to improve manufacturing processes from both an effectiveness and efficiency point of view. The benefits of smart manufacturing include automation, enhanced efficiencies, and real-time data capturing for decision-making and transparency. However, two of the most critical challenges to overcome are the significant upfront investment that may be required, the impact this technology will have on the workforce and the relevant skills required.

Overcoming challenges

Section 3, 'A risk multiverse driven by rapid global change', highlighted a number of sector challenges. We explore some of these considerations below:

- While integrating new technologies, systems and data architecture requires significant investment, the return on investment can be high with increased efficiencies and an enhanced investment profile for prospective investors.
- As the skills requirements in the manufacturing sector may evolve due to smart manufacturing, future-proofing the workforce by identifying redundancies and skills gaps becomes increasingly important to protect the livelihoods of employees and communities.
- A shift towards sustainable manufacturing will require the support of significant change management processes to ensure that the organisational culture can support the change.
- Collaboration with peers, policymakers and other stakeholders through cross-sector partnerships will become increasingly important. Furthermore, there will be a need for increased supply chain interaction to ensure initiatives are aligned to achieve maximum impact.
- Transparency and data-sharing will become critical to enhance sustainability efforts by sharing areas of good practice and opportunities for improvement.
- Meeting regulatory and compliance demands is incredibly complex as business needs to comply with many regulations, such as SEC, ISSB, CSRD, JSE Sustainability Disclosures, CBAM, and EUCSDD requirements. Many digital solutions are being created to assist with managing this and making the process more efficient.

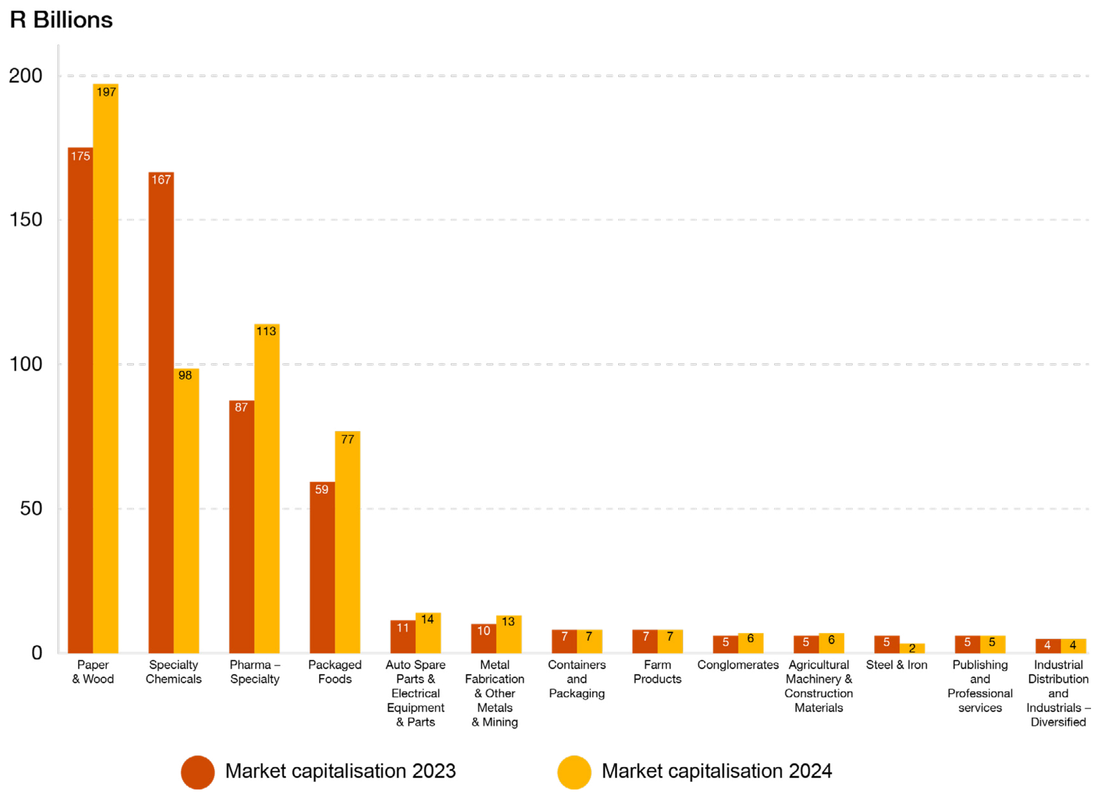
As the operating landscape continues to evolve, uncertainties increase, and stakeholder pressure mounts, sustainable manufacturing is becoming more of a strategic business imperative than a "nice to have". It relates to all dimensions of business and requires a review and potential overhaul of existing business and operating models to ensure long-term business success. Ultimately, investment will be needed, and if the notion of sustainable manufacturing is embraced with strategic intent, and the right levers are pulled at the right time, organisations will be rewarded with enhanced societal impact and economic performance.

7. Financial performance

In the first quarter of 2024, the South African economy contracted by 0.1%. In the second quarter, it strengthened by 0,4%.[31] Due to slow growth conditions and the challenging macroeconomic environment that has prevailed globally and domestically throughout 2023 and 2024, manufacturers have delivered muted operating results.

Market capitalisation

Figure 6: Manufacturing: Market capitalisation, 31 May 2024 and 1 June 2023



Source: Equity RT, PwC analysis

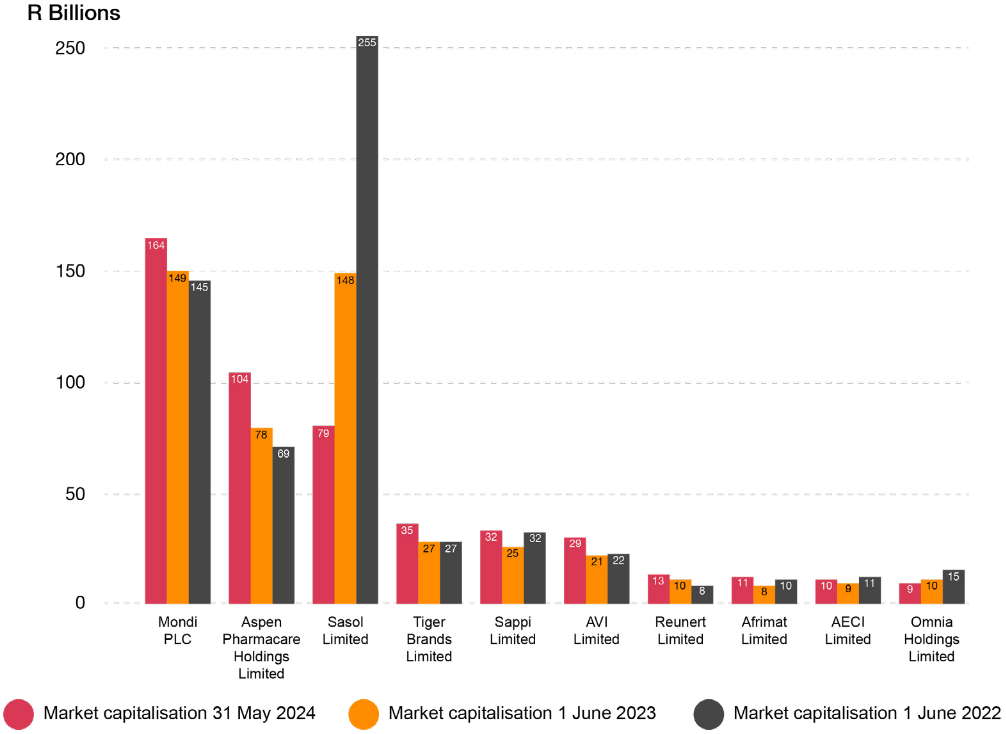
Total market capitalisation has increased by 0.57% from 2023 to 2024, from R546.96 billion to R550.08 billion.

This total year-on-year (YOY) increase of R3.12 billion has been contributed predominantly by paper & wood (R21.90 million), pharma speciality (R25.98 million) as well as packaged foods (R17.09 million) sectors.

The speciality chemicals industry showed the most significant decline, dropping by R67.79 million (40.70%) from 2023 to 2024. Its market share in manufacturing decreased from 30.45% in 2023 to 17.95% in 2024. This decline is primarily due to the substantial decrease in the market capitalisation of Sasol Limited, as illustrated in Figure 7.

