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# INDUSTRIAL SECTOR REPORT 2021

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Research  
Service

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## Introduction

In this sector, our sample includes nine companies listed on the Johannesburg Stock Exchange. This sample is a mix of support services, industrial, chemicals and two state-owned / parastatals. These companies are:

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<b>AECI</b>
<b>African Oxygen</b>
<b>Altron</b>
<b>ArcelorMittal SA</b>
<b>Denel</b>
<b>Eskom Holdings Limited</b>
<b>Invicta Holdings</b>
<b>Reunert</b>
<b>Sasol</b>

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South Africa has a strong industrial tradition dating back 150 years. The nine companies in our sample employed about 104,815 people in the 2020 financial year. This shows why it is a crucial industry for the LRS to monitor. Firstly, this report looks at the significant effect the COVID 19 pandemic has had on the sector. The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the last seven years. We also analyse the high remuneration packages received by directors in this sector.

## The Sector

The severity and unpredictability of the Covid-19 pandemic in the last year and a half has disrupted global business operations and earnings. In addition to these disruptions South Africa's national lockdowns and restrictions in 2020 and 2021 have severely impacted the industrial sector.

In the six months ended 31 August 2020, the technology services firm, Altron, announced that 600 jobs were being cut across the group and several business units being discontinued due to the severe impact of COVID-19 on the business. In addition, Altron incurred losses of ZAR 35 million as a result of the volatility in currency due to the global pandemic.

At the start of the pandemic in March 2020, ArcelorMittal South Africa expected to be hit hard when almost all its operations were stopped for the first time in the company's history. Even though the company recorded a loss in the first half of 2020, gains were recorded in the second half of the year. Despite the coronavirus outbreak, ArcelorMittal South Africa bounced back from the ZAR 632 million losses recorded in 2019, to post profit of ZAR 37 million for the year 2020.

The employees of the South African state defence firm, Denel, have been the most affected by the pandemic in this sector. Appearing before Parliament's standing committee on public accounts, Denel acting CEO William Hlakoane revealed that Denel is technically insolvent and available cash is insufficient to meet operational requirements. As of November 2021, the amount owing to employees is about ZAR 650 million. Surprisingly, recent information reveals that Denel executives suspended for alleged corruption continue to receive full salaries even though the company still owe several of its active employees.<sup>1</sup>

## Financials

### Revenue

From our sample, Eskom Holdings Limited and Sasol remain the biggest companies in the Industrial Sector, with revenue of ZAR 199.5 billion and ZAR 190.4 billion respectively, as shown in Figure 1 chart below. The 2020 value is a 10.9% increase from the 2019 financial year revenue for Eskom Holdings Limited and a 6.5% decrease for Sasol in the same period. Denel is the smallest company in our sample with a revenue of ZAR 2.7 billion. Compared to 2019, the company recorded a 27.5% decrease in revenue for the 2020 financial year.

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<sup>1</sup> <https://mybroadband.co.za/news/government/411214-denel-execs-suspended-for-corruption-receive-full-salaries-but-employees-not-paid.html>

Figure 3 shows that compared to 2019, only Eskom Holdings Limited reported an increase in 2020 revenue in our sample. Figure 2 shows a pie chart of the companies in our sample by revenue. This chart clearly shows the size of the sample market that each company has by revenue. Eskom Holdings Limited and Sasol's combined revenue makes up 81% of the total revenue of companies in our sample. From 2019 to 2020, the average revenue in the sample decreased by 3.1%.

