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KAP is a diversified industrial business focused on growth in African markets

KAP INDUSTRIAL HOLDINGS LIMITED Audited results for the year ended 30 June 2016

Financial review

These are provisional audited results for the year ended 30 June 2016.

Revenue and operating profit before capital items

Revenue from continuing operations increased by 4% to R16 232 million from R15 664 million. Operating profit before capital items from continuing operations increased by 19% to R1 984 million from R1 666 million. Operating margin increased to 12.2% from 10.6% as a result of an improvement in the quality of revenue and the rationalisation of the group's cost base.

Headline earnings per share (HEPS)

HEPS from continuing operations increased by 18% to 47.8 cents from 40.6 cents in the comparative period. HEPS including discontinued operations increased by 19% to 47.8 cents from 40.2 cents in the comparative period.

Tax rate

The effective tax rate increased to 29.2% from 27.2% as a result of withholding taxes emanating from the repatriation of funds from non-South African territories.

Cash flow

Cash generated from operations increased by 44% to R3 285 million from R2 275 million, supported by strong working capital management.

Working capital

Net working capital decreased by R379 million to negative R27 million. Inventories increased by R107 million; accounts receivable increased by R138 million while accounts payable increased by R624 million. The net working capital of the prior period did not include Autovest Limited, which was acquired effective 1 April 2016.

Capital expenditure

Replacement capital expenditure continues to be managed in relation to the annual depreciation charge, and amounted to R965 million for the period.

Expansionary capital expenditure of R752 million resulted from various growth opportunities in the group, which include certain new logistics contracts, a high-gloss finishing line in PG Bison's Boksburg plant, a paper impregnation plant at the Woodchem operation and progress payments on the expansion of the Hosaf PET plant and the upgrade of the Piet Retief particleboard plant.

Debt structure and finance costs

Despite the various expansion initiatives highlighted above, net interest-bearing debt reduced to R2 069 million from R2 089 million. This reduction was due to strong profit and cash generation which resulted in a further reduction in the gearing ratio to 24% from 27% in the previous year. The net interest-bearing debt maturity profile of the company was also improved during the year by the replacement of certain lines of credit with longer dated facilities. The debt structure and cover ratios are reflected as follows:

Debt structure	30 June 2016 Rm	30 June 2015 Rm
Interest-bearing long-term liabilities	4 204	3 129
Interest-bearing short-term liabilities	431	327
Bank overdrafts and short-term facilities	36	3
Cash and cash equivalents	(2 602)	(1 370)
Net interest-bearing debt	2 069	2 089
Total equity (excluding non-controlling interests)	8 667	7 761
Net interest-bearing debt: equity	24%	27%
EBITDA*	2 790	2 450
Net finance charges*	313	289
EBITDA: interest cover (times)	8.9	8.5
Net debt: EBITDA (times)	0.7	0.9

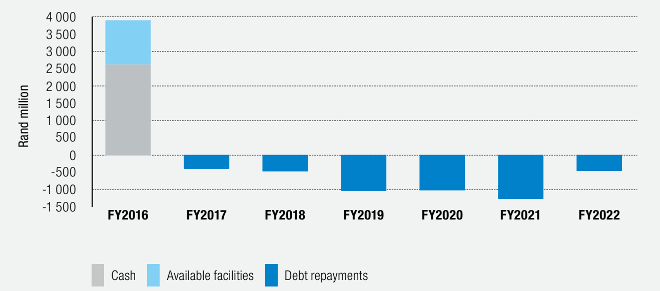
**From continuing operations*

Net asset value (NAV)

The NAV per share increased to 355 cents from 320 cents in the comparative period.

Business combinations

The group acquired the business of Autovest Limited effective 1 April 2016. The fair value of the assets and liabilities of Autovest Limited was R163 million with a purchase price of R560 million, resulting in goodwill of R397 million.



Outlook

Management continues to focus on optimising and expanding its existing operations and on growing its market share in all areas of operation. Management remains optimistic that these activities will provide a solid platform for continued growth of the group, despite the current challenging economic environment.