31. *Stats SA, 2024. "SA Economy grows in the second quarter." https://www.statssa.gov.za/?p=17622*

Figure 7: Manufacturing: Market capitalisation of the top 10 JSE-listed companies, 31 May 2024, 1 June 2023 and 1 June 2022



Source: Equity RT, PwC analysis

Mondi PLC, Aspen Pharmacare and Sasol Limited dominate the manufacturing sector, making up 62.28% or R347.06 billion total market capitalisation in 2024.

Aspen Pharmacare experienced a significant increase in market capitalisation of 32.62% or R25.50 billion in 2024 (12.61% in 2023), while Sasol Limited saw a substantial decline in market capitalisation from 2022 through to 2024.

Afrimat Limited's market capitalisation surged by 33.58% or R2.83 billion from 2023, propelling it into the top 10 list.

This growth saw it replace Adcock Ingram, whose market capitalisation saw an increase of 4.38% or R384 million from 2023.

A 54.53% decline in market capitalisation by R6.45 billion from 2022 saw KAP Limited drop out of the top 10 in 2023.

Major results highlights

Major result hightlights 2023 – 2024

Revenue ↓ 2.53%	Return on Equity (ROE) 12.86% FY23: 16.86%	Total assets ↓ 6.78%
Net operating profit ↓ 21.04%		Total liabilities ↓ 1.12%
Net profit ↓ 145.66%	Return on Assets (ROA) 3.27% FY23: 5.71%	Market capitalisation ↑ 0.57%
Net operating cash flows ↑ 15.53%		Total equity ↓ 11.72%

Lower return on assets (ROA) and return on equity (ROE) percentages directly result from the reduced profits earned by entities in the manufacturing sector the year. Although returns diminished, the sector's total market capitalisation increased by 0.57%. The total market capitalisation of R550.08 billion is less than the total book value of R590.78 billion. The sector experienced a decline in revenue of 2.53% from 2023.

The overall capital structure shifted towards debt, with a decrease in equity of 11.72% compared to a reduction in liabilities of 1.12%. Declining net profits resulted in a decrease in retained earnings. Overall assets have also decreased by 6.78%. There has been an increase in net operating cash flow despite lower operating profits.

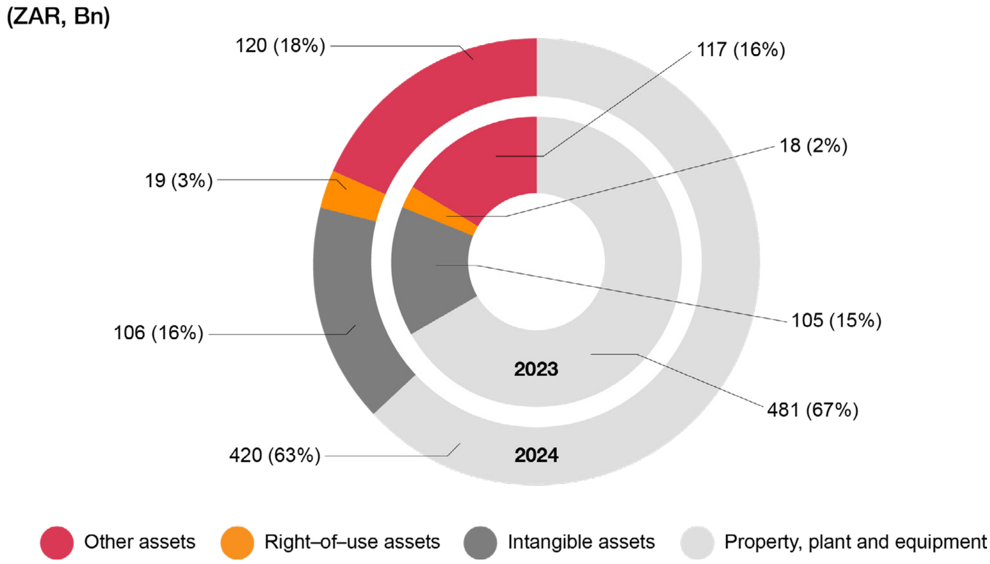
The net cash flow movement for 2024 was negative. This was primarily due to significant net cash outflows from financing activities, mainly driven by debt repayments and dividend distributions from three key players.

The total tax expense increased by 47.63%, despite decreasing profits and significant net losses experienced by the sector. This is largely due to significant downward remeasurements from continuing operations and losses from discontinued operations by industry participants, some of which do not carry equivalent tax implications. These are also the driving factors behind the significant decrease in net losses below the operating profit line. Impairments and decreasing margins were primarily responsible for the decline in operating profits.

Statement of financial position

Asset composition

Figure 8: Manufacturing: Non-current asset composition, 2023 and 2024

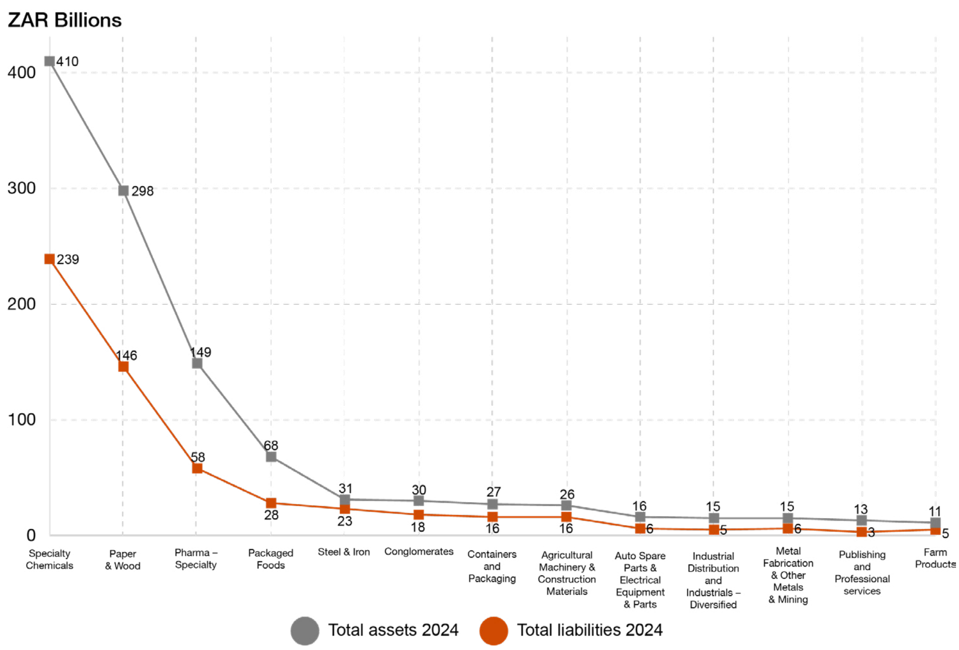


Source: PwC analysis

Investment in asset classes remained consistent from the previous financial year. There was a 3.66% decrease in property, plant, and equipment, a 1.38% increase in intangible assets, and a 0.40% increase in right-of-use assets as a percentage of total non-current assets.

