From our **Fund Manager's Desk**

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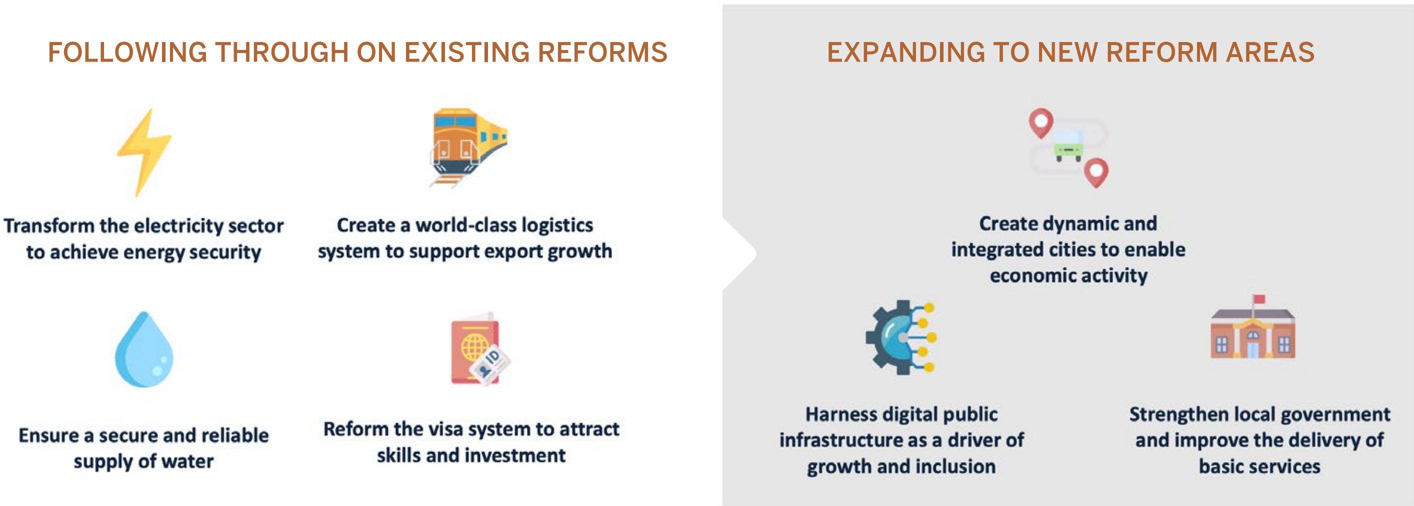
SA Infrastructure
Not if, but when: A call for readiness

It is evident that the required infrastructure investment in South Africa is not a matter of "if", but rather "when". While timing remains uncertain, the groundwork is being laid for a significant expansion in infrastructure activity. Key initiatives such as The National Transmission Development programme (NTDP), Public Private Partnerships (PPPs), and ongoing sectoral reforms point to a future where infrastructure becomes a cornerstone of economic revival. As announced by the President, public investment in infrastructure is expected to exceed R1 trillion over the next 3 years, making it the fastest-growing item in the national budget.

We also believe that Operation Vulindlela, a strategic initiative led by the Presidency in collaboration with National Treasury, is expected to accelerate and support the implementation of these projects. This program is central to South Africa's growth agenda, with over 90% of the first phase reforms either completed or progressing well. Whilst efforts continue to advance key reforms such as transforming the electricity sector, building a world-class logistics system, investing in water infrastructure, and reforming the visa system to attract critical skills, the second phase introduces new priorities:

1. **Create dynamic and integrated cities to enable economic activity,**
2. **Harness digital public infrastructure,**
3. **Strengthen local government to improve service delivery of basic services.**



Source: National Treasury

According to the Bureau of Economic Research (BER) estimates, full implementation of these reforms could raise South Africa's real GDP growth by 1.5pp by 2029, boosting it to 3.5% compared to a baseline of 2%.

