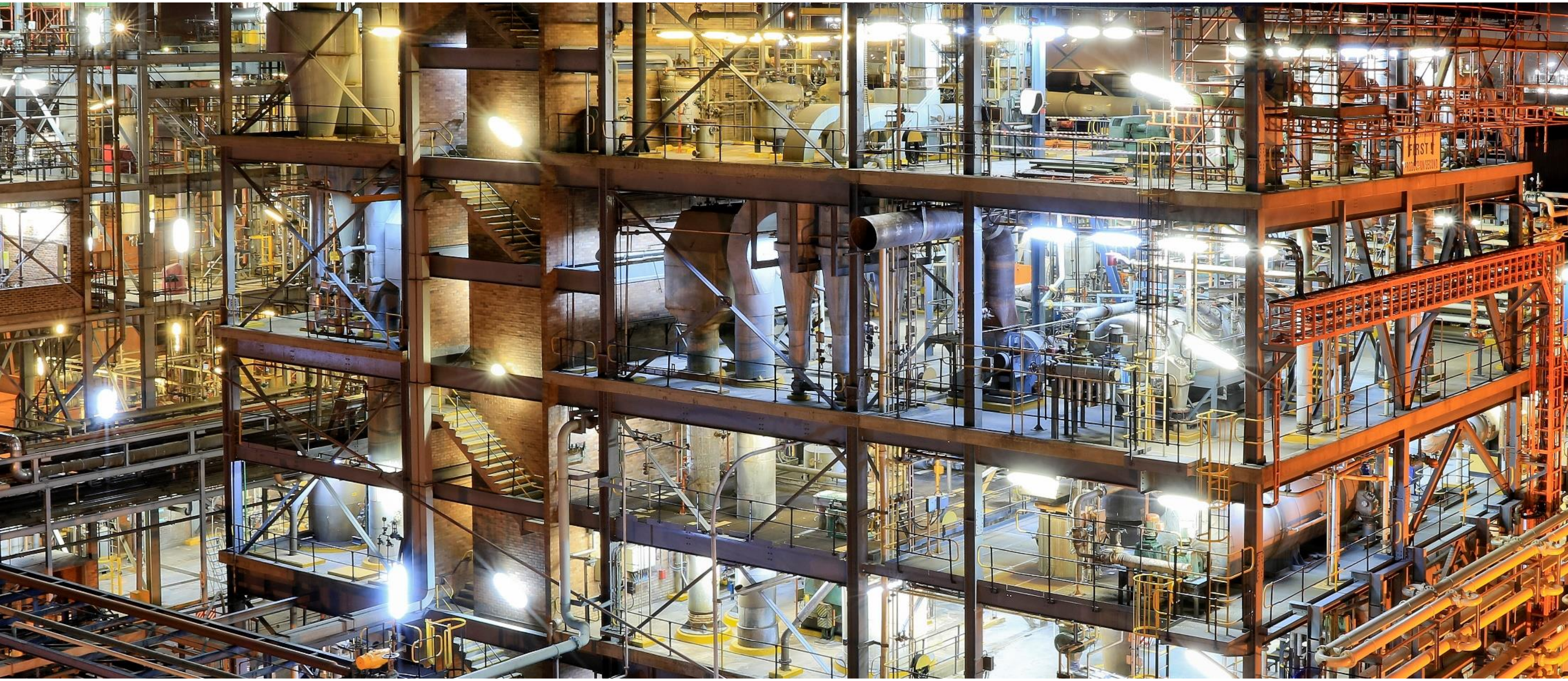
# KAP INDUSTRIAL HOLDINGS LIMITED (KAP)

**AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2017**



# WELCOME

**JAAP DU TOIT**

CHAIRMAN

# AGENDA

| | |
|---|---|
| **WELCOME** | JAAP DU TOIT |
| **STRATEGY IMPLEMENTATION** | GARY CHAPLIN |
| **DIVISIONAL HIGHLIGHTS** | GARY CHAPLIN |
| **FINANCIAL ANALYSIS** | FRANS OLIVIER |
| **OUTLOOK** | GARY CHAPLIN |

# STRATEGY IMPLEMENTATION

**GARY CHAPLIN**

CHIEF EXECUTIVE OFFICER

# STRATEGY IMPLEMENTATION

KAP

## STRATEGIC DRIVERS

| | |
|---|---|
| Market leadership | Being the leader in the markets we serve |
| High barriers to entry | High barrier to entry industries |
| Industry diversification | Sustainable earnings through diversity |
| Adding value through specialisation | Sustainable margins through specialisation |
| Leveraging our African base | Leveraging our African base |