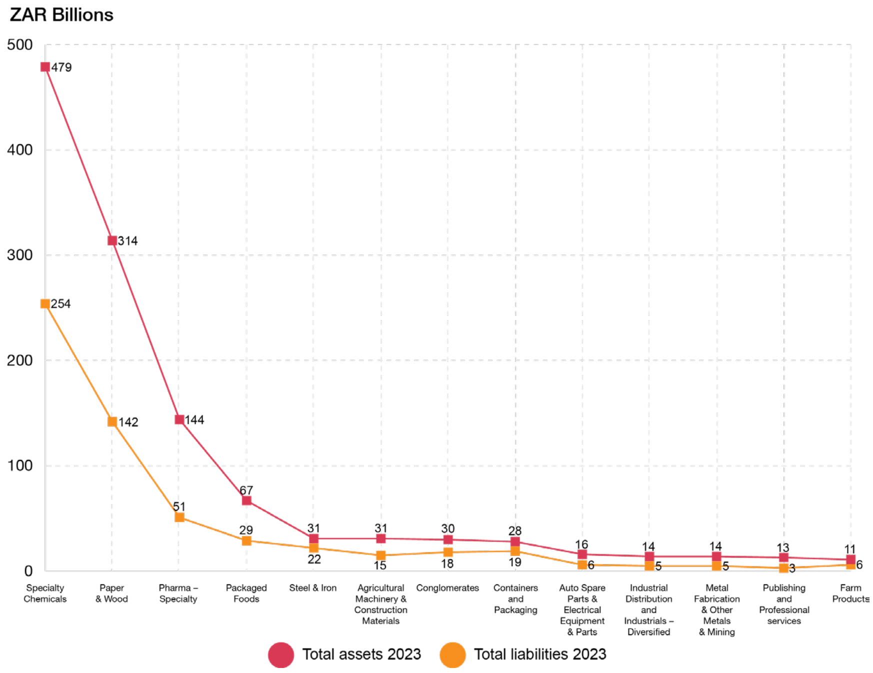
Long-term gearing

Figure 9: Manufacturing: Total assets and liabilities, 2024



Source: PwC analysis

Figure 10: Manufacturing: Total assets and liabilities, 2023

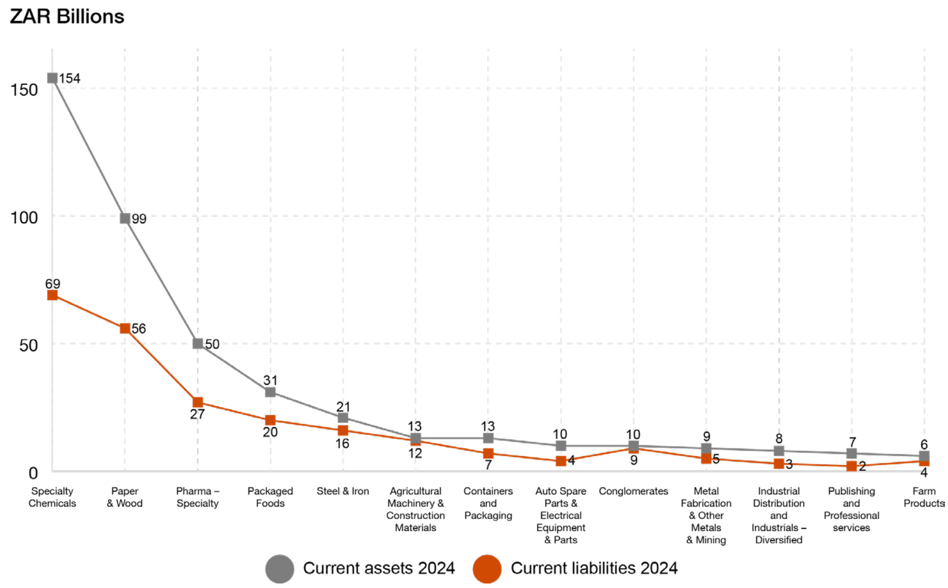


Source: PwC analysis

Manufacturing companies are generally well-geared and technically solvent from a sector aggregation perspective. The average debt-to-asset ratio of 2.86 in 2024 further supports this observation. The gearing position of entities within the sector has remained mostly consistent from 2023, with a total decrease of 6.78% in total assets and 1.12% in total liabilities.

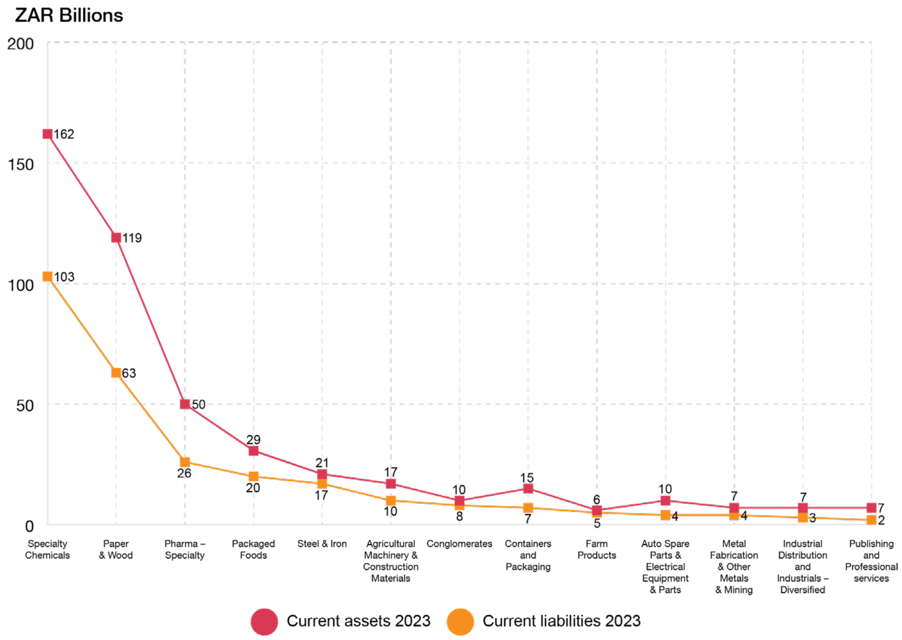
Short-term liquidity

Figure 11: Manufacturing sector current assets and current liabilities, 2024



Source: PwC analysis

Figure 12: Manufacturing sector current assets and current liabilities, 2023



Source: PwC analysis

All industries in the manufacturing sector have an average current ratio greater than 1.0 and an acid-test ratio greater than 0.5. At face value, this would suggest that entities in the sector would be able to pay off their short-term debt obligations with their short-term assets, depending on the liquidity of these short-term assets. The liquidity position of entities within the sector has remained consistent since 2023, with a total average increase in the current ratio of 0.05 and a total average increase in the acid-test ratio of 0.07. The sector's improved operating cash flow performance further strengthens its liquidity position.

Ratios

Figure 13: Manufacturing: Statement of financial position ratios, 2023 and 2024

Industries	Current ratio		Acid test ratio		Debt to Equity		Assets to Liabilities		Market capitalisation to Net Asset Value	
	FY 24	FY23	FY 24	FY 23	FY 24	FY 23	FY 24	FY 23	FY 24	FY 23
Agricultural Machinery & Construction Materials	1.23	1.40	0.95	1.10	1.43	1.40	3.39	3.30	0.44	0.39
Farm Products	1.92	1.73	1.48	1.32	0.84	1.07	2.23	1.97	0.92	1.03
Auto Spare Parts & Electrical Equipment & Parts	4.75	4.72	3.16	3.12	0.66	0.48	4.69	4.17	0.82	0.68
Publishing & Professional services	3.40	2.85	2.53	1.76	0.36	0.40	3.99	3.88	0.60	0.50
Containers & Packaging	3.10	3.04	2.16	2.03	1.75	2.08	3.54	3.22	0.89	0.85
Packaged Foods	1.50	1.55	0.69	0.70	0.76	0.82	2.35	2.37	2.27	1.80
Paper & Wood	1.75	1.86	1.14	1.32	0.94	0.86	2.25	2.34	0.86	0.70
Pharma – Specialty	1.87	1.93	0.97	0.99	0.63	0.61	2.60	2.68	1.24	1.08
Specialty Chemicals	2.07	1.78	1.33	1.12	1.09	1.02	2.05	2.08	0.74	0.81
Industrial Distribution & Industrials – Diversified & Utilities – Diversified	2.27	2.19	1.13	1.09	0.57	0.58	3.65	3.35	0.55	0.48
Metal Fabrication & Other Metals & Mining	1.60	1.66	0.83	0.85	0.90	0.84	2.31	2.40	1.09	1.07
Steel & Iron	1.88	1.98	0.99	0.94	1.90	1.58	2.24	2.35	0.42	0.53
Conglomerates	1.14	1.19	0.73	0.77	1.49	1.54	1.67	1.65	0.52	0.46
Total average	**2.19**	**2.14**	**1.39**	**1.32**	**1.02**	**1.02**	**2.84**	**2.75**	**0.87**	**0.80**

Source: PwC analysis

Key statistics

Figure 14: Manufacturing: Statement of financial position key statistics, 2023 and 2024 (ZAR, R'000)

