

# Capital Star Steel

A STAR IN AFRICA





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*Capital Star Steel SA is a subsidiary of Capital Africa Steel engaged in production of high frequency welded steel pipe for oil and gas, mining, water treatment industry*

WORDS BY *John O'Hanlon*

**C**apital Star Steel SA, based in Maputo Province, Mozambique, is a subsidiary of the South African company, Capital Africa Steel (Pty) Ltd (CAS), the company through which Wilson Bayly Holmes-Ovcon (WBHO) operates its construction materials businesses. WBHO is one of the largest construction companies in Southern Africa, listed on the Johannesburg Securities Exchange with 12,000 employees, and had a turnover in 2013 of more than R23 million. Capital Star Steel SA has a world class manufacturing plant in the Beluluane Industrial Park, Boane District in Maputo, which has a capacity to produce 200,000 tons of pipe per annum. It manufactures high frequency welded steel pipe and serves the international Oil and Gas industry as well as the mining industry across Africa, with globally based sales and distribution centres.

The particularly difficult market conditions of the last two years have seen a number of companies divesting and/or closing struggling construction materials and supply businesses. It has a role as one of the key support companies for the larger divisions within the group, principally Buildings and civil engineering, a recognised leader in the South African building industry, but also to some extent Roads and earthworks division which operates across multiple traditional civil engineering disciplines.

The downturn has resulted in challenging times for CAS which started to record

*“Capital Star Steel has a role as one of the key support companies for the larger divisions within the group”*



*“A general improvement in the contracting environment and the rationalisation that has taken place within the market are further positive developments impacting the business”*

after 2010. As a result, a programme of restructuring was put in place to turn the struggling business around. A new CEO was appointed to the company, certain loss-making investments were disposed of or closed, and experienced leadership teams were introduced. As a result CAS has been profitable in both 2012 and 2013, despite various once-off items negatively affecting its results. “While certain challenges remain within the pipe factory in Mozambique and the local shelving companies, a solid platform has been put in place from which to move forward,” said WBHO Chief Executive Officer Louwtjie Nel in his 2013 review. “A general improvement in the contracting environment and the rationalisation that has taken place within the market are further positive developments impacting the business.”

With the turnaround strategy for Capital Africa Steel (CAS) essentially complete and a general improvement in market conditions, the outlook for CAS is cautious, but optimistic and it is expected that the earnings platform will stabilise. Key markets include: public-private partnerships (PPPs); engineer, procure and construct projects (EPCs) construction material supplies;



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property investments; and gas infrastructure and sales, he added. “The group has implemented its vertical integration strategy through the Projects division, which accesses larger turnkey projects that often include design, operating and funding elements, and through Capital Africa Steel (CAS), through which the group is exposed to construction supply revenue streams in various sectors.”

The Projects division has gained important traction this year through the Kathu renewable energy project and the restructuring of CAS is now complete. Both are strategically positioned to benefit from opportunities arising of the gas fields

*“The company, which operates in the construction materials sector, enables the group to diversify revenue streams as well, by participating further down the value chain”*

in Mozambique. The strategic focus has been to complete leadership changes in CAS and its subsidiaries. “The company, which operates in the construction materials sector, enables the group to diversify revenue streams as well, by participating

further down the value chain,” said Nel. Traditionally, margins are enhanced in this sector of the market, but a recent lack of government and general infrastructure spending, coupled with currency and steel price volatility, has impacted negatively on

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*“We aim to build an unparalleled reputation as a supplier to the South African market of cost effective and made-to-specification-solutions to ERW piping needs”*

the sector resulting in some rationalisation in the markets Capital Star operates in. Its strategic response of to these challenging conditions has been to realign the focus of the organisation on profitable markets.

Today the South African based Sales and Distribution Division of Capital Star Steel SA is well on its way to becoming the preferred market leader in Southern Africa. “We aim to build an unparalleled reputation as a supplier to the South African market of cost effective and made-to-specification-solutions to ERW piping needs.” ERW stands for electric resistance welded pipe, made from plate rolled to become a pipe and welded using the ERW process, a process particularly suited to large diameter applications.

The competitive advantage of the company lies in the Capital Star Steel manufacturing plant, which has been commissioned using only the best in class machinery and equipment. Today it is run by a top-class management team with extensive big bore pipe industry expertise, therefore ensuring that its big bore steel line pipe meets world quality standards such as set by the American Petroleum Institute (API). Added strength is derived from its low cost manufacturing base, and the ideal geographical location of Maputo to supply any destination on the globe.

The company has established a raw material supply chain globally and it is currently expanding its distribution infrastructure internationally. With a guaranteed constant supply of electricity from Cahora Bassa and perfectly situated

near the port harbour of Maputo, and the main arterial road lines that lead to South Africa, Botswana, Angola, Zimbabwe, Zambia and Tanzania, it have the ability to deliver “on time and in full” to any project, whether it be in Africa or anywhere on the globe.

The Projects division of WBHO is pinning its hopes on bidding for hospital and serviced accommodation projects in South Africa during the current year, 2014, and is also exploring opportunities throughout Africa, helping governments to unlock funding issues regarding large-scale infrastructure developments through innovative PPP and EPC contracting arrangements. Capital Star should be able to exploit the opportunities created by the rationalisation within the construction materials sector and it is anticipated that the company will gain further market share over the course of this year. The exploitation of the large gas fields in Mozambique should also present the group with numerous opportunities. Reports suggest that the reserves could contain as much as 100 Trillion Cubic Feet (tcf) of natural gas and the group is strategically positioned to take advantage of projects in the region. **BE**

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