In the Diversified Logistics segment, certain key contracts were renewed during the year and a healthy volume of new contracts was secured, providing strong momentum for FY2017. It is expected that improved efficiencies and significantly reduced costs resulting from the rationalisation of this division will result in further contract renewals, extensions and the procurement of additional contracts in the sectors within which the group operates.

In the Diversified Industrial segment, the momentum of existing operations is expected to continue during FY2017. This will be supported by the acquisition of Autovest Limited and certain expansion projects implemented during FY2016, which include the PG Bison high-gloss line and the Woodchem impregnation plant. Certain key projects, including amongst others the expansion of the Hosaf PET operation, the upgrade of the PG Bison Piet Retief particleboard line and the construction of the new Integrated Bedding factory are progressing on schedule, and will provide revenue and operating profit growth in FY2018.

Acquisitions concluded after 30 June 2016

The group continues to pursue acquisition opportunities in accordance with its strategy. To this end, the group has concluded the following transactions subsequent to 30 June 2016:

Safripol Holdings (Pty) Ltd (Safripol)

The group concluded a transaction, subject to certain conditions precedent, to acquire 100% of the equity and claims in Safripol for R4.1 billion, effective 1 January 2017. Safripol is engaged in the manufacture of polypropylene and high-density polyethylene, which are used in the manufacture of a broad range of plastic injection and blow-moulded products. This business operates with a similar business model to that of Hosaf, and produces products that are complementary to those of Hosaf.

Lucerne Transport (Pty) Ltd (Lucerne)

The group also concluded a transaction, subject to certain conditions precedent, to acquire 100% of the equity and claims in Lucerne, effective 1 September 2016. Lucerne's operations are complementary to those of Unitrans, specifically in terms of bulk liquid tanker transport of chemicals and edible oils.

Dividend

The board of directors is pleased to announce that a gross dividend of 18 cents per share (2015: 15 cents per share) for the year ended 30 June 2016 has been approved.

Appreciation

The board of directors records its appreciation for the continued support and loyalty of the group's employees, shareholders, customers and suppliers.

On behalf of the board

J de V du Toit	KJ Grové	GN Chaplin
Independent non-executive chairman	Executive deputy chairman	Chief executive officer
15 August 2016		

KAP Industrial Holdings Limited ("KAP" or "the company" or "the group")

Non-executive directors: J de V du Toit (Chairman)*, MJ Jooste, AB la Grange, IN Mkhari*, SH Müller*, SH Nomvete*, PK Quarmby*, DM van der Merwe, CJH van Niekerk **Executive directors:** KJ Grové (Executive deputy chairman), GN Chaplin (Chief executive officer), FH Olivier (Chief financial officer) **Registration number:** 1978/000181/06 **Share code:** KAP **ISIN:** ZAE000171963 **Registered address:** 28 6th Street, Wynberg, Sandton, 2090 **Postal address:** PO Box 18, Stellenbosch, 7599 **Telephone:** 021 808 0900 **Facsimile:** 021 808 0901 **E-mail:** info@kap.co.za **Transfer secretaries:** Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001 **Company secretary:** Steinhoff Africa Secretarial Services Proprietary Limited **Auditors:** Deloitte & Touche **Sponsor:** PSG Capital Proprietary Limited

*Independent non-executive directors

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JCB.E






Revenue from continuing operations **up by 4%** to R16.2bn

Operating profit from continuing operations **up by 19%** to R2bn

Headline earnings per share from continuing operations **up by 18%**

Cash generated from operations **up by 44%**

Dividend per share **increased by 20%**

R4.1bn Safripol **acquisition** post 30 June 2016

Corporate review

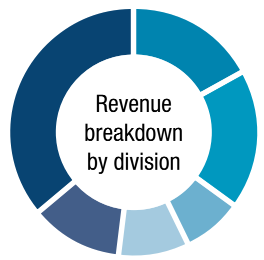
The group continued to grow through investment in strategically aligned, established businesses and operations with high barriers to entry which enhance the group's quality of earnings in respect of sustainability, solid margins and strong cash conversion. This was achieved during the year through continued focus on optimising existing operations, organic expansion activities and the acquisition of complementary businesses. The implementation and execution of the group's strategy produced pleasing results for the year.