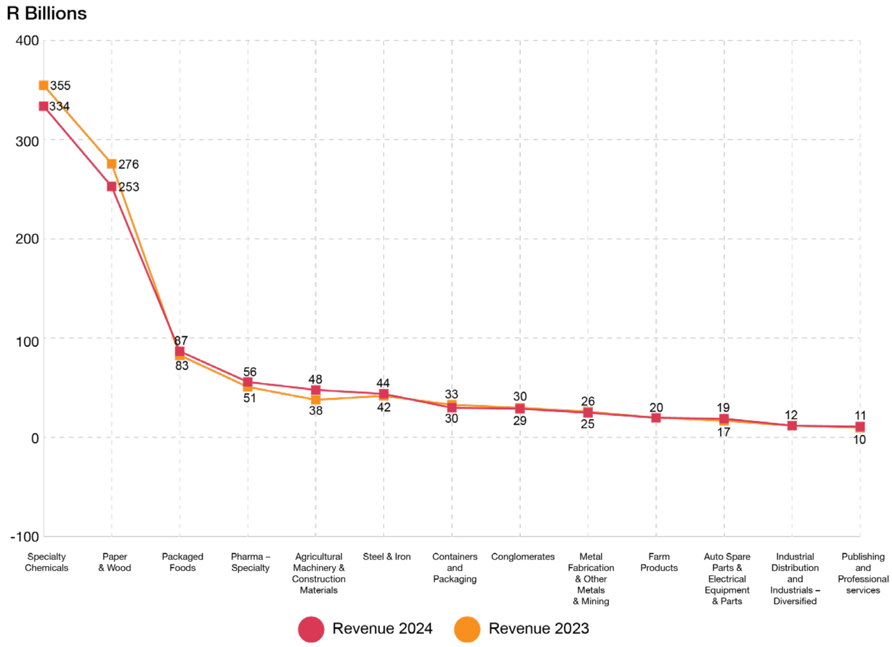
Industries	Property plant and equipment		Intangible Assets		Total non–current assets		Right–of–use assets		Total assets		Total liabilities		Total equity	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Agricultural Machinery & Construction Materials	8,941,762,81	10,459,270,08	164,145,10	185,000,00	13,074,399,66	14,125,622,19	893,478,99	606,271,67	26,324,103,41	30,704,366,11	15,782,533,99	14,909,460,01	10,541,569,42	10,669,906,10
Farm Products	3,773,205,00	3,772,204,00	38,985,00	42,034,00	4,617,964,00	4,727,173,00	358,100,00	401,741,00	10,618,075,00	11,001,358,00	5,151,478,00	5,973,251,00	5,466,597,00	5,028,107,00
Auto Spare Parts & Electrical Equipment & Parts	1,054,301,00	1,058,056,00	2,091,828,00	2,136,045,00	5,829,933,00	5,794,792,00	381,384,00	381,982,00	16,314,716,00	15,505,003,00	6,385,590,00	5,659,603,00	9,929,126,00	9,845,400,00
Publishing & Professional services	3,350,974,00	3,313,353,00	315,123,00	445,188,00	5,686,149,00	5,648,131,00	8,179,00	7,609,00	12,784,308,00	12,573,087,00	3,008,560,00	3,059,427,00	9,775,748,00	9,513,660,00
Containers & Packaging	9,061,397,00	9,835,555,00	578,055,00	584,355,00	11,431,443,00	12,568,396,00	699,607,00	676,788,00	26,508,222,00	27,852,030,00	16,307,787,00	19,043,755,00	9,032,435,00	8,995,375,00
Packaged Foods	15,955,518,00	17,533,666,00	5,962,585,00	6,066,932,00	30,332,607,00	31,505,142,00	867,260,00	597,102,00	67,573,833,00	66 889 653,00	27 913 647,00	29 340 665,00	39,660,186,00	37,548,988,00
Paper & Wood	150,417,774,50	148,008,249,59	18,140,931,08	18,570,212,40	198,778,119,74	195,078,651,04	1,385,764,33	1,270,580,35	298,215,534,96	313 714 039,37	146 200 322,68	141 968 790,61	152,015,212,29	171,745,248,76
Pharma - Specialty	21,591,241,00	20,090,302,00	72,937,355,00	69,970,913,00	98,832,439,00	93,654,922,00	796,940,00	653,016,00	148,572,733,00	143 517 245,00	57 680 687,00	51 330 436,00	90,892,046,00	92,186,809,00
Specialty Chemicals	175,168,000,00	236,737,000,00	3,341,000,00	4,198,000,00	255,653,000,00	316,371,000,00	13,364,000,00	12,824,000,00	409,630,000,00	478 615 000,00	238 936 000,00	254 423 000,00	170,694,000,00	224,190,000,00
Industrial Distribution & Industrials - Diversified & Utilities - Diversified	1,314,407,00	1,201,335,00	164,828,00	145,590,00	4,276,048,00	3,978,049,00	225,288,00	248,989,00	15,487,562,00	14,350,091,00	4,865,877,00	4,779,403,00	8,319,096,00	7,922,051,00
Metal Fabrication & Other Metals & Mining	5,360,473,00	4,950,273,00	290,989,00	338,604,00	6,711,352,00	6,351,917,00	56,237,00	56,625,00	15,230,178,00	13,522,637,00	6,422,372,00	5,433,570,00	8,807,806,00	8,089,067,00
Steel & Iron	8,573,127,00	8,455,362,00	357,023,00	339,853,00	10,462,706,00	10,263,567,00	59,917,00	37,685,00	31,041,670,00	31,269,589,00	22,732,761,00	21,957,596,00	8,308,909,00	9,311,993,00
Conglomerates	15,556,000,00	15,094,000,00	1,722,000,00	1,728,000,00	20,262,000,00	19,809,000,00	363,000,00	390,000,00	30,331,000,00	29,777,000,00	18,135,000,00	18,072,000,00	12,196,000,00	11,705,000,00
Total	**420,118,180,32**	**480,508,625,66**	**106 104 847,18**	**104,750,726,40**	**665,948,160,40**	**719,876,362,23**	**19,459,155,32**	**18,152,389,02**	**1,108,631,935,37**	**1,189,291,098,48**	**569,522,615,67**	**575,950,956,62**	**535,638,730,70**	**606,751,604,86**

Source: PwC analysis

Statement of comprehensive income

Revenue

Figure 15: Manufacturing: Revenue, 2023 and 2024



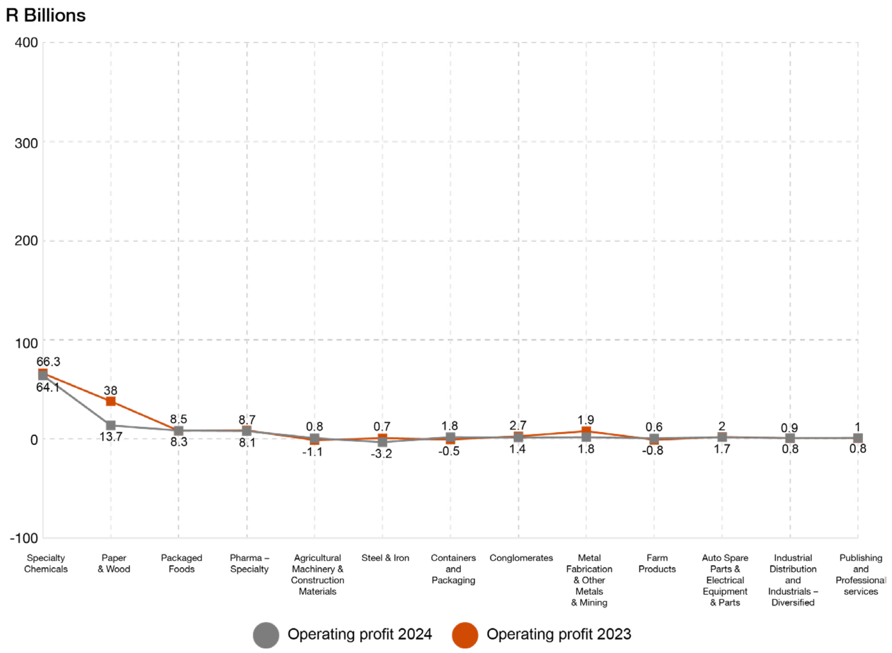
Source: PwC analysis

Revenue decreased by 2.53% from 2023 to 2024. Industry revenue has remained mostly consistent from 2023 to 2024, with speciality chemicals and paper & wood dominating the sector in 2024 with a share of 60.67% of total sector revenue.

Agricultural machinery and construction materials experienced the most significant revenue growth, with an increase of 26.82% or R10.24 billion.