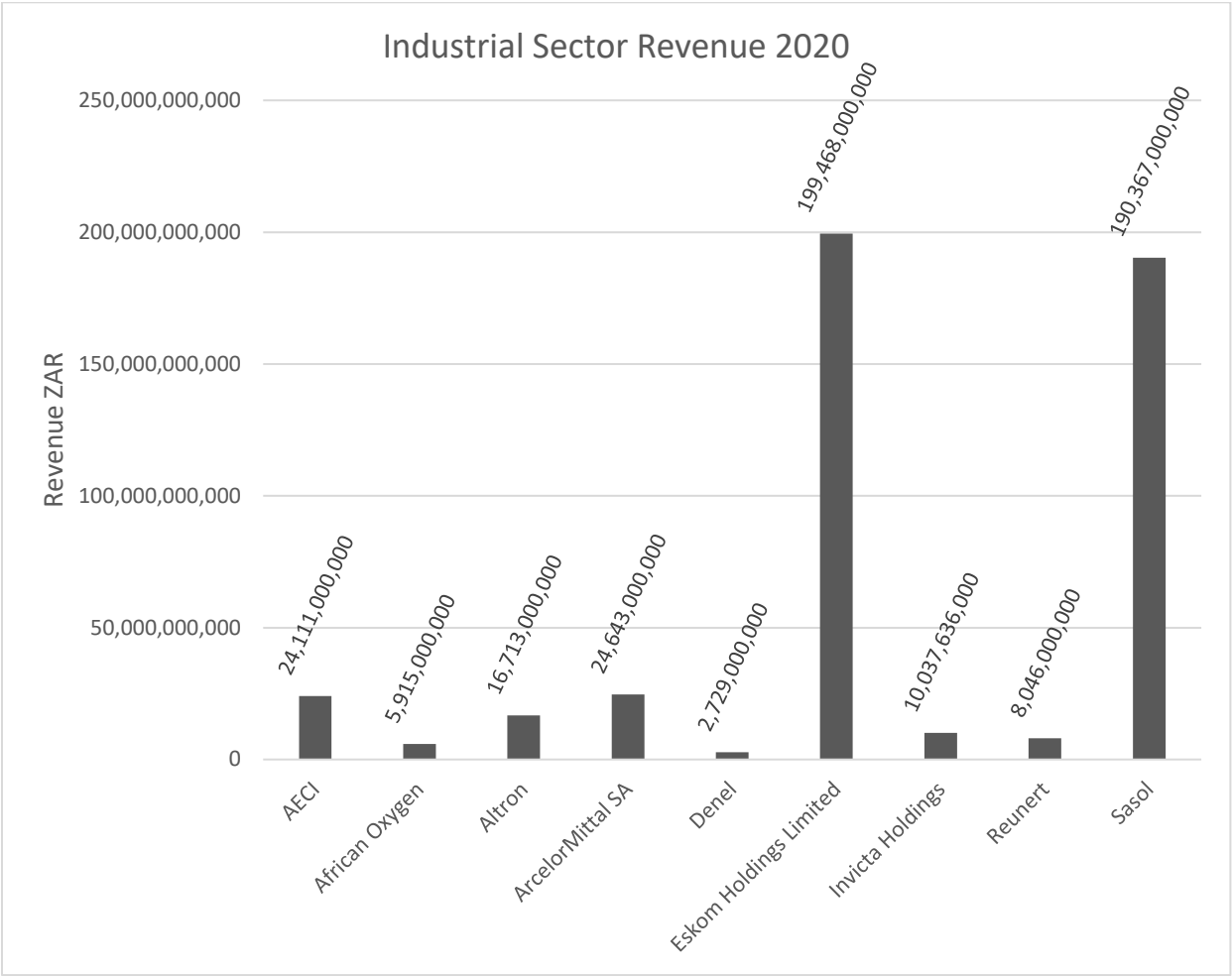


Figure 1 Industrial Sector Revenue 2020

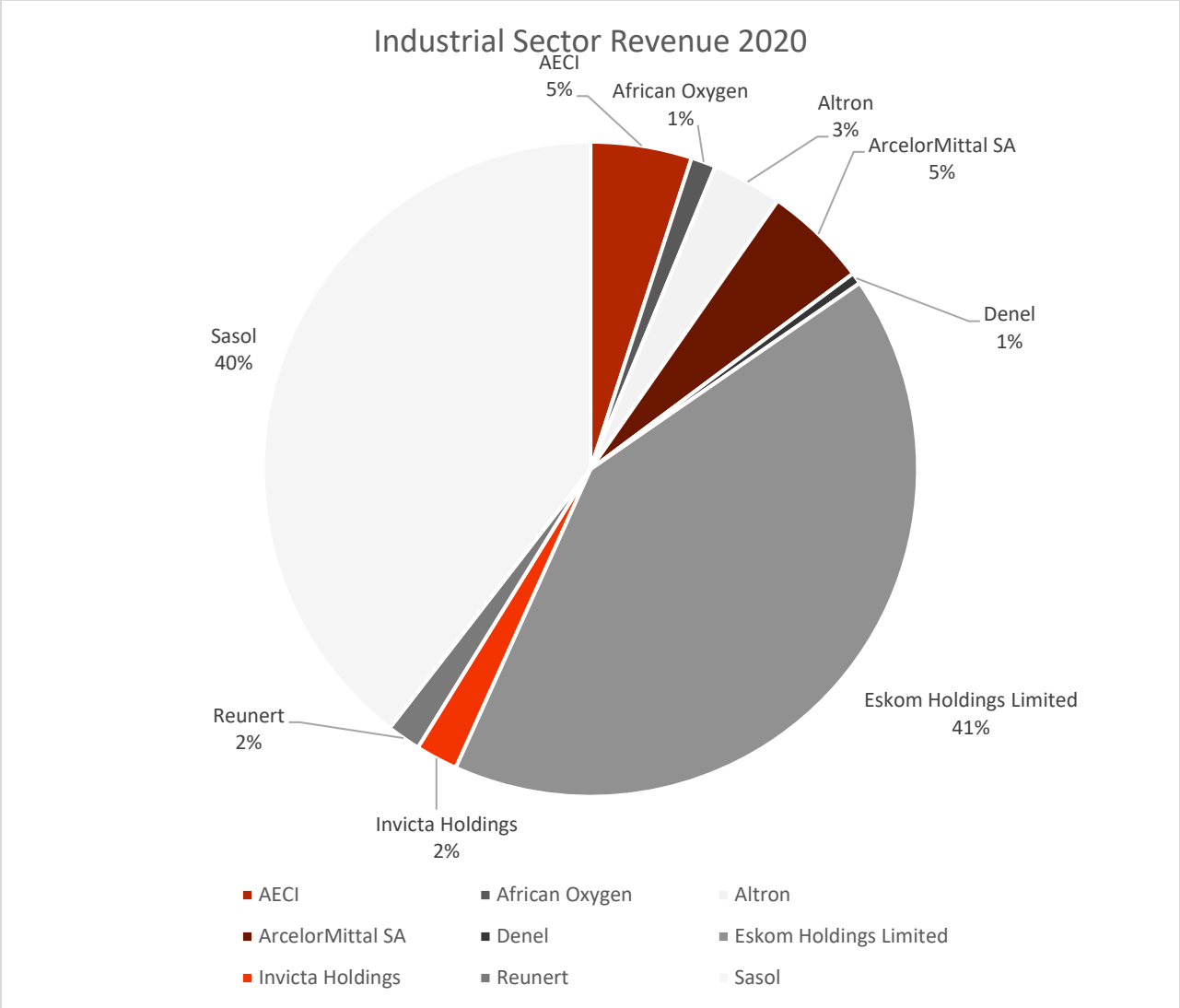


Figure 2 Industrial Sector Revenue Pie Chart 2020

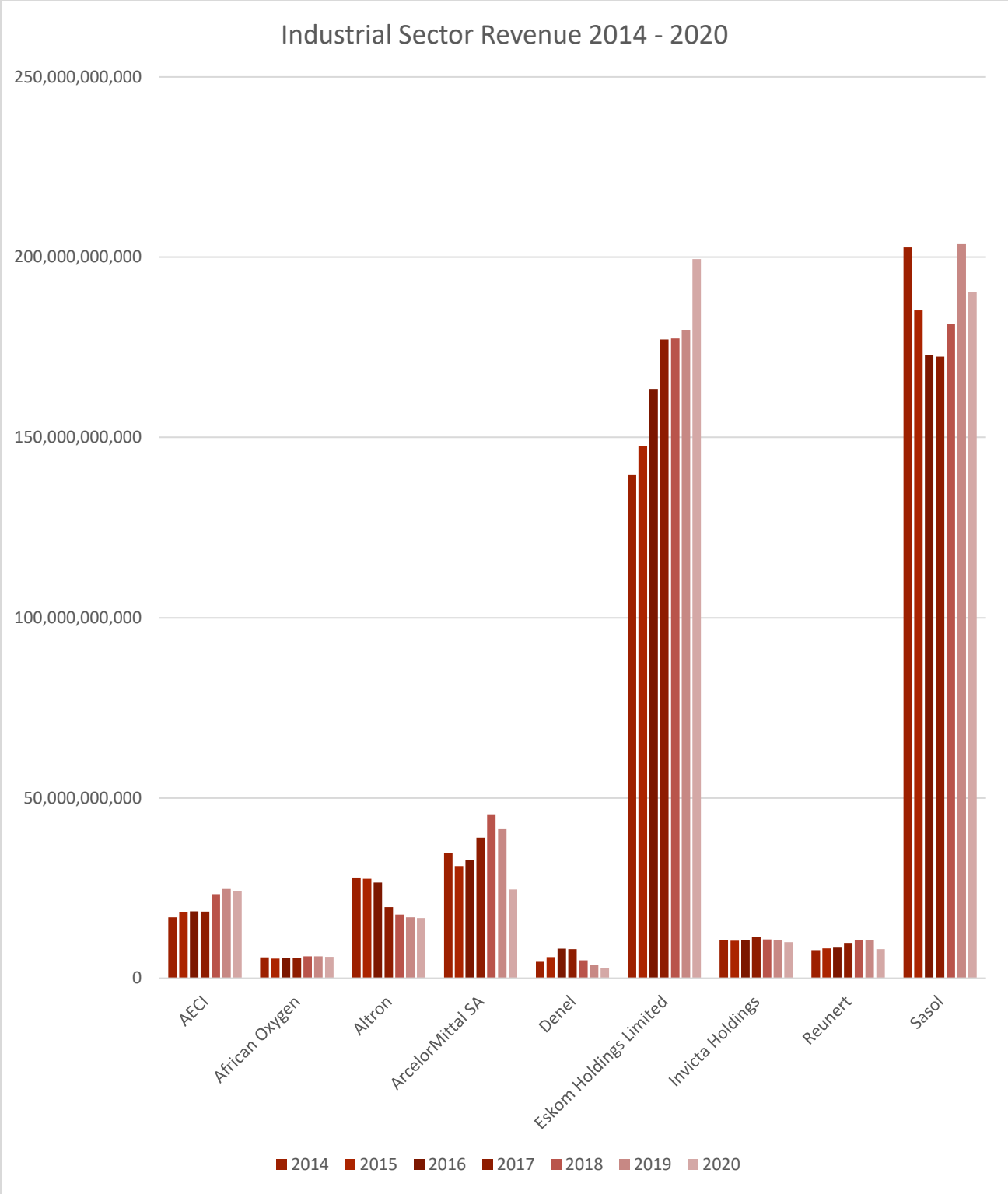


Figure 3: Industrial Sector Revenue 2014 to 2020

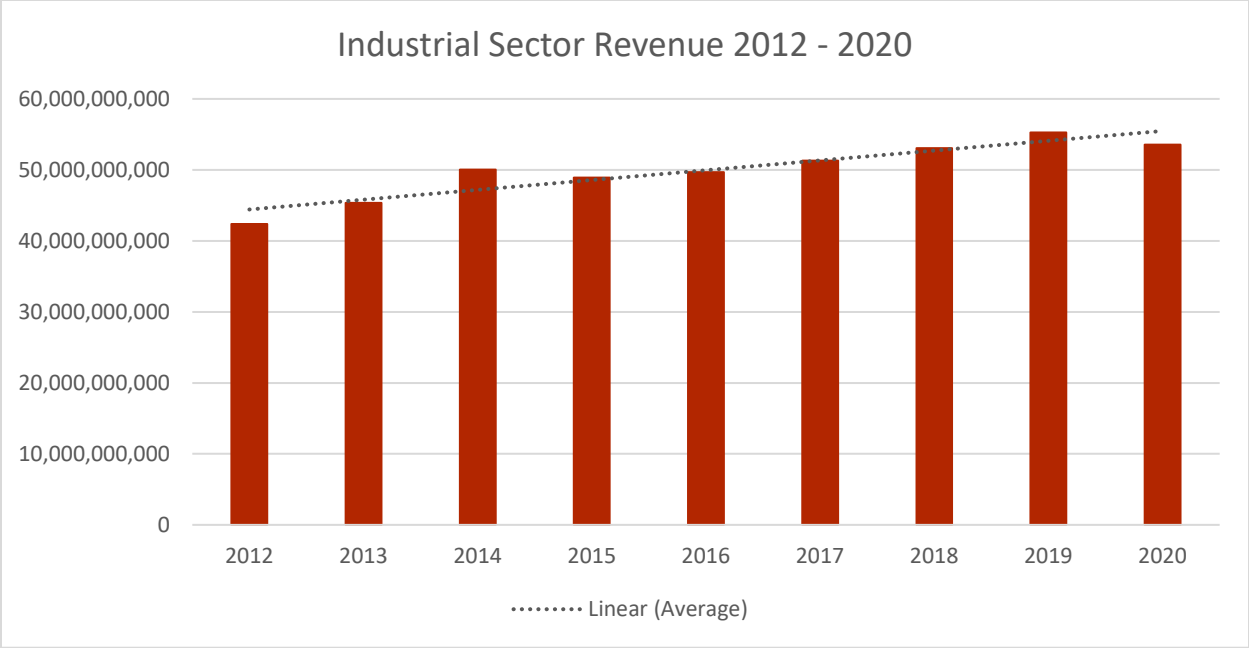


Figure 3 Industrial Sector Average Revenue 2012 to 2020

### Profit before Tax

Most companies in this sector made a significant loss in the 2020 financial year. Sasol reported a loss of ZAR 117 billion. This may be due to the large amount of debt owed by the company and the disruption of business by the pandemic. In our sample, Altron reported the highest PBT, ZAR 857 million, while Reunert reported the lowest profit, ZAR 160 million.

The 2020 Profit before Tax for AECI decreased by 63.9%, compared to the previous year, while African Oxygen reported the smallest decrease (2.56%) in the same period. On average, reported 2020 PBT for the five companies went down by over 593%. This decline is partially attributed to the severe impact of the Covid-19 pandemic on the sector. From the graph below (see Figure 8), we see the Industrial Sector is at its highest average loss in seven years.