Operational review

Diversified Logistics Revenue 48%

CONTRACTUAL LOGISTICS 36%
Specialised contractual supply chain and logistics services

PASSENGER TRANSPORT 12%
Personnel, commuter, intercity and tourism transport



Diversified Industrial Revenue 52%

17% **INTEGRATED TIMBER**
Forestry and timber manufacturing operations with primary and secondary processing

18% **CHEMICAL**
Manufacture of PET, resin and formaldehyde

8% **AUTOMOTIVE COMPONENTS**
Manufacture of components used in new vehicle assembly and after-market vehicle accessories

9% **INTEGRATED BEDDING**
Manufacture of foam, fabrics, springs, bases and mattresses

Revenue for the Diversified Logistics segment increased marginally to R7 899 million for the period despite the lower average fuel price which is contractually passed on to customers and which has the effect of reducing revenue. The operating profit of the Diversified Logistics segment increased by 14% to R1 006 million from R880 million.

The consolidation and rationalisation of the Unitrans Supply Chain Solutions ("Unitrans") operations into a single Contractual Logistics division was successfully concluded during the year. This facilitated growth within specific industry sectors, further optimising the utilisation of assets and infrastructure, resulting in enhanced operating efficiencies. This provided the platform for the reallocation of capital towards higher return activities and the reduction in overhead costs which improved operating margins.

Unitrans produced growth in the food, petrochemical and infrastructure sectors. Subdued activity in the mining and agriculture sectors was well managed, with strong focus on cost containment and fleet utilisation.

The Passenger Transport division performed well with the commuter, intercity and Gautrain operations offsetting low passenger activity in the mining sector. Activity in the tourism sector showed improvement and operations in Mozambique continued to perform well. The division benefited from lower average fuel prices in certain sectors.

Revenue for the Diversified Industrial segment increased by 7% to R8 440 million for the period. The operating profit of the Diversified Industrial segment increased by 24% to R978 million from R786 million.

The Integrated Timber division performed well during the period with revenue growth and operating margin improvement resulting from its recent MDF expansion, continued focus on its value-add strategy and a significant improvement in its sawmilling operations.

The Chemical division performed well, showing revenue growth and operating margin improvement. Woodchem showed strong market share gains and successfully commissioned its paper impregnation plant. Hosaf continued to operate at full capacity. While revenue remained flat, operating margin at Hosaf was supported by stable international PET margins and by improved operational efficiencies and reduced operating costs.

Investments in technology upgrades and continuous improvement projects associated with new model introductions have resulted in a good performance by Feltex in the Automotive Components division. The Autovest operations performed well during the three months since acquisition, and good progress was made with its integration into the group.

In the Integrated Bedding division operating margin improvement resulted from continued integration efficiency and cost-saving initiatives. Restonic performed well, while the Vitafoam and DesleeMattex operations both showed strong improvement. The division made significant progress in the implementation of its strategy of decentralised mattress assembly and distribution.