Operating profit

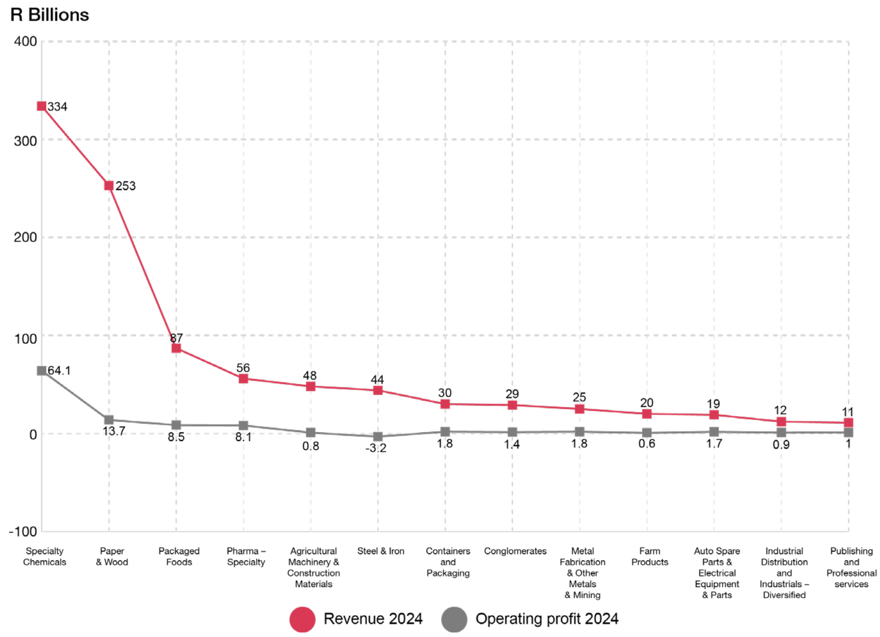
Figure 16: Manufacturing: Operating profit, 2023 and 2024



Source: PwC analysis

The top four contributors to operating profit are consistent with the top four contributors to revenue. In 2024, speciality chemicals accounted for most of the sector's operating profit, contributing 61.45% of the total. Outside of this, containers & packaging showed the greatest increase in operating profit, turning an operating loss in the prior year into an operating profit. Paper & wood experienced the most significant decline in operating profit, with a contraction of 63.97%. There was an overall decrease in operating profit of 21.04% in the manufacturing sector as a whole between 2023 and 2024.

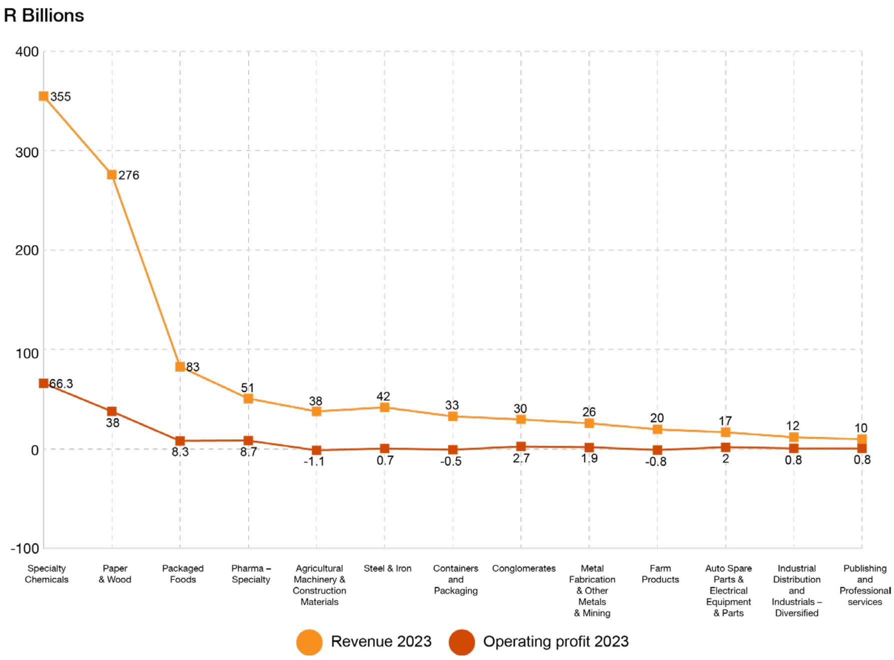
Figure 17: Manufacturing: Revenue and operating profit, 2024



Source: PwC analysis

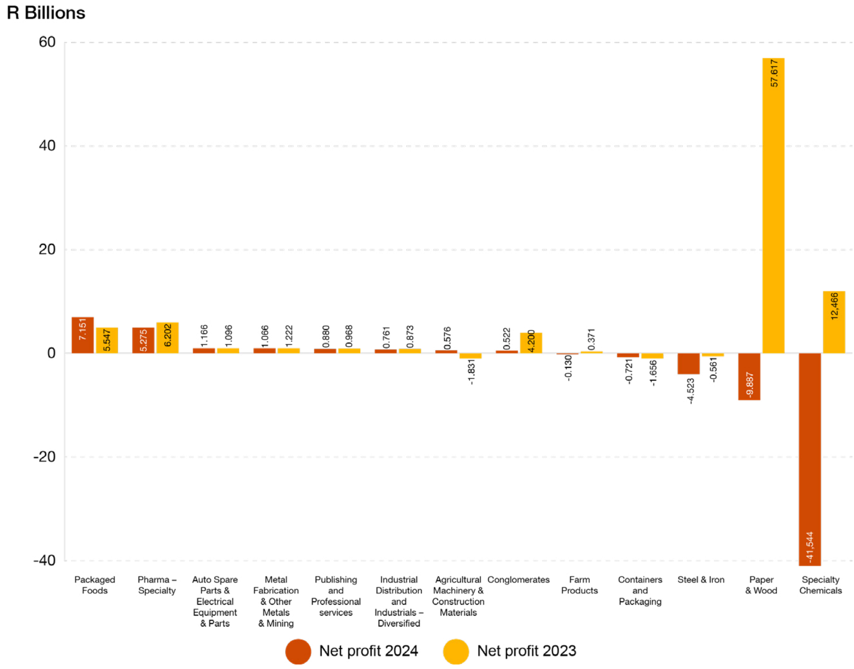
Figure 17 and 18 llustrates the consistent trend and relationship between revenue and operating profit across the manufacturing sector.

Figure 18: Manufacturing: Revenue and operating profit, 2023



Source: PwC analysis

Figure 19: Manufacturing: Net profit, 2023 and 2024

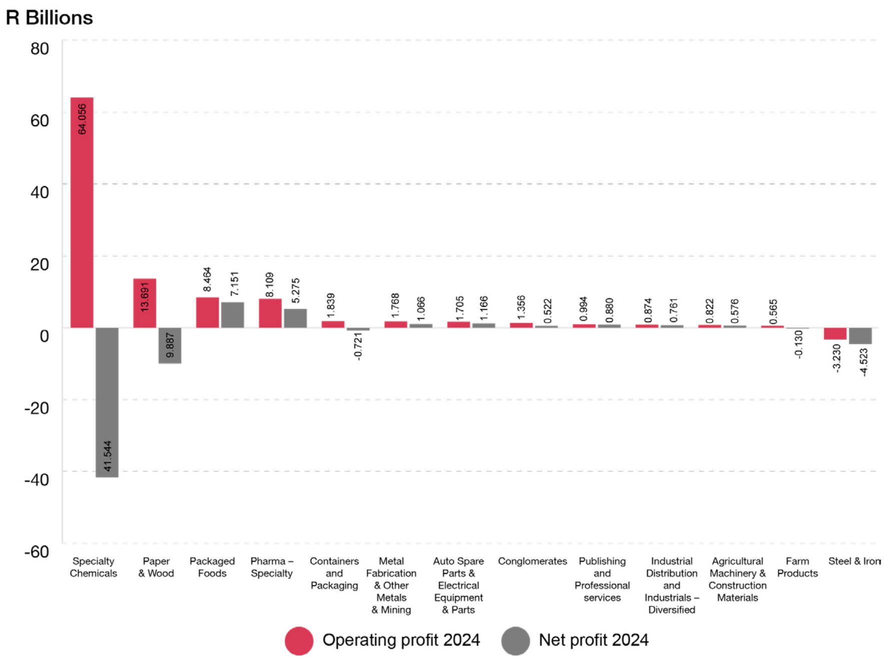


Source: PwC analysis

The manufacturing sector experienced a significant decrease of 145.66% in net profit from 2023 to 2024. The speciality chemicals and paper & wood industries registered losses in 2024, whereas the agricultural machinery and construction materials industries showed the greatest increase in profit, turning a net loss in the prior year into a net profit.