**Resulting in strong cash flow generation**

# STRATEGY IMPLEMENTATION

## STRATEGIC EXECUTION TIMELINE

KAP acquires Steinhoff's industrial assets

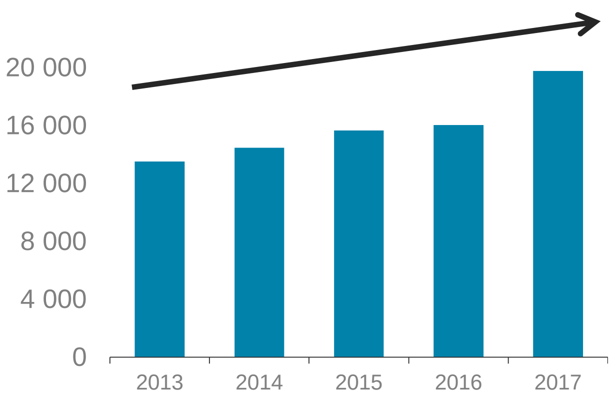
Strategic realignment and operational improvements

Disposal of non-core assets (food, footwear and sawmilling)

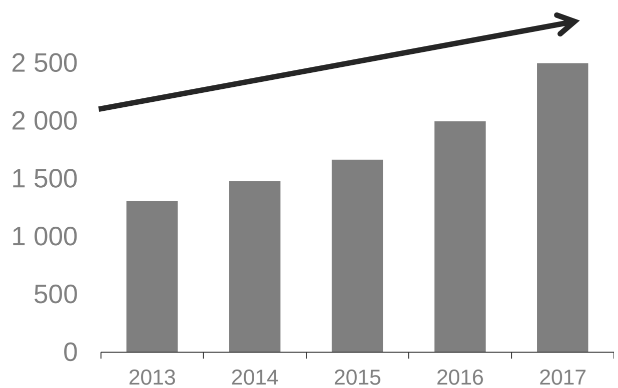
Complementary acquisitions and investments facilitate growth

Continued growth through organic investment and acquisition

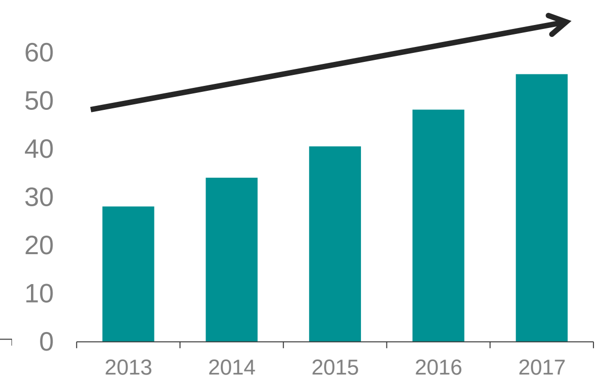

Revenue (Rm)
CAGR* 10%




Operating profit (Rm)
CAGR* 18%




HEPS (cents)
CAGR* 19%




* Compound annual growth rate of continuing operations

# STRATEGY IMPLEMENTATION

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## GROUP OPERATIONAL STRUCTURE

### DIVERSIFIED INDUSTRIAL

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

**AUTOMOTIVE COMPONENTS**
Manufacture of components used in new vehicle assembly and retail vehicle accessories

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

### DIVERSIFIED CHEMICAL

**POLYMERS**
Manufacture of high-density polyethylene (HDPE), polypropylene (PP) and polyethylene terephthalate (PET)

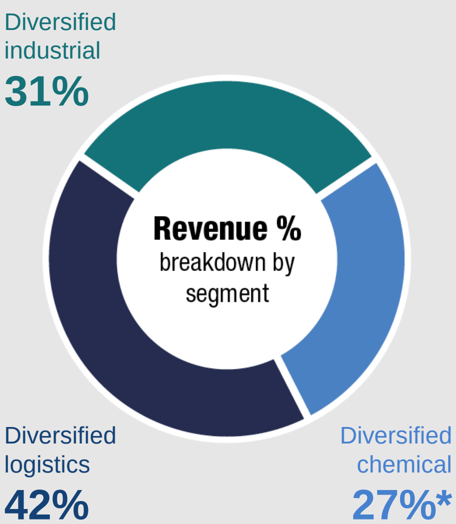
**RESIN**
Manufacture of urea formaldehyde resin and impregnated paper