Summarised consolidated financial statements

Summarised consolidated income statement

	Notes	Year ended 30 June 2016 Audited Rm	Year ended 30 June 2015 Audited Rm	% change
Revenue		16 232	15 664	4
Operating profit before depreciation, amortisation and capital items		2 790	2 450	14
Depreciation and amortisation		(806)	(784)	
Operating profit before capital items		1 984	1 666	19
Capital items	1	(20)	(35)	
Earnings before interest, dividend income, associate and joint-venture earnings and taxation		1 964	1 631	20
Net finance charges		(313)	(289)	
Share of profit of associate and joint-venture companies		24	–	
Profit before taxation		1 675	1 342	25
Taxation		(482)	(361)	
Profit for the year from continuing operations		1 193	981	22
Loss for the year from discontinued operations	2	–	(51)	
Profit for the year		1 193	930	28
Attributable to:				
Owners of the parent		1 147	888	29
Non-controlling interests		46	42	
Profit for the year		1 193	930	28
From continuing and discontinued operations:				
Headline earnings per ordinary share (cents)		47.8	40.2	19
Fully diluted headline earnings per ordinary share (cents)		47.2	39.6	19
Basic earnings per ordinary share (cents)		47.1	37.2	27
Fully diluted earnings per ordinary share (cents)		46.5	36.7	27
From continuing operations:				
Headline earnings per ordinary share (cents)		47.8	40.6	18
Fully diluted headline earnings per ordinary share (cents)		47.2	40.1	18
Basic earnings per ordinary share (cents)		47.1	39.4	20
Fully diluted earnings per ordinary share (cents)		46.5	38.8	20
Number of ordinary shares in issue (m)		2 441	2 423	1
Weighted average number of ordinary shares in issue (m)		2 433	2 384	2
Earnings attributable to ordinary shareholders (Rm)		1 147	888	29
Headline earnings attributable to ordinary shareholders (Rm)	3	1 163	959	21

Additional information

	Year ended 30 June 2016 Audited Rm	Year ended 30 June 2015 Audited Rm
Note 1: Capital items		
From continuing operations:		
Loss on disposal of property, plant and equipment and investment property	(8)	(1)
Loss on disposal of investments and impairments	(12)	(34)
	(20)	(35)
From discontinued operations:		
Loss on disposal of property, plant and equipment and investment property	–	(6)
Loss on disposal of investments and impairments	–	(51)
	–	(57)
	(20)	(92)
Note 2: Loss for the year from discontinued operations		
Revenue	–	474
Loss before depreciation, amortisation and capital items	–	(1)
Depreciation and amortisation	–	(7)
Loss before capital items	–	(8)
Capital items	–	(57)
Loss before interest, dividend income, associate and joint-venture earnings and taxation	–	(65)
Net finance charges	–	–
Loss before taxation	–	(65)
Taxation	–	14
Loss for the year from discontinued operations	–	(51)
Note 3: Headline earnings attributable to ordinary shareholders		
Earnings attributable to owners of the parent	1 147	888
Adjusted for:		
Capital items (note 1)	20	92
Taxation effects of capital items	(3)	(21)
Non-controlling interests' portion of capital items (net of taxation)	–	1
Capital items of associate and joint-venture companies (net of taxation)	(1)	(1)
	1 163	959

Fair values of financial instruments

	Fair value as at 30 June 2016 Audited Rm	Fair value as at 30 June 2015 Audited Rm	Fair value hierarchy Audited
Derivative financial assets	15	3	Level 2
Derivative financial liabilities	(26)	(3)	Level 2

Level 2 financial instruments are valued using techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. These inputs include published interest rate yield curves and foreign exchange rates.

Summarised consolidated statement of financial position

	30 June 2016 Audited Rm	30 June 2015 Audited Rm
ASSETS		
Non-current assets		
Goodwill and intangible assets	2 078	1 598
Property, plant and equipment and investment properties	8 128	7 129
Consumable biological assets	1 890	1 824
Investments in associate and joint-venture companies	124	140
Investments and loans	3	1
Deferred taxation assets	105	85
	12 328	10 777
Current assets		
Inventories	1 286	1 179
Accounts receivable and other current assets	2 677	2 539
Short-term loans	2	23
Taxation receivable	44	36
Cash and cash equivalents	2 602	1 370
	6 611	5 147
Total assets	18 939	15 924
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary stated share capital	7 318	7 318
Reserves	1 349	443
	8 667	7 761
Non-controlling interests	195	169
Total equity	8 862	7 930
Non-current liabilities		
Interest-bearing long-term liabilities	4 204	3 129
Deferred taxation liabilities	1 368	1 086
Other long-term liabilities and provisions	93	93
	5 665	4 308
Current liabilities		
Accounts payable, provisions and other current liabilities	3 899	3 279
Interest-bearing short-term liabilities	431	327
Taxation payable	46	77
Bank overdrafts and short-term facilities	36	3
	4 412	3 686
Total equity and liabilities	18 939	15 924
Net asset value per ordinary share (cents)	355	320
Net interest-bearing debt to equity (%)	24%	27%