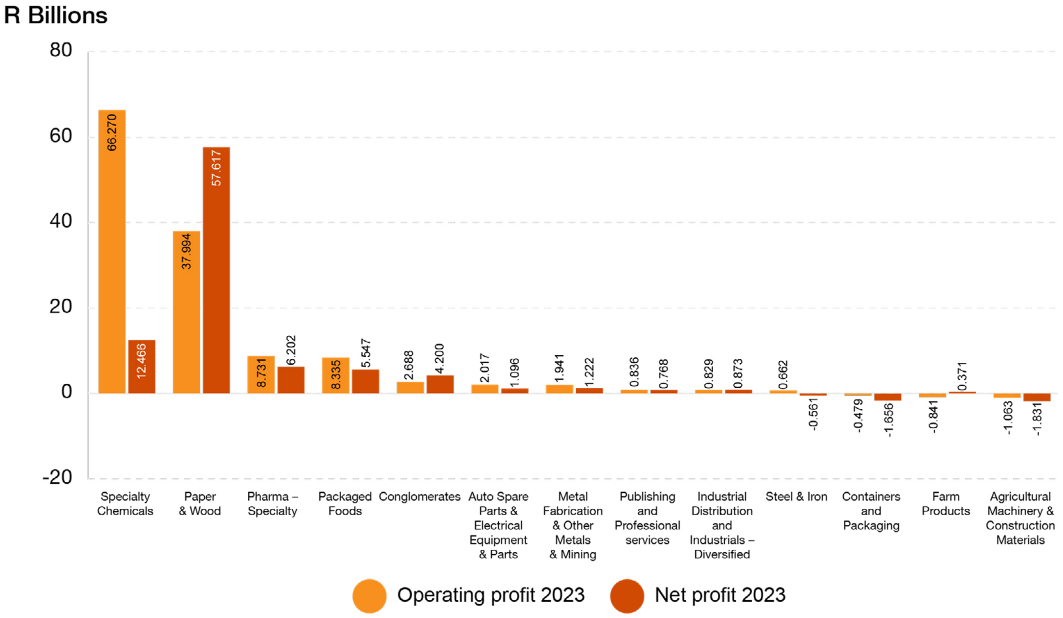
Operating profit to net profit

Figure 20: Manufacturing: Operating profit and net profit, 2024



Source: PwC analysis

Figure 21: Manufacturing: Operating profit and net profit, 2023



Source: PwC analysis

In 2023, entities successfully converted operating profits into net profits, allowing for future retention and dividends. In the 2024 financial year, however, this trend did not continue.

While operating profits decreased, there was an even more significant decline in net profits for the year.

Ratios

Figure 22: Manufacturing: Statement of comprehensive income ratios, 2023 and 2024

Industries	Net Margin		ROE		ROA		MPS to EPS (ZAR, cents)	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Conglomerates	1,78%	14,19%	2,88%	23,24%	1,72%	14,10%	2,53	2,17
Agricultural Machinery & Construction Materials	3,60%	-2,91%	14,19%	-5,35%	3,30%	-3,50%	2,59	3,20
Farm Products	5,58%	-14,77%	3,59%	-5,71%	1,20%	-2,15%	86,36	89,03
Auto Spare Parts & Electrical Equipment & Parts	4,77%	4,57%	22,85%	23,37%	5,78%	6,02%	24,44	20,35
Publishing & Professional services	7,77%	6,17%	28,06%	21,37%	7,14%	4,74%	7,35	6,37
Containers & Packaging	2,71%	1,98%	25,48%	21,57%	3,05%	2,10%	62,27	16,41
Packaged Foods	8,46%	6,92%	26,60%	22,86%	11,48%	9,47%	60,78	46,71
Paper & Wood	-8,92%	16,30%	-11,16%	28,90%	-4,47%	12,07%	142,24	117,89
Pharma – Specialty	7,39%	9,20%	16,22%	20,20%	6,10%	7,51%	96,64	75,85
Specialty Chemicals	-2,22%	4,23%	2,49%	11,43%	0,06%	5,36%	91,98	125,39
Industrial Distribution & Industrials – Diversified & Utilities – Diversified	6,14%	7,48%	14,94%	19,21%	4,57%	5,91%	17,78	16,95
Metal Fabrication & Other Metals & Mining	5,16%	6,12%	15,96%	21,64%	5,92%	8,55%	25,07	19,01
Steel & Iron	-0,85%	3,80%	5,03%	16,40%	-3,35%	4,10%	10,74	9,12
Total	**3,18%**	**4,87%**	**12,86%**	**16,86%**	**3,27%**	**5,71%**	**48,52**	**42,19**

Source: PwC analysis

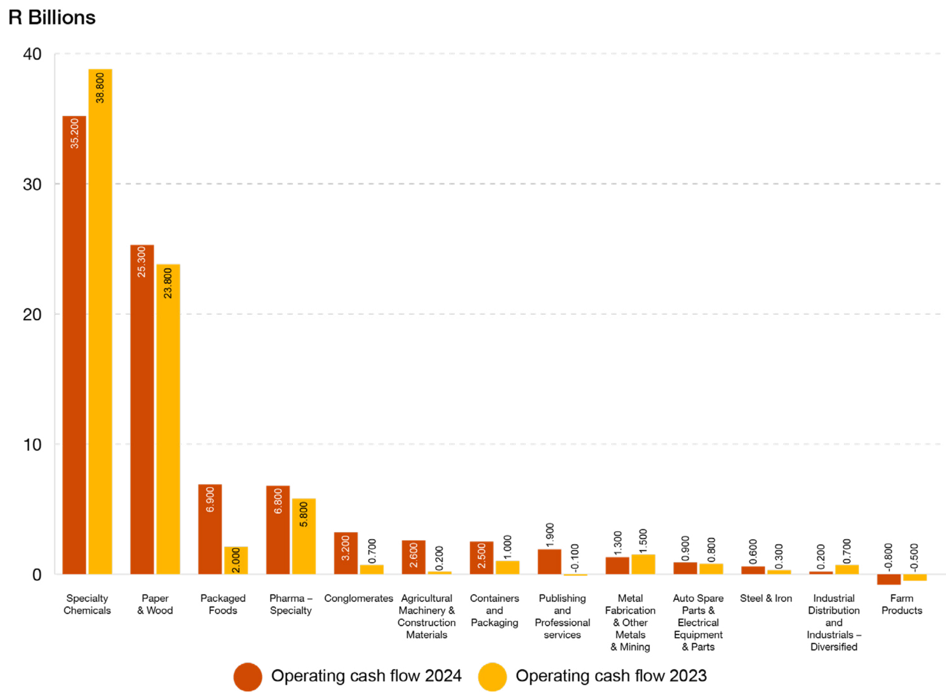
Figure 23: Manufacturing: Statement of comprehensive income key statistics, 2023 and 2024 (ZAR, R'000)

Industries	Revenue		Operational profit		Tax		Net profit		EPS (cents)	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Agricultural Machinery & Construction Materials	48,424,011,86	38,184,710,79	821,646,59	(1,062,988,61)	46,234,38	155,313,48	575,650,85	(1,831,432,84)	2,97	(10,50)
Farm Products	20,377,017,00	20,486,106,00	564,899,00	(841,039,00)	(55,650,00)	156,715,00	(129,930,00)	371,199,00	(1,70)	2,02
Auto Spare Parts & Electrical Equipment & Parts	18,527,246,00	17,220,285,00	1,705,178,00	2,017,054,00	416,623,00	385,995,00	1,165,783,00	1,096,485,00	52,66	75,41
Publishing & Professional services	10,809,454,00	9,956,673,00	993,642,00	836,828,00	277,226,00	178,591,00	880,345,00	767,829,00	76,86	21,66
Containers & Packaging	30,412,870,00	33,470,023,00	1,838,866,00	(479,663,00)	745,989,00	262,019,00	(720,784,00)	(1,655,865,00)	(1 174,79)	(3,42)
Packaged Foods	86,735,194,00	82,976,683,00	8,464,065,00	8,335,268,00	1,854,250,00	1,431,821,00	7,150,650,00	5,547,014,00	28,62	17 784,62
Paper & Wood	253,361,692,85	275,619,030,00	13,690,762,53	37,994,421,33	1,670,287,33	489,134,57	(9,887,349,65)	57,616,582,30	14,33	46,45
Pharma – Specialty	55,821,172,00	51,376,289,00	8,109,213,00	8,731,519,00	1,619,611,00	1,634,222,00	5,275,299,00	6,201,682,00	15,38	122,83
Specialty Chemicals	334,006,000,00	354,750,000,00	64,056,000,00	66,270,000,00	11,117,000,00	6,706,000,00	(41,544 000,00)	12,466,000,00	13,80	29,97
Industrial Distribution & Industrials – Diversified & Utilities – Diversified	11,673,906,00	11,631,252,00	874,397,00	829,976,00	241,772,00	180,695,00	761,277,00	873,298,00	5,73	5,78
Metal Fabrication & Other Metals & Mining	25,032,194,00	26,012,464,00	1,767,827,00	1,941,720,00	436,942,00	518,220,00	1,066,045,00	1,221,859,00	64,65	75,10
Steel & Iron	43,642,216,00	42,099,359,00	(3,230,271,00)	662,358,00	100,121,00	96,496,00	(4,522,695,00)	(560,735,00)	0,13	3,41
Conglomerates	29,391,000,00	29,595,000,00	1,356,000,00	2,688,000,00	255,000,00	489,000,00	522,000,00	4,200,000,00	0,07	0,64
Total	**968,213,973,71**	**993,377,874,79**	**101,012,225,12**	**127,923,453,72**	**18,725,405,70**	**12,684,222,06**	**(39,407,708,79)**	**86,313,915,46**	**(69,33)**	**1,396,46**

