



competitiontribunal
SOUTH AFRICA

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM069Jul19

In the matter between:

Hulamin Systems (Pty) Ltd

Primary Acquiring Firm

and

**The Aluminium Rolling Slab Business
of Isizinda Aluminium (Pty) Ltd**

Primary Target Firm

Panel	: Mondo Mazwai (Presiding Member)
	: Enver Daniels (Tribunal Member)
	: Yasmin Carrim (Tribunal Member)
Heard on	: 4 September 2019
Order Issued on	: 4 September 2019
Reasons Issued on	: 3 October 2019

Reasons for Decision (Non-confidential)

Approval

- [1] On 4 September 2019, the Competition Tribunal ("Tribunal") unconditionally approved the proposed transaction between Hulamin Systems (Pty) Ltd ("Hulamin Systems" or "SlabCo") and the aluminium rolling slab casting business ("Slab Business") of Isizinda Aluminium (Pty) Ltd ("Isizinda").
- [2] The reasons for the unconditional approval follow.

Background

The Aluminium production process

- [3] The production process for primary aluminium involves three main steps, namely the mining of bauxite,¹ the refining of bauxite into alumina² and the smelting of alumina into primary aluminium.³ Secondary aluminium is produced through re-melting and re-using aluminium.
- [4] Relevant for purposes of the proposed transaction, is the Slab Business' involvement in the manufacture and supply of rolling slab, one of the many shapes of primary aluminium.
- [5] Rolling slab products are large rectangular blocks of aluminium alloys. They ordinarily weigh between 12 tonnes – 18 tonnes. Alloying materials are added to primary liquid aluminium to form rolling slab.⁴
- [6] Rolling slab is not a commoditised product. In this regard, most rolling mills cast their own slab as part of an integrated operation – including Hulamin Ltd's⁵ ("Hulamin") rolling mill in Pietermaritzburg which casts two thirds of its own slab and sources the balance of its slab requirements from the Slab Business.
- [7] The rolling slab produced by the Slab Business is customised to suit the specifics of Hulamin's requirements.

Overview of the South African Industry

- [8] South Africa's primary aluminium requirements are provided through Hillside Aluminium (Pty) Ltd ("Hillside"),⁶ the Slab Business⁷ and imports. Secondary

¹ A sedimentary rock with a relatively high aluminium content. Bauxite is not mined, produced or used in South Africa.

² No alumina is produced in South Africa and all of South Africa's alumina requirements are imported.

³ Record page 76.

⁴ Alloying materials include silicon, copper and manganese. The combination of the alloy materials added depends on the application for which the rolling slab will be used.

⁵ The ultimate acquiring firm in the proposed transaction.

⁶ South32 (South32) Ltd's aluminium smelter located in Richards Bay. Hillside exports the majority of its output and it still provides the majority of the primary aluminium required in South Africa.

⁷ The Slab Business is the only supplier of rolling slab in South Africa, with its total production being sold to Hulamin.

aluminium is heavily recycled throughout the production chain, including casthouses, semi-fabricators and used by the secondary casting industry.

- [9] Hulamin owns and manages the only aluminium rolling facilities in South Africa, using internally cast rolling slab⁸ and rolling slab purchased from Isizinda. Flat rolled products produced by Hulamin are supplied into most industry segments, with most of its revenue being generated from exported products. The bulk of the flat rolled products required in the South African market are produced and supplied by Hulamin.⁹
- [10] There are two main local aluminium extruders, namely Hulamin Extrusions and Wispeco, and a number of other smaller extruders. Extruded sections are produced from internally produced billet (cast from internal and purchased scrap, primary ingot¹⁰ and alloying elements) and imported billet.¹¹

Parties to proposed transaction

Primary acquiring firm

- [11] The primary acquiring firm is SlabCo, a wholly owned subsidiary of Hulamin Operations (Pty) Ltd ("Hulamin Operations"), which is, in turn, a wholly owned subsidiary of Hulamin Ltd ("Hulamin"). Hulamin is listed on the Johannesburg Stock Exchange ("JSE") and is therefore not controlled by any single or group of firms.
- [12] In addition to SlabCo, Hulamin Operations controls Isizinda and Hulamin Extrusions (Pty) Ltd ("Hulamin Extrusions").
- [13] Hulamin does not control any other firm, other than Hulamin Operations.

⁸ Cast from internally and purchase scrap, primary ingot and alloying elements.

⁹ Record page 78.

¹⁰ Ingot is a piece of relatively pure material, in this context aluminium, that is cast into a shape for further processing.

¹¹ Billet is a solid block of aluminium (or any material), its size depending on your desired part. Billet is used predominantly in the automotive, transport, building, architectural and general engineering industries.