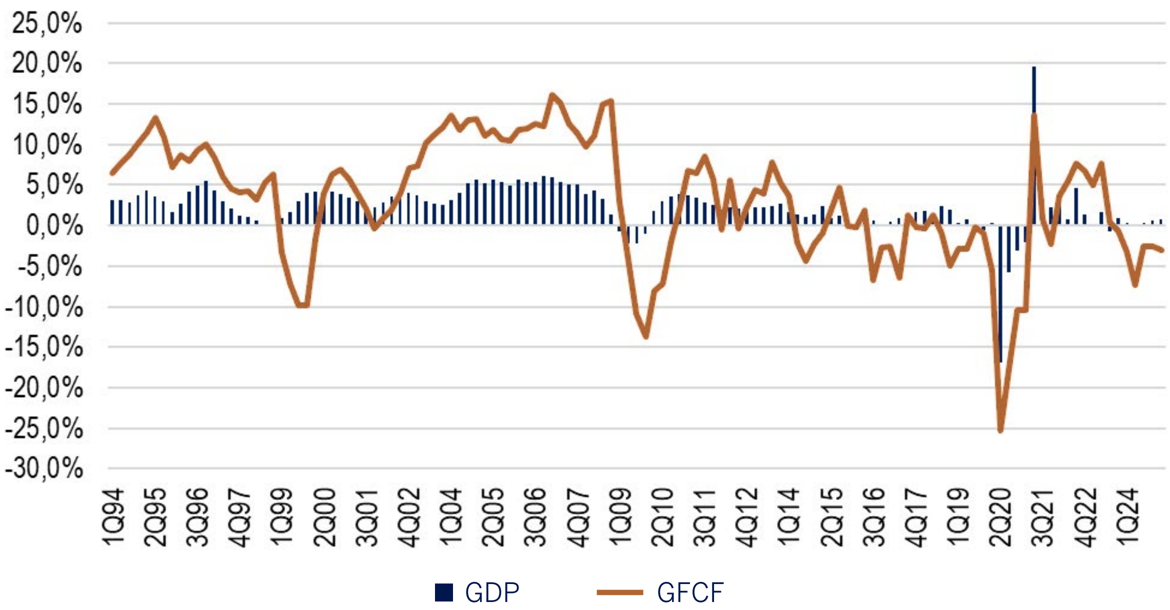
Reunert positioned to benefit from infrastructure upswing:

While the broader infrastructure investment environment is expected to uplift multiple sectors in SA, Reunert stands out as a key beneficiary due to its significant exposure to many of the planned projects. The company continues to strategically align its capital and operational focus toward high-growth areas (such as, renewable energy, digital systems integration, international defence, and domestic infrastructure). These sectors are anticipated to support sustained earnings growth over the medium to long term. Large-scale infrastructure developments in renewable energy, water, ports, rail, and grid transmission represent substantial growth opportunities. Each of these projects requires extensive electrical investment, which is expected to drive demand for Reunert's cables business in particular.

Unlocking Infrastructure trends

Gross Fixed Capital Formation (GFCF) is a key indicator of infrastructure investment in South Africa. It reflects the extent to which governments and the private sector are investing in assets such as land improvements, machinery, equipment, and infrastructure (e.g., roads, railways, ports). GFCF is a major driver of long-term economic growth, with a clear correlation between growth in real GFCF and growth in real domestic expenditure and GDP.

GDP VS GFCF, Y-Y %



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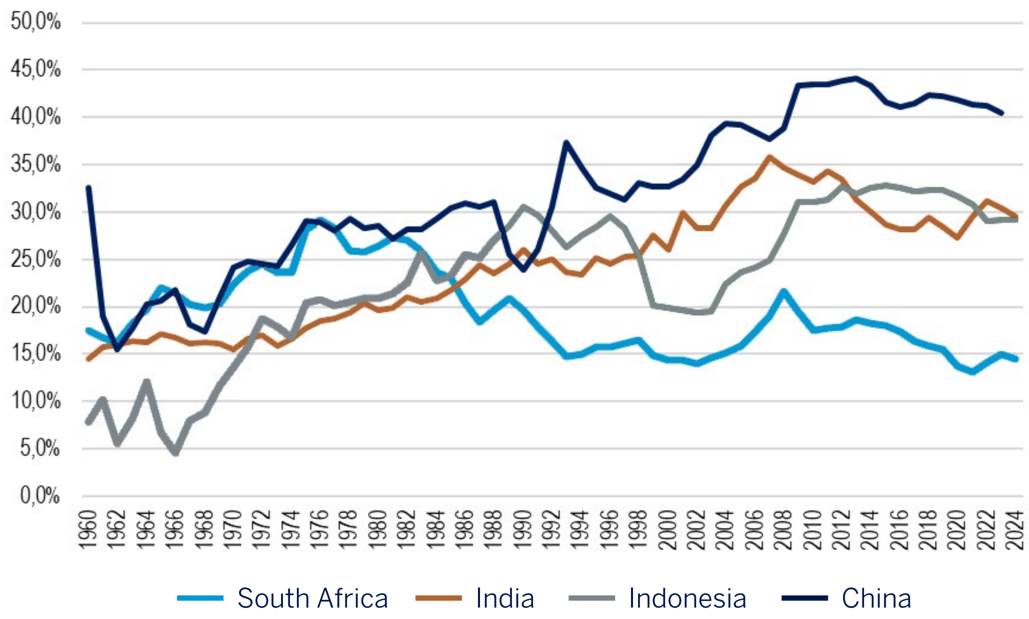
Current trends and historical context

South Africa's GFCF as a percentage of GDP has remained subdued at around 14–15%, well below historical highs and the 20–40% range observed in peer countries. The GFCF/GDP ratio has declined from approximately 30% in 1976 to 15% in 2024, reflecting slower investment by key institutional sectors: private enterprises, public corporations, and government.