Summarised consolidated statement of comprehensive income

	Year ended 30 June 2016 Audited Rm	Year ended 30 June 2015 Audited Rm
Profit for the year	1 193	930
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign subsidiaries	53	27
Total comprehensive income for the year	1 246	957
Total comprehensive income attributable to:		
Owners of the parent	1 198	916
Non-controlling interests	48	41
Total comprehensive income for the year	1 246	957

Summarised consolidated statement of changes in equity

	Year ended 30 June 2016 Audited Rm	Year ended 30 June 2015 Audited Rm
Balance at beginning of the year	7 930	6 859
Changes in ordinary stated share capital		
Net shares issued	–	348
Changes in reserves		
Total comprehensive income for the year attributable to owners of the parent	1 198	916
Dividends and capital distributions paid	(363)	(286)
Share-based payments	71	71
Other reserve movements	–	3
Changes in non-controlling interests		
Total comprehensive income for the year attributable to non-controlling interests	48	41
Dividends and capital distributions paid	(22)	(22)
Balance at end of the year	8 862	7 930
Comprising:		
Ordinary stated share capital	7 318	7 318
Reverse acquisition reserve	(3 952)	(3 952)
Distributable reserves	5 018	4 212
Share-based payment reserve	199	128
Other reserves	84	55
Non-controlling interests	195	169
	8 862	7 930

Summarised consolidated statement of cash flows

	Year ended 30 June 2016 Audited Rm	Year ended 30 June 2015 Audited Rm
Operating profit before capital items	1 984	1 666
Depreciation and amortisation	806	784
Operating loss before depreciation, amortisation and capital items from discontinued operations	–	(1)
Net fair value adjustments of consumable biological assets and decrease due to harvesting	(43)	(86)
Other non-cash adjustments	111	114
Cash generated before working capital changes	2 858	2 477
(Increase)/decrease in inventories	(73)	1
Increase in receivables	(21)	(17)
Increase/(decrease) in payables	521	(186)
Changes in working capital	427	(202)
Cash generated from operations	3 285	2 275
Dividends received	13	2
Dividends paid	(385)	(304)
Net finance charges	(313)	(290)
Taxation paid	(266)	(200)
Net cash inflow from operating activities	2 334	1 483
Additions to property, plant and equipment and investment properties	(1 717)	(1 195)
Proceeds on disposal of investments	–	470
Acquisition of investments	(573)	(142)
Other investing activities	(12)	(7)
Net cash outflow from investing activities	(2 302)	(874)
Net cash inflow from operating and investing activities	32	609
Net cash inflow/(outflow) from financing activities	1 174	(602)
Net increase in cash and cash equivalents	1 206	7
Effects of exchange rate changes on cash and cash equivalents	26	15
Cash and cash equivalents at beginning of year	1 370	1 348
Cash and cash equivalents at end of year	2 602	1 370

Segmental analysis

	Year ended 30 June 2016 Audited Rm	Year ended 30 June 2015 Audited Rm	% change
Revenue from continuing operations			
Diversified Logistics	7 899	7 863	–
Diversified Industrial	8 440	7 885	7
	16 339	15 748	4
Intersegment revenue eliminations	(107)	(84)	
	16 232	15 664	4
Operating profit before capital items from continuing operations			
Diversified Logistics	1 006	880	14
Diversified Industrial	978	786	24
	1 984	1 666	19

	30 June 2016 Audited Rm	%	30 June 2015 Audited Rm	%
Total assets				
Diversified Logistics	6 267	39	5 624	39
Diversified Industrial	9 814	61	8 616	61
	16 081	100	14 240	100

Reconciliation of total assets per statement of financial position to total assets per segmental analysis