- [14] Hulamin operates plants in Pietermaritzburg and Midrand which produce aluminium flat rolled products, aluminium extrusions and rigid foil containers. Hulamin's business can be divided into two divisions, namely Hulamin Rolled Products and Hulamin Extrusions.
- [15] Hulamin Rolled Products' operations include the production of technologically advanced aluminium sheet, coil and plate products. Hulamin Rolled Products is also involved in the re-melting and recycling of aluminium, direct chill ingot casting, continuous casters, hot, cold and foil rolling and further finishing and processing.
- [16] Hulamin extrusions supplies aluminium extrusions to local engineers, transportation, architectural and automotive sectors in South Africa.

[17]

- [18] SlabCo is currently a dormant firm. Post-transaction, in addition to the activities of the Slab Business, [REDACTED]

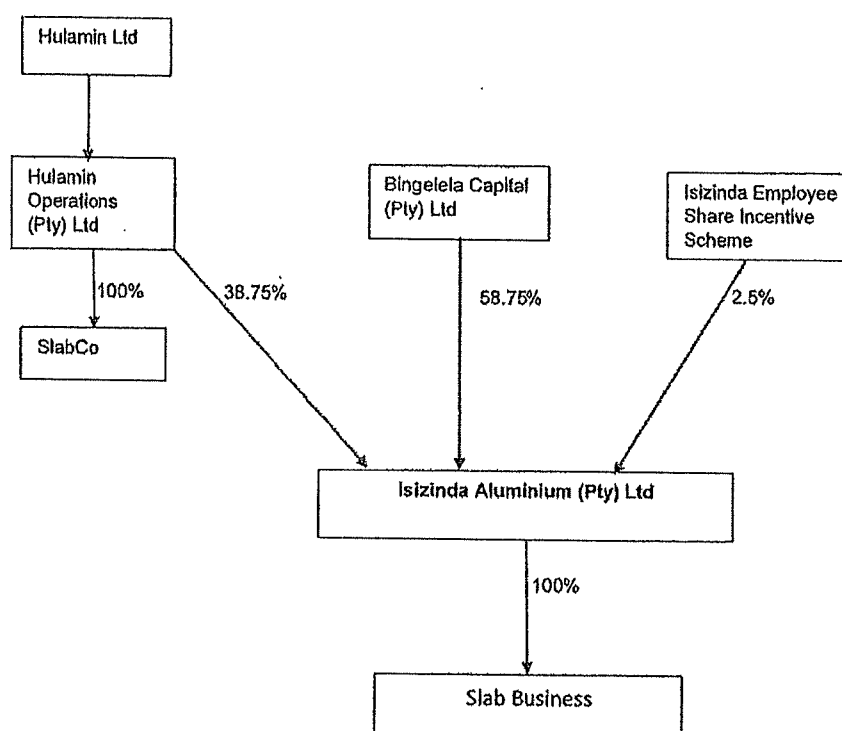
Primary target firm

- [19] The primary target firm is the Slab Business. The Slab Business is wholly owned and controlled by Isizinda. Isizinda is jointly controlled by Bingelela Capital (Pty) Ltd, with a 58.75% shareholding, and Hulamin Operations, with a 38.75% shareholding. The remaining 2.5% in Isizinda is held by the Isizinda Employee Share Incentive Scheme ("Isizinda Employee Scheme").

[20]

[21] The pre-merger control structure is as follows:¹²

Figure 1: Pre-merger control structure of Isizinda and the Slab Business



[22] The Slab Business procures liquid aluminium from Hillside and adds various alloying elements to produce rolling slabs of differing slabs and sizes. As mentioned above, the Slab Business' total rolling slab output is supplied to Hulamin.