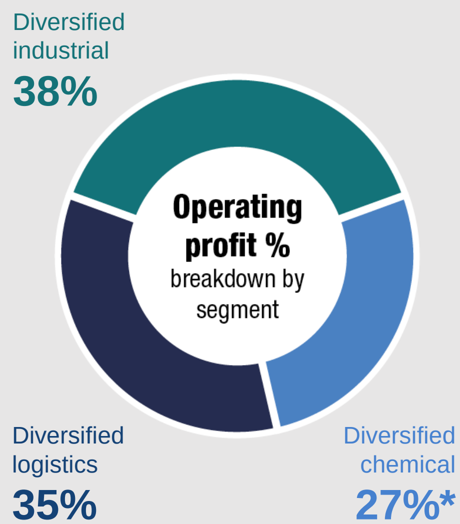
### DIVERSIFIED LOGISTICS

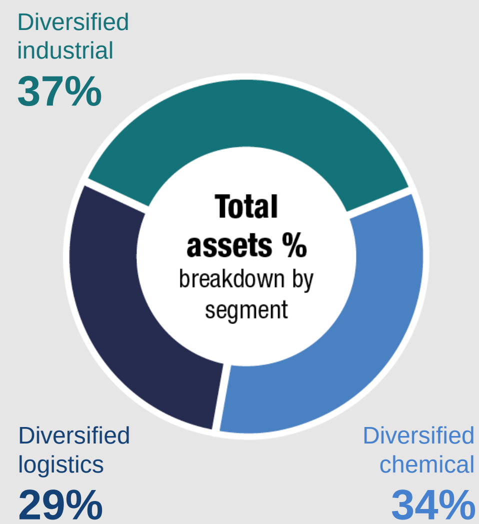
**CONTRACTUAL LOGISTICS**
Specialised contractual supply chain and logistics services