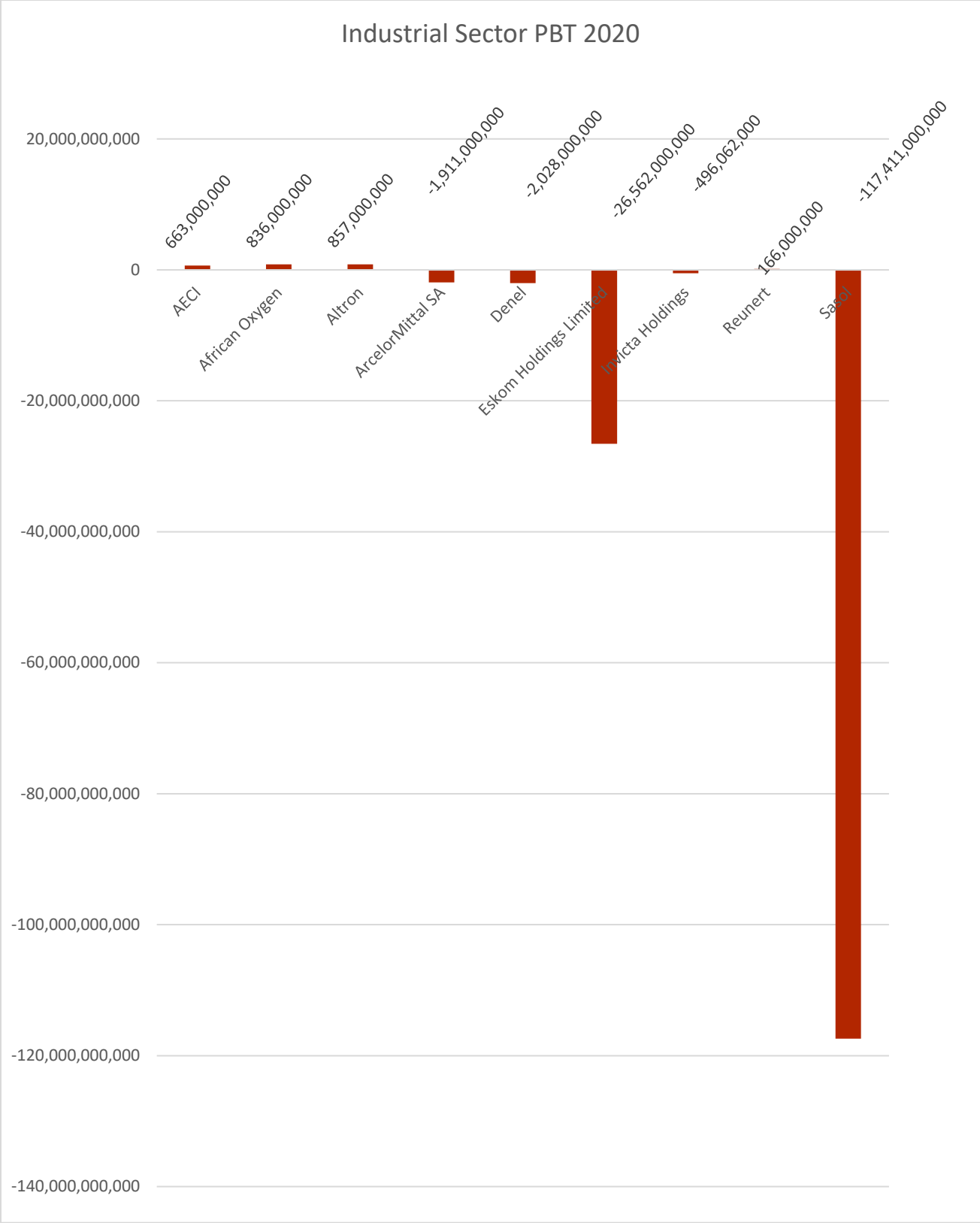


Figure 4 Industrial sector Profit before Tax 2020

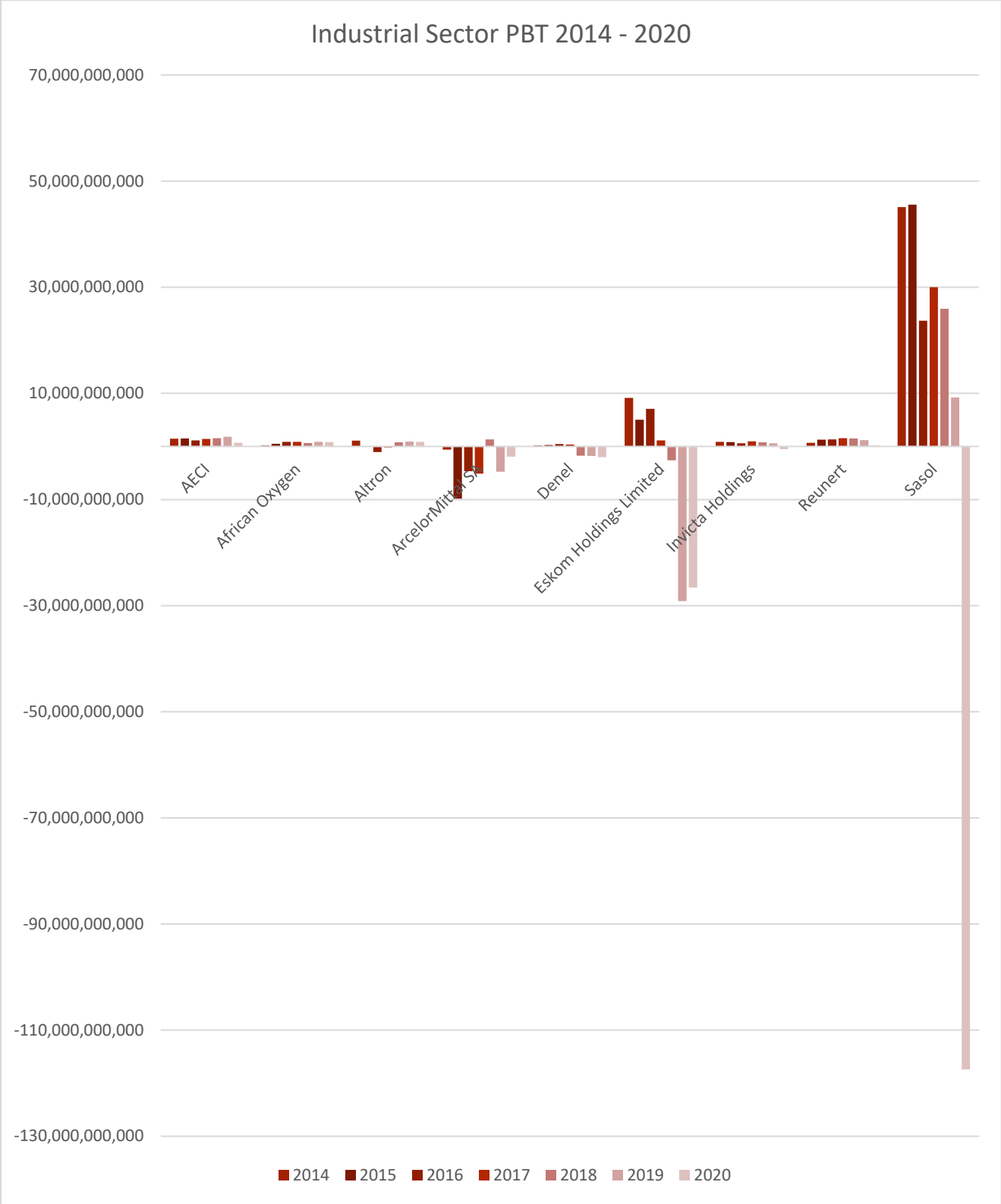


Figure 5 Industrial sector Profit before Tax 2014 to 2020

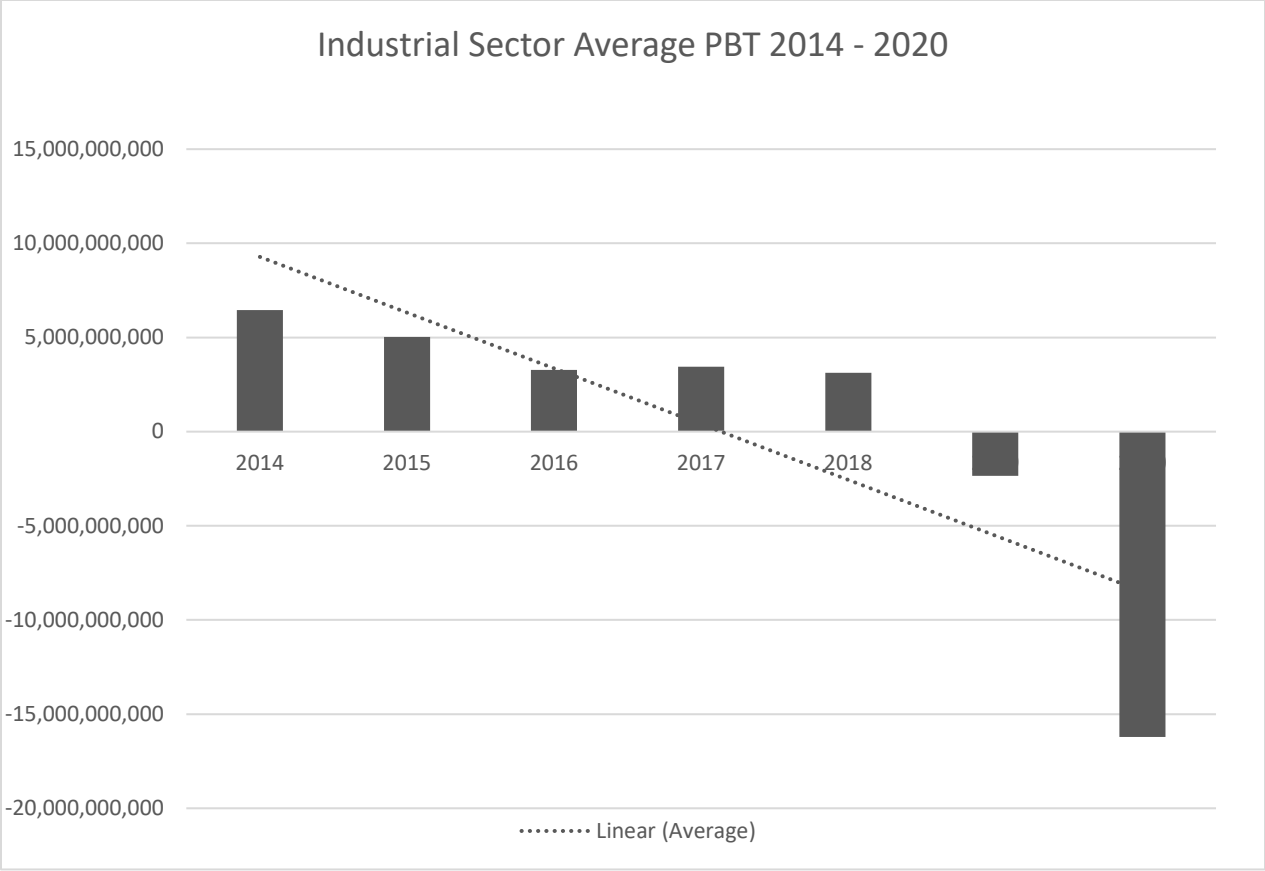


Figure 6 Industrial Sector Average PBT 2014 to 2020

## Directors’ Remuneration: a ten-year retrospective

We use the LRS MNC database to examine CEO remuneration over the last ten years for the nine companies in our sample. When looking at *Figure 9*, we see that 2014 has the largest gap between the average total remuneration without LTI and total remuneration including LTI. This implies that large LTIs were paid in the year. Compared to 2019, the average total remuneration without LTI increased by 48.8%, and the total remuneration including LTI increased by 24.2% in 2020. These large increases are quite concerning given that the sector had a very difficult year and most of the companies struggled in the period.