Source: PwC analysis

Statement of cash flows

Figure 24: Manufacturing: Operational cash flows, 2023 and 2024



Source: PwC analysis

There is a relationship between operating cash flows, revenue generation and operating profit generation. This relationship is reflected in the comparison between Figures 24, 25 and 26.

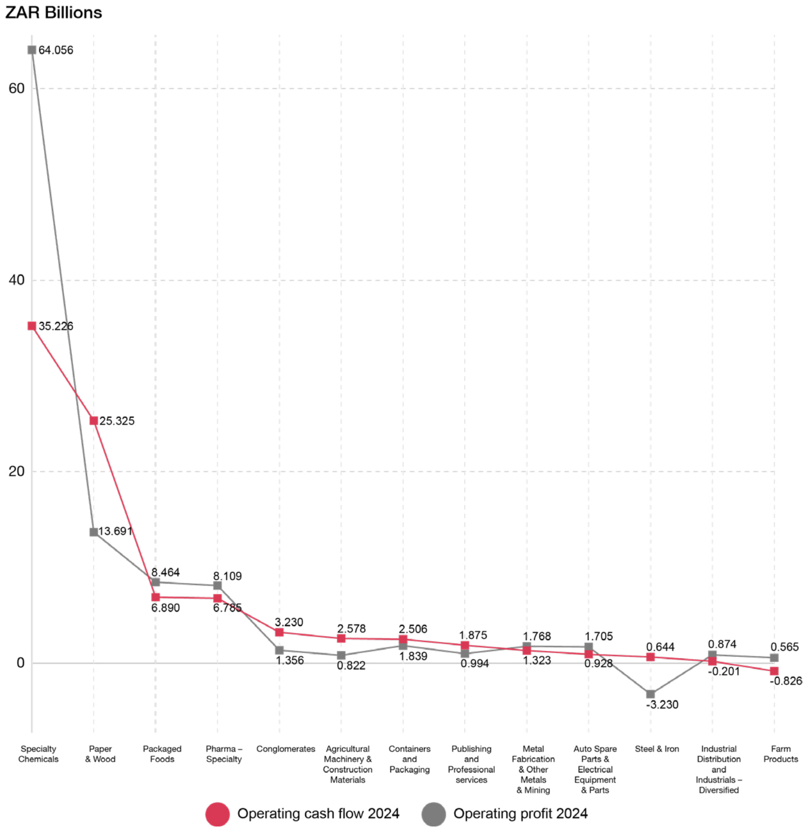
Looking at the top three industries in 2024, speciality chemicals received 32.88% of the sector's revenue, 61.05% of its operating profit and 40.25% of operating cash flows.

Paper & wood earned 24.94% of the sector's revenue, 13.05% of its operating profit and 28.94% of cash flows.

Packaged foods attracted 13.41% of the sector's revenue, 8.41% of its operating profit and 7.87% of operating cash flows.

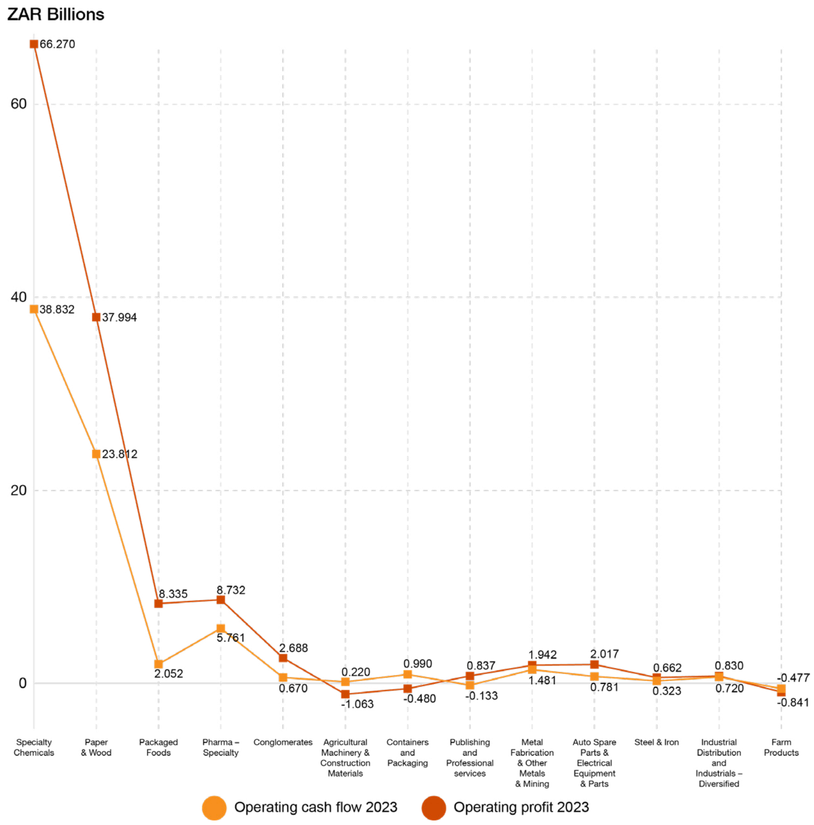
Operating cash flows to operating income

Figure 25: Manufacturing: Operating profit and operational cash flows, 2024



Source: PwC analysis

Figure 26: Manufacturing: Operating profit and operational cash flows, 2023



Source: PwC analysis

Ratios

Figure 27: Manufacturing: Statement of cash flow ratios, 2023 and 2024

Industries	Operating cash flow to operating income		Operating cash flow to liabilities	
	FY24	FY23	FY24	FY23
Agricultural Machinery & Construction Materials	2,58	(4,77)	0,27	0,12
Farm Products	(0,45)	0,46	(0,01)	(0,07)
Auto Spare Parts & Electrical Equipment & Parts	0,05	1,40	0,02	0,56
Publishing & Professional services	1,96	0,35	0,67	(0,02)
Containers & Packaging	1,14	0,37	0,32	0,04
Packaged Foods	0,94	0,32	0,30	0,13
Paper & Wood	2,27	0,64	0,11	0,13
Pharma – Specialty	0,44	0,55	0,10	(0,03)
Specialty Chemicals	1,14	0,71	0,26	0,19
Industrial Distribution & Industrials – Diversified & Utilities – Diversified	(0,22)	1,52	(0,01)	0,22
Metal Fabrication & Other Metals & Mining	0,62	0,72	0,22	0,27
Steel & Iron	0,38	0,49	0,19	0,13
Conglomerates	2,38	0,25	0,18	0,04
Total	**1,02**	**0,23**	**0,20**	**0,13**

Source: PwC analysis

Key statistics

Figure 28: Manufacturing: Statement of cash flow key statistics, 2023 and 2024 (ZAR, R'000)