**PASSENGER TRANSPORT**
Personnel, commuter, intercity and tourism transport

## GROUP SEGMENTAL ANALYSIS



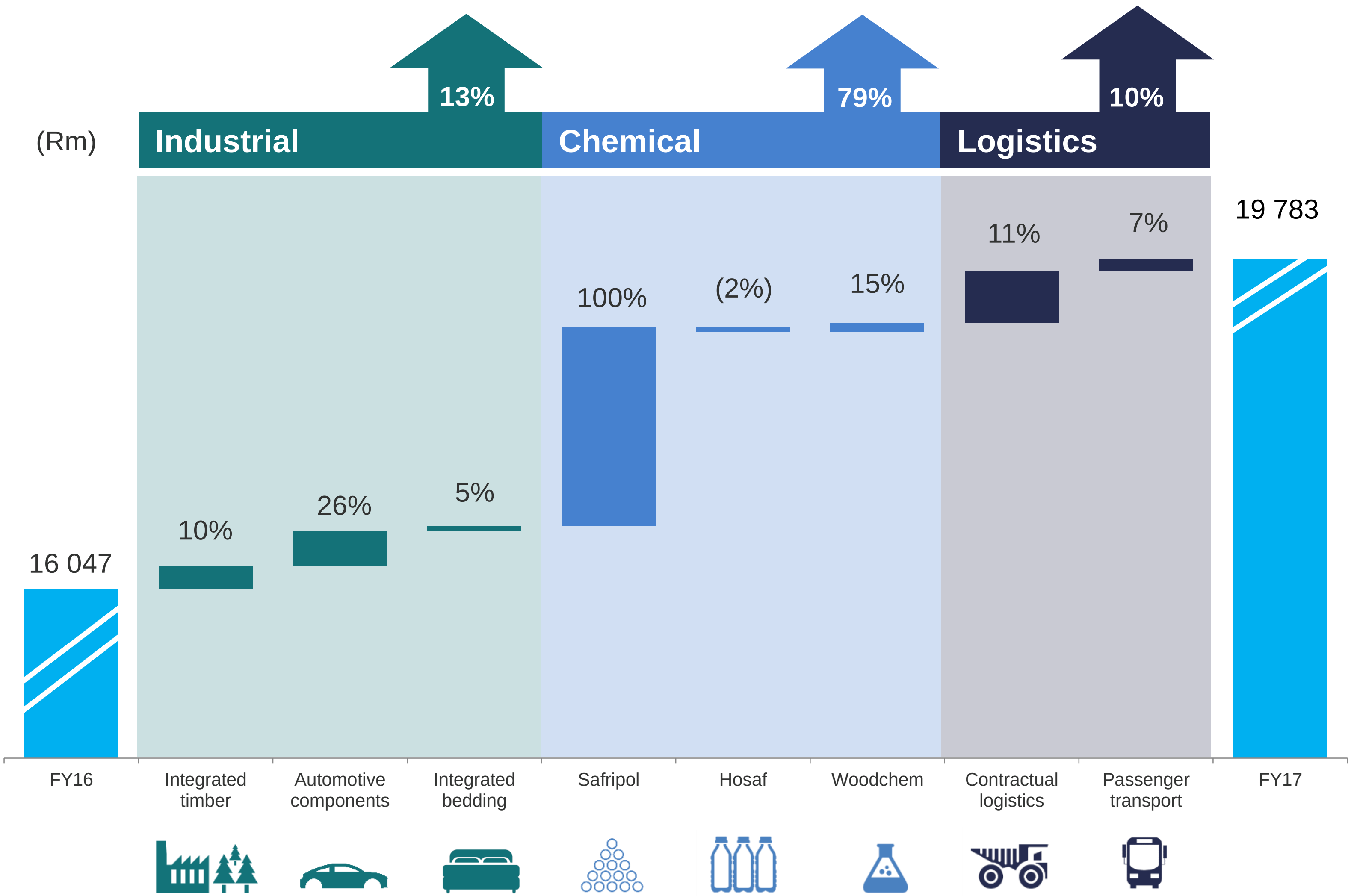




* Safripol included for the six months from January to June 2017

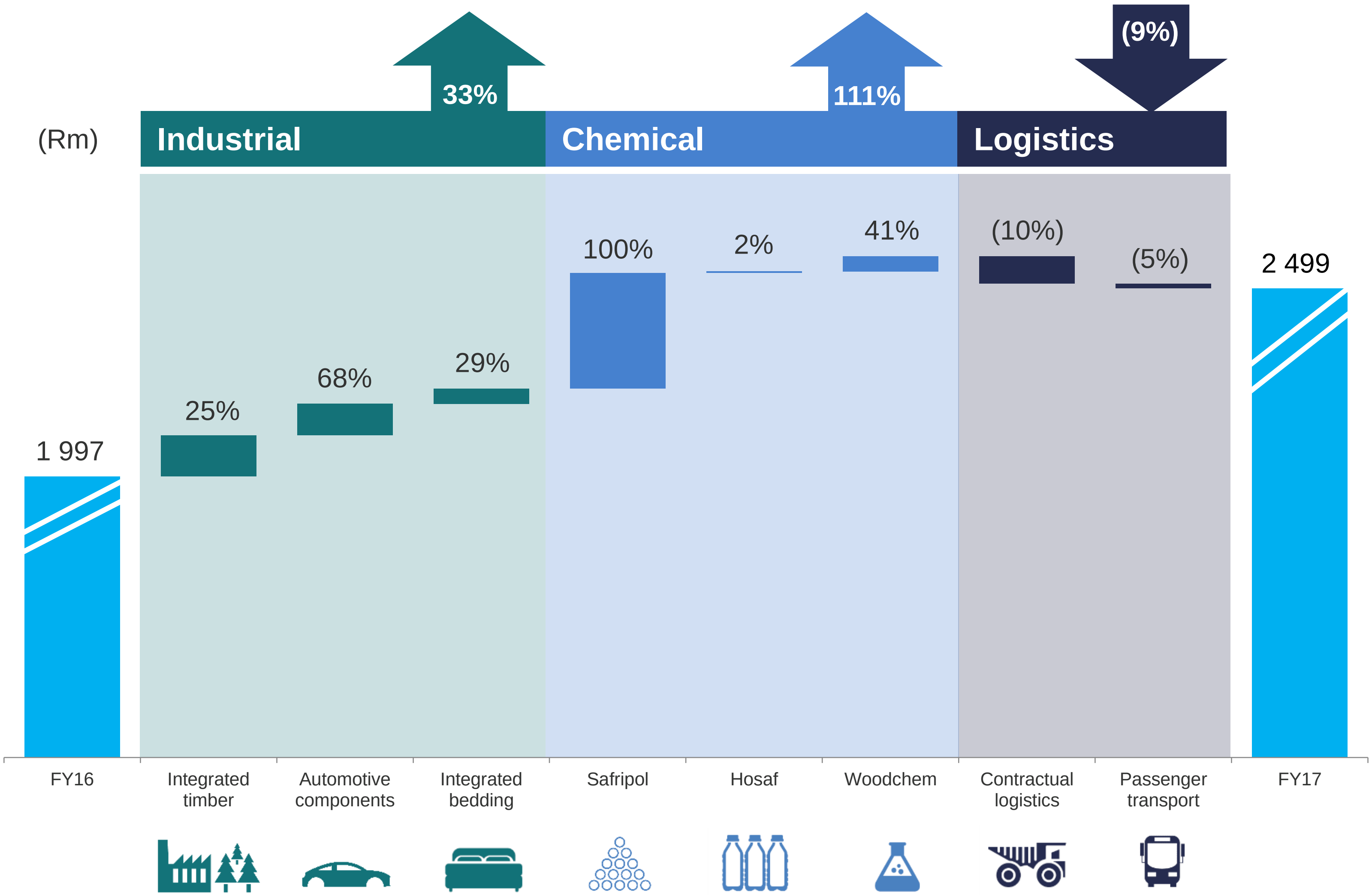