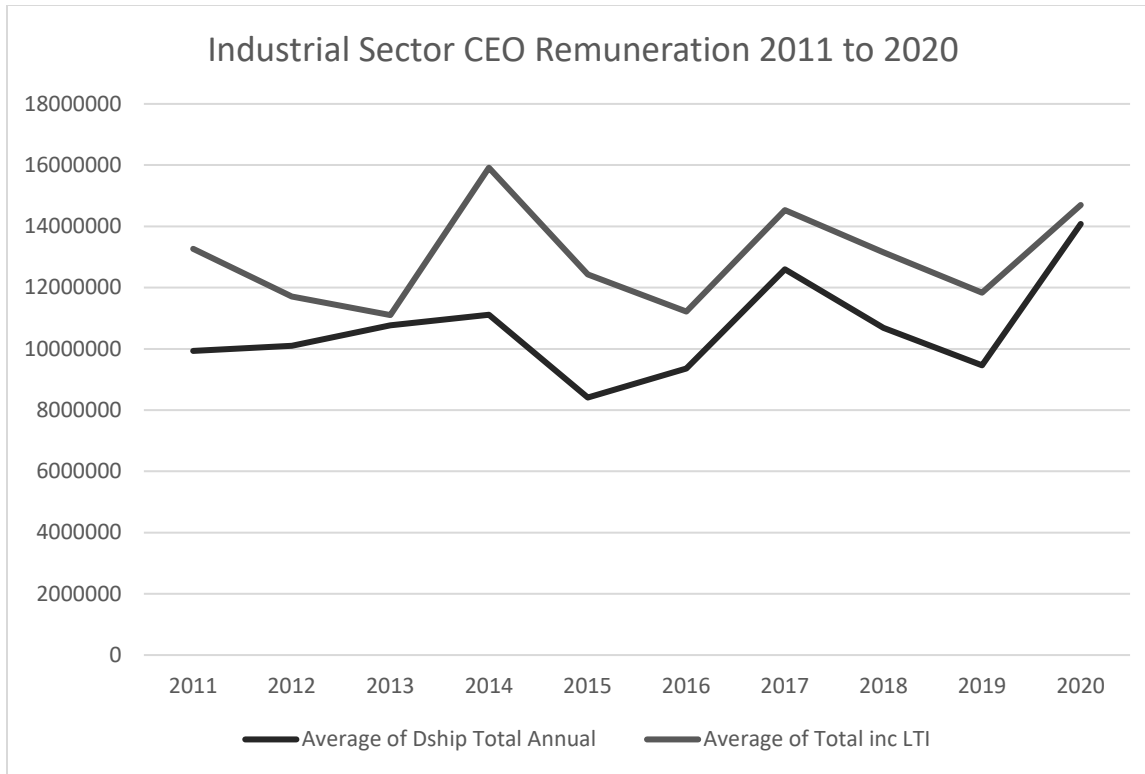


Figure 7 Industrial Sector CEO Remuneration 2011 to 2020

## CEO Remuneration 2020

Despite significant loss, the outgoing Joint CEO of Sasol, Stephen Cornel, received a total remuneration of ZAR 68.7 million, which includes an LTI payment of ZAR 1.9 million, salary of ZAR 20 million, and cash bonus of ZAR 24 million in the 2020 financial year. The other outgoing Joint CEO, Bongani Nqwababa, received a total remuneration of ZAR 27.3 million in the same period and became the second-highest earner in our sample. Mark Dytor of AECl received a total remuneration of ZAR 13.7 million, which includes an LTI payment of ZAR 2.7 million. Mteto Nyati of Altron also received a total remuneration of ZAR 14.6 million.

On average, from 2019 to 2020, the total executive director and non-executive director's remuneration increased by 7.9% and 28.5%, respectively (see *Figure 9 and 10*