Industries	Operational Cash Flows		Financing Cash Flows		Investing Cash Flows		Movement for the year		Cash Balance	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Agricultural Machinery & Construction Materials	2,578,458,63	220,306,72	(1,392,102,92)	(504,794,06)	(256,452,02)	(701,556,41)	929,903,69	(986,043,75)	3,642,641,16	2,791,432,81
Farm Products	(825,791,00)	(477,152,00)	(615,310,00)	(524,670,00)	(349,452,00)	(386,738,00)	(1,790,553,00)	(1,388,560,00)	(825,309,00)	(659,112,00)
Auto Spare Parts & Electrical Equipment & Parts	927,701,00	781,082,00	1,091,107,00	35,372,00	(780,731,00)	(597,470,00)	1,238,077,00	218,984,00	2,948,799,00	1,065,637,00
Publishing & Professional services	1,874,533,00	(132,772,00)	(661,754,00)	163,253,00	(62,207,00)	(727,453,00)	1,150,572,00	(696,972,00)	3,431,173,00	1,535,681,00
Containers & Packaging	2,505,633,00	989,894,00	(799,343,00)	(254,903,00)	(1,154,006,00)	(1,371,578,00)	552,284,00	(636,587,00)	3,515,753,00	1,843,652,00
Packaged Foods	6,889,927,00	2,052,107,00	(3,353,503,00)	41,091,00	(2,196,501,00)	(1,363,328,00)	1,339,923,00	729,870,00	2,806,934,00	1,588,620,00
Paper & Wood	25,325,097,81	23,811,958,03	(26,021,809,82)	(15,041,384,92)	(18,619,164,56)	(13,204,254,78)	(19,315,876,57)	(4,433,681,67)	26,917,713,67	29,975,598,35
Pharma – Specialty	6,784,830,00	5,761,365,00	3,160,459,00	(1,375,166,00)	(9,616,596,00)	(3,086,900,00)	328,693,00	1,299,299,00	7,352,081,00	7,677,130,00
Specialty Chemicals	35,226,000,00	38,832,000,00	(9,330,000,00)	(1,164,000,00)	(33,043,000,00)	(29,864,000,00)	(7,147,000,00)	7,804,000,00	49,668,000,00	57,934,000,00
Industrial Distribution & Industrials – Diversified & Utilities – Diversified	200,717,00	720,296,00	96,724,00	(1,222,256,00)	31,845,00	573,370,00	329,286,00	71,410,00	1,498,507,00	1,699,059,00
Metal Fabrication & Other Metals & Mining	1,322,722,00	1,481,382,00	(351,510,00)	(216,538,00)	(802,317,00)	(1,120,126,00)	168,895,00	144,718,00	624,438,00	566,170,00
Steel & Iron	644,303,00	323,540,00	892,691,00	1,127,583,00	(1,162,307,00)	(2,076,408,00)	374,687,00	(625,285,00)	4,132,655,00	3,034,322,00
Conglomerates	3,230,000,00	670,000,00	(342,000,00)	1,338,000,00	(2,360,000,00)	(2,442,000,00)	528,000,00	(434,000,00)	1,949,000,00	1,256,000,00
Total	**86,684,131,44**	**75,034,006,76**	**(37,626,351,74)**	**(17,598,412,98)**	**(70,370,888,58)**	**(56,368,442,19)**	**(21,313,108,87)**	**1,067,151,58**	**107,662,385,83**	**110,308,190,16**

Source: PwC analysis

8. About this analysis

Basis for compiling this report

The results aggregated in this report have been sourced from the latest publicly available information, primarily annual reports and financial reports available to shareholders. We aggregated the financial results of manufacturing companies with a listing on the JSE for the financial year 2023 and 2024. For entities lacking complete 2024 results, interim results were used to construct provisional financial year results. Consequently, not all figures reconcile, as reflected in the discrepancies in cash flow movements compared to the opening and closing balances. All ratios have been averaged across entities within each industry rather than being proportionally weighted based on a specific measure. Additionally, all measures have been summed up, with no averages applied. Goodwill is included in intangible assets.

We used a main sector description based on Standard Industrial Classification (SIC) codes to categorise JSE-listed manufacturers. We used a cut-off market capitalisation of R200 million and excluded all companies with suspended listings. All companies with audited results released and their comparatives up until 31 August 2024 have been captured.

Companies included in this report have different year ends and report under different accounting regimes. Information has been aggregated for individual companies, and no adjustments have been made to consider different reporting requirements. We did not adjust any of the results, except when full FY24 results did not exist. In this instance, we used interim results to construct provisional financial years.

We have also taken into account restatements and adjustments to the prior period, as reflected in the latest published results.

All currency figures are reported in South African rands, except where otherwise stated. The results of companies that report in currencies other than the rand have been translated at the average rand exchange rate for the financial year, with balance sheet items translated at the closing rand exchange rate.

Our selection criteria excluded Anheuser-Busch InBev SA/NV, Compagnie Financière Richemont S.A., Montauk Renewables Inc and Oando PLC. Although these companies have a significant South African footprint, their primary listings are not on the JSE. Their exposure and size mean that they do not necessarily reflect trends in the South African manufacturing environment. While many entities included also have international exposure, most of their operations are in Africa.

Some diversified companies undertake activities outside the manufacturing sector. No attempt has been made to exclude such non-manufacturing activities from the aggregated financial information.

The information contained in this publication is provided for general information purposes only and does not constitute the provision of legal or professional advice in any way. Before making any decision or taking any action, a professional adviser should be consulted. No responsibility for loss to any person, acting or refraining from action, as a result of any material in this publication can be accepted by the author, copyright owner or publisher.

9. Companies analysed

Company name	Year end	Sector classification
Adcock Ingram Holdings Limited	30 June 2024	Pharma – Speciality
AECI Limited	31 December 2023	Speciality Chemicals
Afrimat Limited	28 February 2024	Metal Fabrication & Other Metals & Mining
ArcelorMittal South Africa Limited	31 December 2023	Steel & Iron
Argent Industrial Limited	31 March 2024	Steel & Iron
Ascendis Health Limited	30 June 2024	Pharma – Speciality
Aspen Pharmacare Holdings Limited	30 June 2024	Pharma – Speciality
Astral Foods Limited	30 September 2023	Farm Products
Aveng Limited	30 June 2024	Agricultural Machinery & Construction Materials
AVI Limited	30 June 2023	Packaged Foods
Bell Equipment Limited*	31 December 2023	Agricultural Machinery & Construction Materials
Bowler Metcalf Limited	30 June 2023	Containers & Packaging
Caxton and CTP Publishers and Printers Limited	30 June 2023	Publishing & Professional Services
Crookes Brothers Limited	31 March 2024	Farm Products
enX Group Limited	31 August 2023	Industrial Distribution & Industrials – Diversified & Utilities – Diversified
Hulamin Limited	31 December 2023	Metal Fabrication & Other Metals & Mining
Insimbi Industrial Holdings Limited	28 February 2024	Metal Fabrication & Other Metals & Mining
Invicta Holdings Limited	31 March 2024	Industrial Distribution & Industrials – Diversified & Utilities – Diversified
KAP Limited	30 June 2023	Conglomerates
Libstar Holdings Limited*	31 December 2023	Packaged Foods
Metair Investments Limited*	31 December 2023	Auto Spare Parts & Electrical Equipment & Parts
Mondi PLC	31 December 2023	Paper & Wood
Mpact Limited	31 December 2023	Containers & Packaging
Nampak Limited	30 September 2023	Containers & Packaging
Novus Holdings Limited	31 March 2024	Publishing & Professional Services
Nu-World Holdings Limited	31 August 2023	Auto Spare Parts & Electrical Equipment & Parts
Omnia Holdings Limited	31 March 2024	Speciality Chemicals
PPC Limited	31 March 2024	Agricultural Machinery & Construction Materials

RCL Foods Limited	30 June 2024	Packaged Foods
Reunert Limited	30 September 2023	Auto Spare Parts & Electrical Equipment & Parts
RFG Holdings Limited	30 September 2023	Packaged Foods
Sappi Limited	30 September 2023	Paper & Wood
Sasol Limited	30 June 2024	Speciality Chemicals
Sephaku Holdings Limited	31 March 2024	Agricultural Machinery & Construction Materials
South Ocean Holdings Limited	31 December 2023	Auto Spare Parts & Electrical Equipment & Parts
Tiger Brands Limited	30 September 2023	Packaged Foods
Transpaco Limited	30 June 2024	Containers & Packaging
York Timber Holdings Limited	30 June 2023	Paper & Wood

**FY24 interim results were not released in time for inclusion in this publication.*

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