# STRATEGY IMPLEMENTATION

## **REVENUE** ANALYSIS



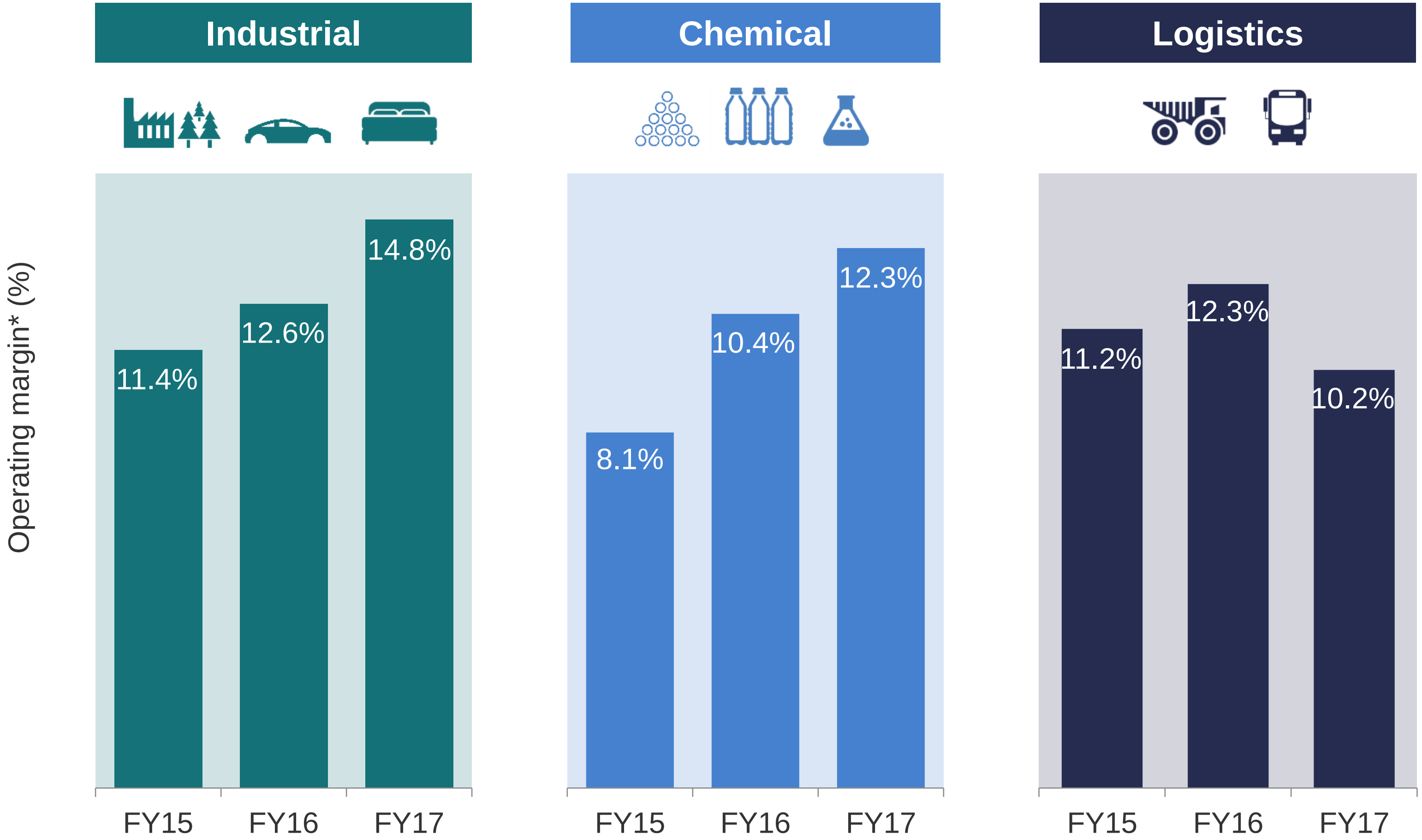
# STRATEGY IMPLEMENTATION

## **OPERATING PROFIT** ANALYSIS



## **MARGIN** ANALYSIS

KAP operating profit margin expands by 20 bps to 12.6%




* Prior year operating margin has been restated to reflect discontinued operations and by