### Industrial Sector CEO Remuneration 2020

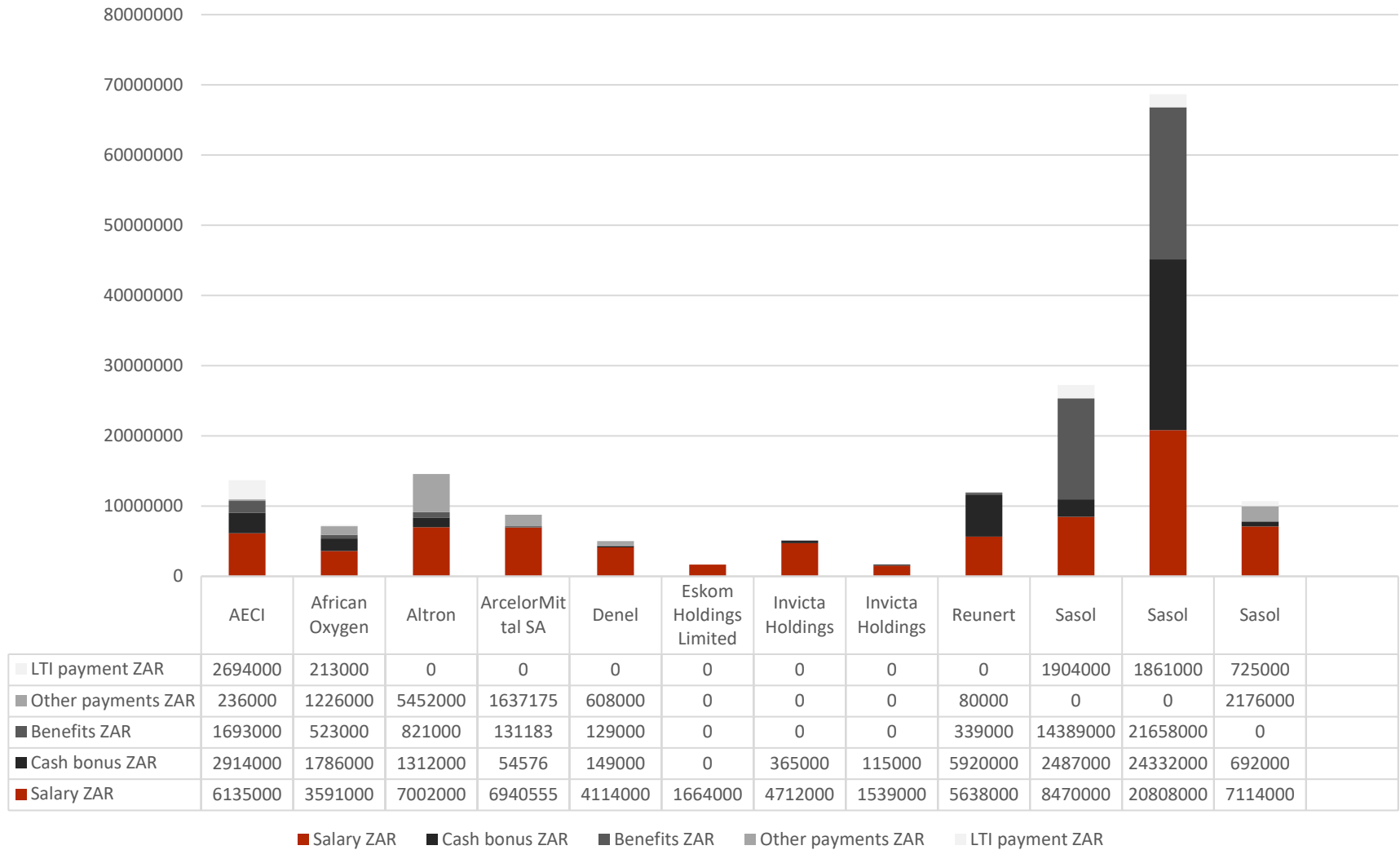


Figure 8 Industrial Sector CEO Remuneration 2020

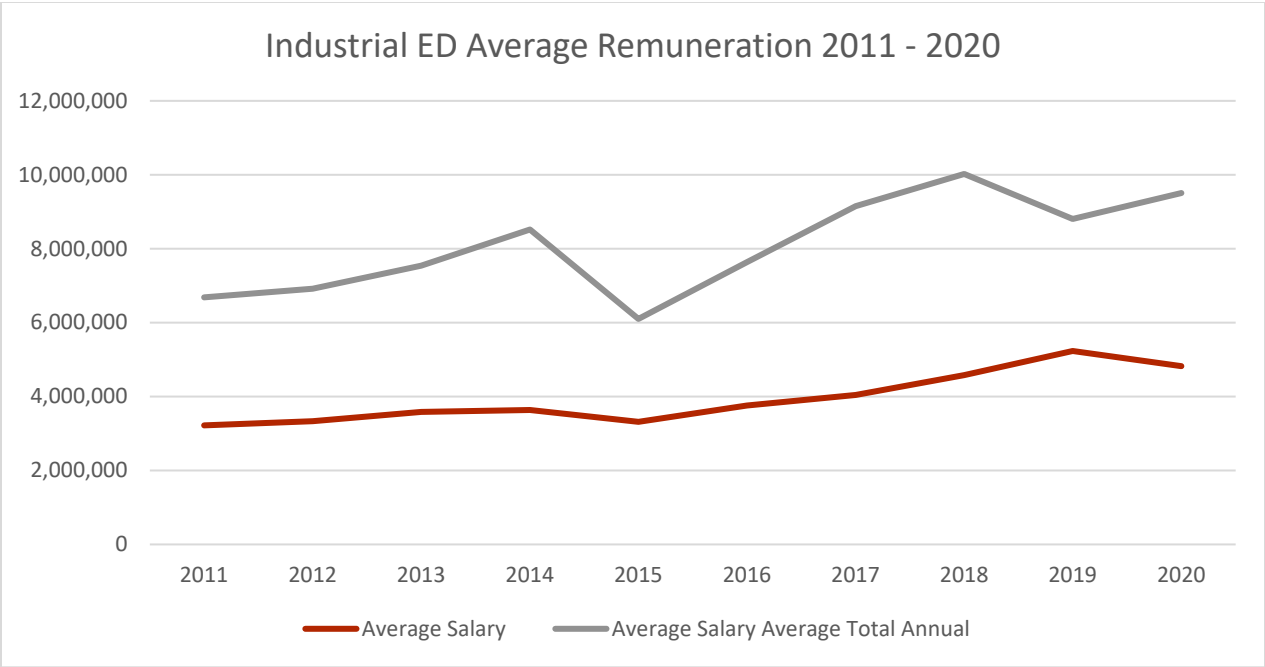


Figure 9 Industrial Sector Executive Director Remuneration 2011 to 2020

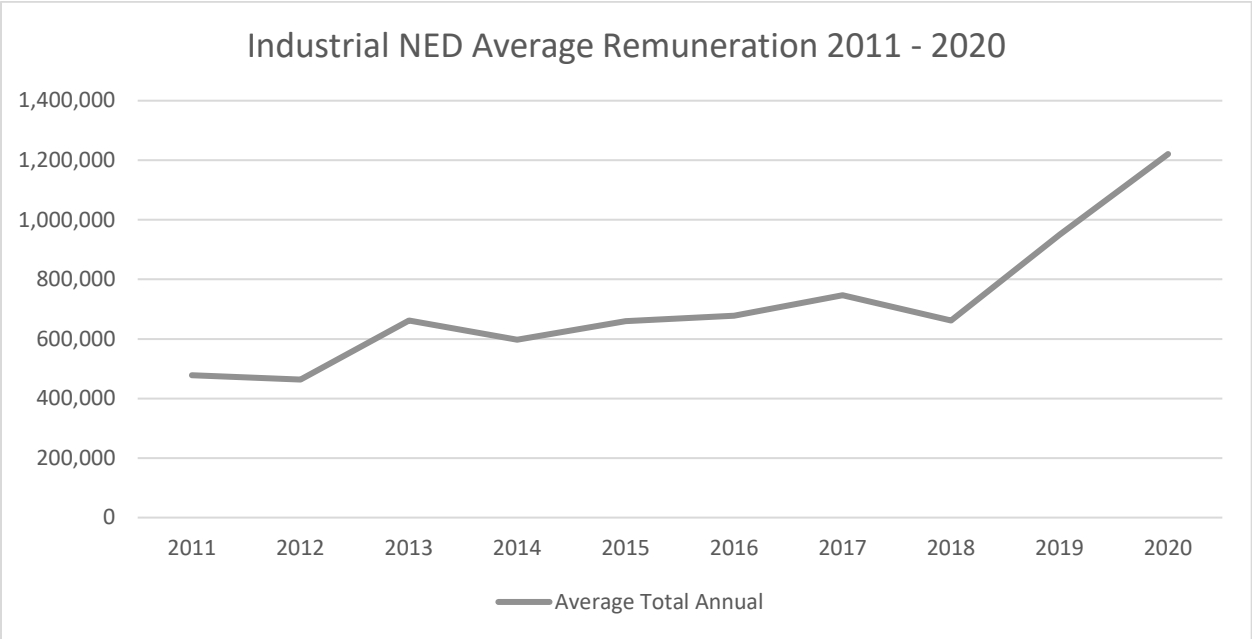


Figure 10 Industrial sector NED Average Total Annual Remuneration 2011 to 2020