	30 June 2016 Audited Rm	30 June 2015 Audited Rm
Total assets per statement of financial position	18 939	15 924
Less: Cash and cash equivalents	(2 602)	(1 370)
Less: Investments in associate and joint-venture companies	(124)	(140)
Less: Interest-bearing long-term loans receivable	(2)	–
Less: Interest-bearing short-term loans receivable	–	(23)
Less: Related party receivables	(130)	(151)
Total assets per segmental analysis	16 081	14 240

Geographical information

	Year ended 30 June 2016 Audited Rm	%	Year ended 30 June 2015 Audited Rm	%
Revenue				
South Africa	14 315	88	13 856	88
Rest of Africa	1 917	12	1 808	12
	16 232	100	15 664	100
Non-current assets				
South Africa	11 112	90	9 720	90
Rest of Africa	1 216	10	1 057	10
	12 328	100	10 777	100

Notes to the financial statements

1. Statement of compliance

The provisional summarised consolidated financial statements have been prepared and presented in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited, the information at a minimum as required by IAS 34: Interim Financial Reporting and the requirements of the South African Companies Act, No. 71 of 2008. The summarised consolidated financial statements have been prepared using accounting policies that comply with IFRS which are consistent with those applied in the consolidated financial statements for the year ended 30 June 2015, except for the changes mentioned in note 4 below.

2. Basis of preparation

The summarised consolidated financial statements are prepared in millions of South African Rands (Rm) on the historical cost basis, except for certain assets and liabilities which are carried at amortised cost, and derivative financial instruments and biological assets which are stated at their fair values. The preparation of the summarised consolidated financial statements for the year ended 30 June 2016 was supervised by Frans Olivier, the group's chief financial officer.

3. Financial statements

The consolidated financial statements for the year have been audited by Deloitte & Touche, and their accompanying unmodified audit report as well as their unmodified audit report on this set of summarised financial information is available for inspection at the company's registered office. Information included under the headings "Outlook" and "Operational review" and any reference to future financial information included in the summarised financial information has not been audited or reviewed. This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34. The full consolidated financial statements are available at the issuer's registered office and upon request. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of their report on this set of summarised consolidated financial statements with the accompanying financial information from the company's registered office. Full details of the group's business combinations for the year, additions and disposals of property, plant and equipment as well as commitments and contingent liabilities are included in the consolidated financial statements. The results were approved by the board of directors on 15 August 2016.

4. Accounting policies

The accounting policies of the group have been applied consistently to the periods presented in the summarised consolidated financial statements.

5. Change in accounting estimate

In Unitrans Supply Chain Solutions Proprietary Limited, the residual value assessment of hazardous good tankers changed. The tankers, which were previously sold as scrap at the end of their useful lives, are now being disposed of at market value, which has required a reassessment of the residual value.

6. Post-balance sheet events

Other than the acquisitions disclosed under the "Financial review", no significant events have occurred in the period between the end of the period under review and the date of this report.

7. Changes to the board/board committees

With effect from 15 April 2016, Mr JP Haveman resigned as chief financial officer.
Mr FH Olivier replaced Mr Haveman as chief financial officer and as a member of the social and ethics committee on this date.

8. Dividend timetable

The timetable in respect of the dividend is as follows:

Day	Event
Tuesday, 4 October 2016	Last day to trade
Wednesday, 5 October 2016	Shares trade ex dividend
Friday, 7 October 2016	Date to be recorded in the register to receive the dividend
Monday, 10 October 2016	Payment date

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 October 2016 and Friday, 7 October 2016.

In terms of the taxation on dividends and the amendments to section 11.17 of the JSE Listings Requirements, the following additional information is disclosed:

(1) Local dividend tax rate is 15%.

(2) Dividends are to be paid from income reserves.

(3) The withholding tax, if applicable at the rate of 15%, will result in a net cash dividend per share of 15.3 cents.

(4) The issued ordinary share capital of KAP Industrial Holdings Limited is 2 440 936 305 shares as at 15 August 2016.

(5) KAP Industrial Holdings Limited's tax reference number is 9999/509/71/5.