allocating head office costs to the different segments in line with the current year.

# STRATEGY IMPLEMENTATION

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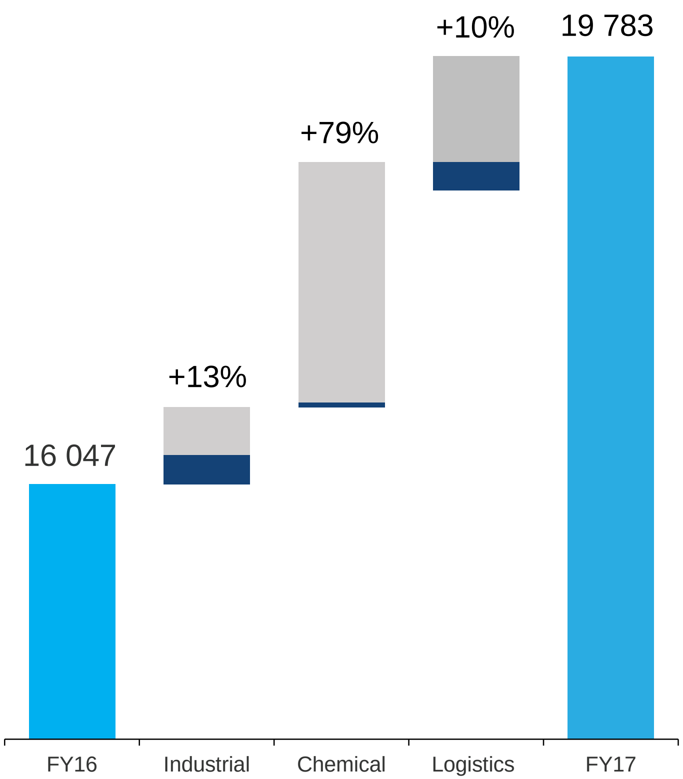
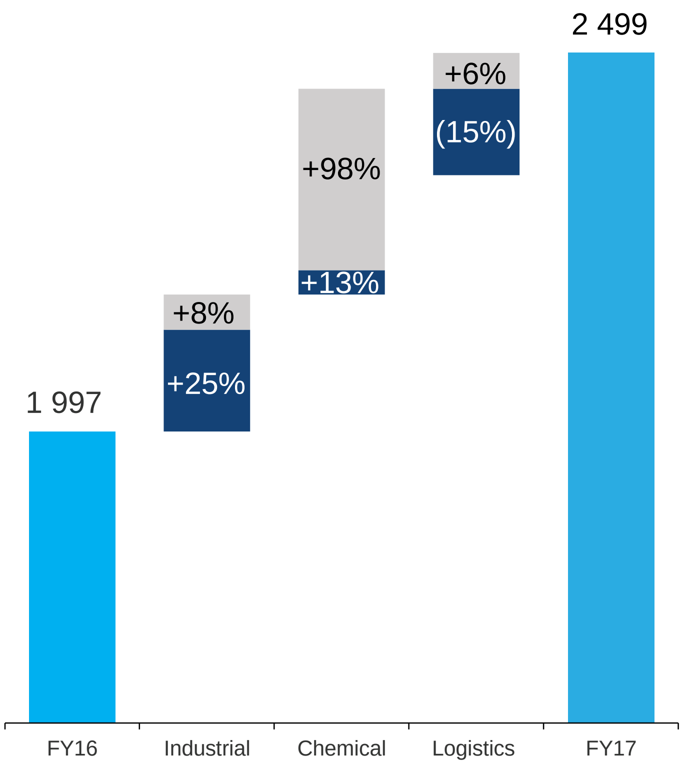
## REVENUE AND OPERATING PROFIT GROWTH ANALYSIS