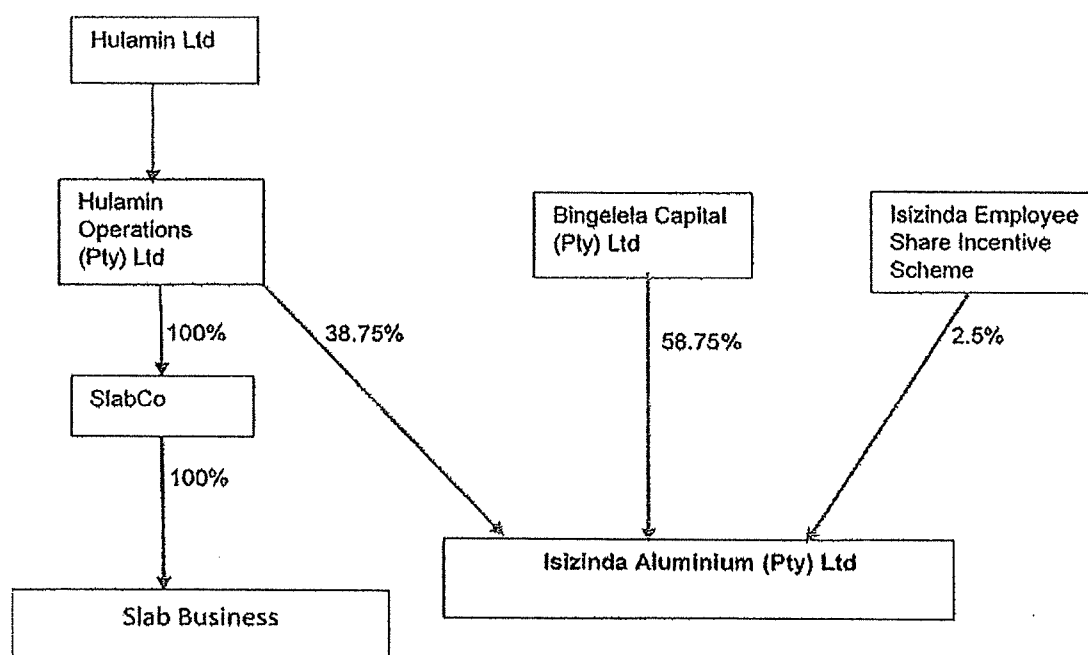
Proposed transaction and rationale

[23] SlabCo intends to acquire the Slab Business from Isizinda, including the assets used in conducting its business, as a going concern. Post-transaction, the Slab Business will be wholly owned and controlled by Hulamin, through SlabCo, and will continue to operate as a stand-alone business.

¹² Source: CC construction based on merging parties' submissions.

- [24] Isizinda does not form part of the proposed transaction, such that post-transaction, Hulamini Operations and Bingelela will continue to jointly control Isizinda.
- [25] The post-merger control structure of Isizinda and the Slab Business will be as follows:¹³

Figure 2: Post-merger control structure of Isizinda and the Slab Business



- [26] Insofar as the Isizinda Employee Scheme is concerned, the Isizinda employees who constituted beneficiaries thereof,¹⁴ will, upon their transfer to SlabCo, automatically form part of the Hulamini Employee Share Incentive Scheme ("Hulamini ESOP"), as the Isizinda Employee Scheme is likely to be dissolved.

[27]

[REDACTED]

[REDACTED] Hulamini, having the only capability in South Africa to manage the highly specialized operation of casting rolling slab, and having always operated the slab casting business at Isizinda, has agreed

¹³ Source: CC construction based on merging parties' submissions.

¹⁴ Save for the Chief Executive Officer and his assistant.

to purchase the rolling slab business from Isizinda [REDACTED]
[REDACTED]

Relevant markets and impact on competition

- [28] The Commission considered the activities of the parties to the transaction and found that the proposed transaction results in a horizontal overlap insofar as both parties operate casthouses that cast/produce aluminium rolling slab. Additionally, the Commission found that the Slab Business currently supplies Hulamin with aluminium rolling slab, which presents a potential vertical overlap between the parties.
- [29] Further, the Commission found that the proposed transaction will raise a vertical overlap, post-merger, [REDACTED]
[REDACTED]
- [30] Insofar as the horizontal overlap is concerned, the Commission found that Hulamin casts/produces aluminium rolling slab solely for self-supply. Further, Hulamin and the Slab Business are the only casthouses capable of producing aluminium rolling slab such that no competitor is likely to be affected by the proposed transaction. Lastly, given that all the Slab Business' production goes to Hulamin, the merging parties do not necessarily compete in the casting of aluminium rolling slab.
- [31] In relation to the vertical overlap that exists between Hulamin and the Slab Business, the Commission found that it was unlikely to cause customer foreclosure post-merger, as Hulamin produces two thirds of its rolling slab requirements, with the remaining volumes met by the Slab Business. As such, Hulamin does not have any other third-party supplier, other than the Slab Business.
- [32] Finally, in consideration of the post-merger vertical overlap between Bingelela Alloys and the Slab Business, the Commission found that the Slab Business

does not cast alloys, and as such does not have any customers. [REDACTED]
[REDACTED]

[REDACTED] Consequently, it is unlikely that customer foreclosure or input foreclosure will arise out of the proposed merger.

Public interest analysis

Effects on Industry

[33] The parties have submitted that the integration of the Slab Business into Hulamin will protect economic activity and employment in the Richards Bay area.

[34]

[REDACTED]

[REDACTED] This, according to the Commission suggests that the proposed transaction is likely to have positive effects on the aluminium sector and employment.

Employment

[35] The merging parties submitted that no retrenchments were anticipated as a result of the proposed merger. [REDACTED]
[REDACTED]

[36] Furthermore, no employment related concerns were raised after the Commission contacted the trade unions representing the employees of the respective merging parties.

Conclusion

[37] In light of the above, we concluded that the proposed transaction was unlikely to substantially prevent or lessen competition in any relevant market and raised no public interest concerns. Accordingly, we approved the proposed transaction unconditionally.


Ms Mondo Mazwai

3 October 2019
DATE

Ms Yasmin Carrim and Mr Enver Daniels

Case Manager: Helena Graham
For the merging parties: Nonto Mahlangu and Ryan Goodman of ENSafrica
For the Commission: HlUMANI Mandla and Mogau Aphane