GFCF AS A % OF PDP (SA VS PEERS)



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Looking ahead: A renewed infrastructure push

The South African government has reiterated its commitment to infrastructure-led growth. President Cyril Ramaphosa recently announced a R1 trillion infrastructure investment plan over the next three years. This signals a strategic shift to use infrastructure as a foundation for: 1) economic development, 2) job creation, and 3) improved service delivery.

The following key sectors are targeted for investment:

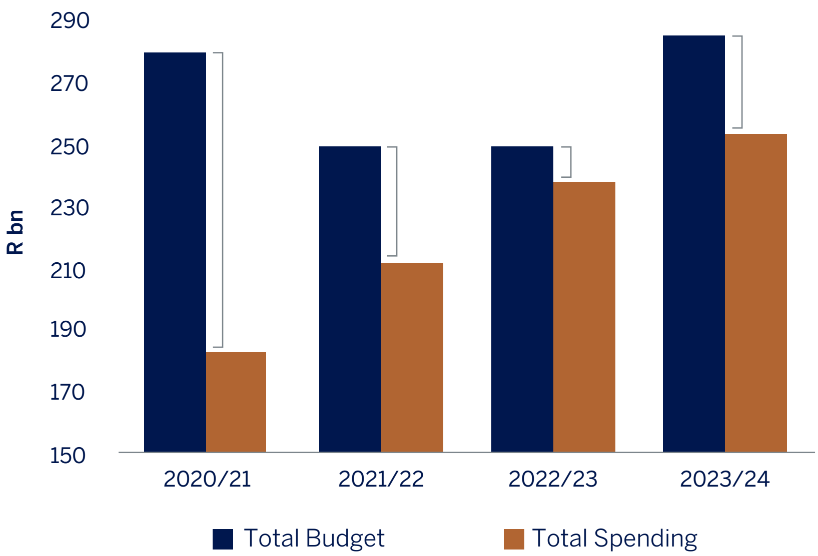
- **Energy:** Renewable capacity and grid expansion
- **Transport & Logistics:** Rail, road, and port upgrades
- **Water & Sanitation:** Backlog reduction and access improvement
- **Digital Infrastructure:** Broadband and connectivity enhancements

Notably, Energy, Water & Sanitation, and Transport & Logistics will account for 75% of the total spend. These sectors will drive demand for electrical infrastructure, benefiting companies like Reunert, particularly its cables business.

Skepticism vs. Opportunity

Skeptics are likely to pounce on the notion that the R1trn announced for infrastructure spend is a pipeline of dreams, especially given that underspending has been a key feature in government, as indicated in the chart below.

PUBLIC SECTOR SPENDING



Source: National Treasury

We continue to believe that the current environment presents a pipeline of opportunities, particularly as the government is actively:

/ **Encouraging Public-Private Partnerships (PPPs):** South Africa has seen several successful PPPs and projects that demonstrate the potential of these models to deliver impactful outcomes. Inter alia, we highlight the recent Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) as well as the Gautrain Rapid Rail Link. These projects stimulated local economic activity and created jobs.

/ **Reforming regulatory frameworks to attract private investment:** Progress in legislative and regulatory reforms is expected to support a rebound in economic growth. Private sector participation is set to increase, particularly in transmission, ports, railways, and water systems.

Transmission investment: The NTDP opportunity

The National Transmission Development Plan (NTDP) is a key catalyst for future investment. It aims to unlock private capital for transmission infrastructure, addressing grid bottlenecks that have stalled 15GW of approved renewable projects, especially in the solar-rich Northern Cape Province.

According to the TDP 2024 programme, South Africa will need 14,494 km of new transmission lines by 2034 (5,000 km between 2025–2029 and another c9,500 km between 2030–2034). Critical bids have already been issued for components like pylons, cables, transformers, and substations. Reunert has secured several cable contracts, though volumes remain modest.

Importantly, South Africa is preparing to launch its first PPP transmission line project, with bidding expected to open later this year and the first phase closing in Q4. This marks a pivotal step toward unlocking long-term investment in the national grid.

Conclusion

We conclude by looking abroad for inspiration.

- India's National Infrastructure Pipeline mobilised over $1.5 trillion in investment across energy, transport, and urban development.
- Vietnam's infrastructure boom lifted its GFCF/GDP ratio to over 25%, supporting sustained 6–7% GDP growth.
- Brazil's PPP model in sanitation and transport has attracted billions in private capital, despite fiscal constraints.

In our view, South Africa has the potential to follow a similar trajectory, if reforms are implemented and capital is mobilised effectively. Any potential large-scale infrastructure projects in renewable energy, water, ports, rail, and grid transmission present a meaningful growth opportunity.

In short, South Africa's infrastructure story is evolving (from hesitation to action). The reforms are real. The investment is coming. And the opportunities are substantial. We believe that Reunert is best positioned to benefit from this infrastructure spend.