**Revenue (Rm)**




**Operating profit (Rm)**

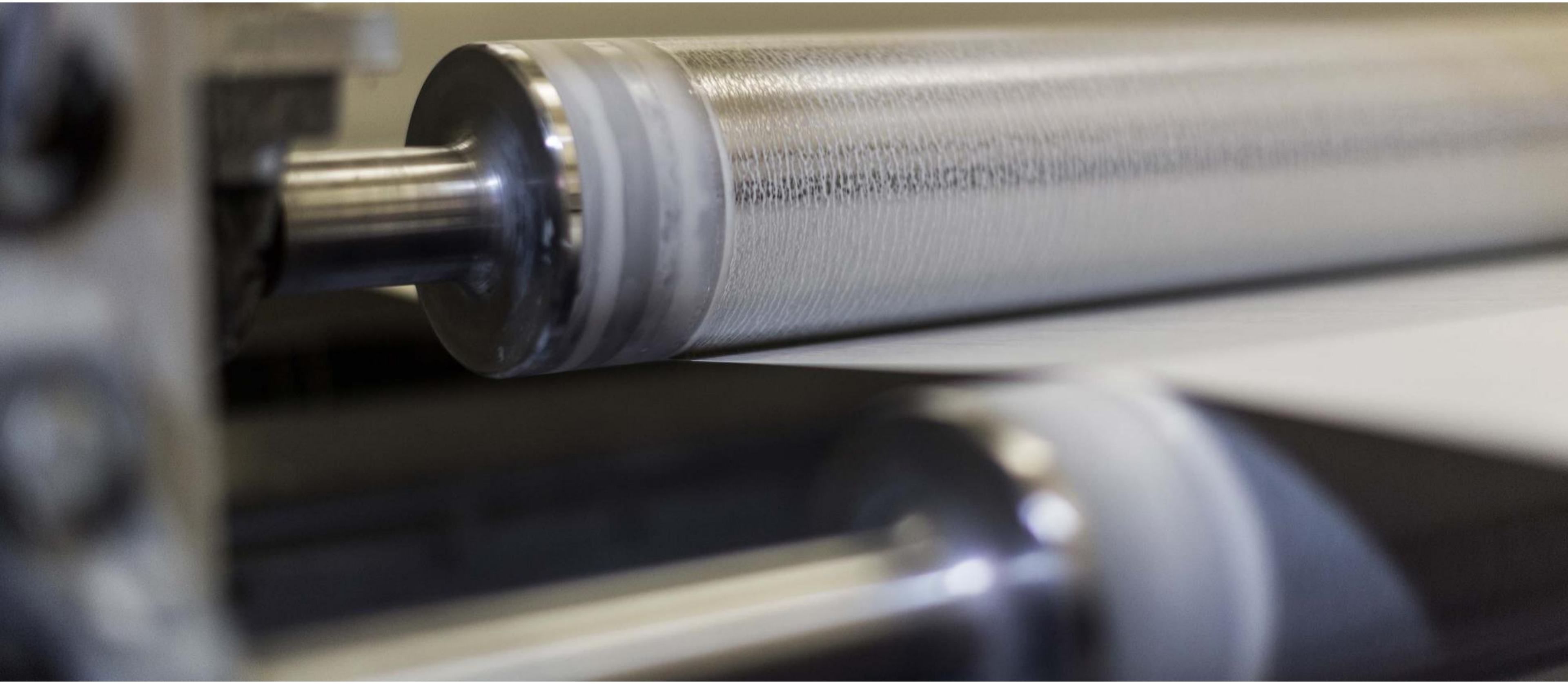



ACQUISITIONS ORGANIC

# DIVISIONAL HIGHLIGHTS

**GARY CHAPLIN**

CHIEF EXECUTIVE OFFICER



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# DIVERSIFIED INDUSTRIAL

**REVENUE INCREASED BY** **13%**

**R6 385m** (FY16: R5 632m)

**OPERATING PROFIT INCREASED BY** **33%**

**R944m** (FY16: R709m)

**TOTAL ASSETS INCREASED BY** **10%**

**R9 149m** (FY16: R8 325m)

# INTEGRATED TIMBER

PG BISON

- Market structure evolution continues to support value-add strategy
- Increased ratio of higher margin value-added products with fifth MFB press installed (sixth press available)
- Positive impact of Woodchem paper impregnation line
- Continued focus on product and customer service package
- Technology and efficiency improvements of MDF plant
- Strong improvement in forestry, sawmilling and pole operations
- Successful completion of Piet Retief phase 1 upgrade

Revenue
**10%** ↑

Operating profit
**25%** ↑

# AUTOMOTIVE COMPONENTS

- Solid organic revenue growth despite 1% reduction in new vehicle assembly volumes
- Strong sales of recent new models supports revenue and product mix improves margin
- Continued automation initiatives and technology investments improve margin
- Autovest acquisition successfully implemented, thereby introducing a new diversified revenue stream

Revenue

**26%** ↑

Operating profit

**68%** ↑

# INTEGRATED BEDDING


- Competitive furniture retail sector drives higher volumes at lower selling prices
- Volume growth in Vitafoam and DesleeMattex, facilitated by a 69% increase in intragroup trade, drives operating profit growth and margin improvement
- Phase 1 of new integrated bedding facility improves operating efficiencies in manufacture of key raw materials
- Technology investments through the value chain continue to drive margin improvement and improved product quality
- Seamless relocation from 4 factories into recently completed new bedding factory in Johannesburg

Revenue
**5%** ↑

Operating profit
**29%** ↑

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# DIVERSIFIED CHEMICAL

**REVENUE INCREASED BY** 79%

**R5 467m** (FY16: R3 060m)

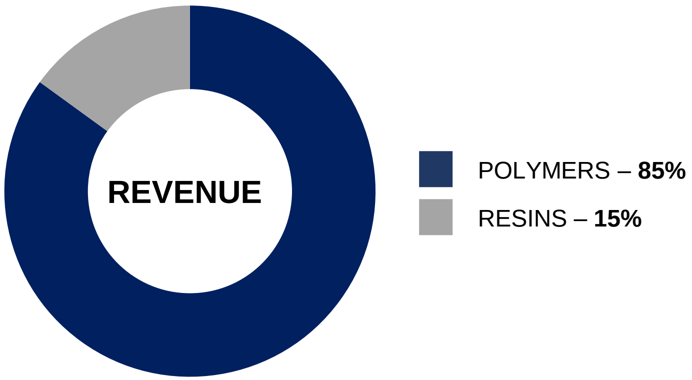
**OPERATING PROFIT INCREASED BY** >100%

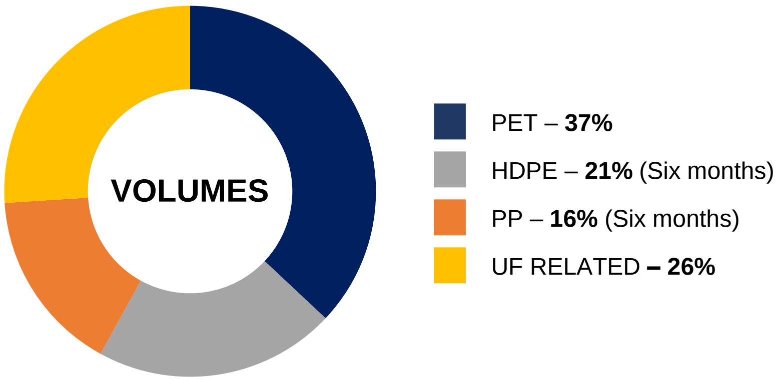
**R672m** (FY16: R319m)

**TOTAL ASSETS INCREASED BY** >100%

**R8 354m** (FY16: R1 509m)

# CHEMICAL


REVENUE
POLYMERS – **85%**
RESINS – **15%**


VOLUMES
PET – **37%**
HDPE – **21%** (Six months)
PP – **16%** (Six months)
UF RELATED **– 26%**

# CHEMICAL

Safripol
preferred polymer partner

Hosaf
where quality is action

WOODCHEM


- Hosaf and Woodchem performed well and continued to operate at capacity
- USD commodity indexed pricing model impact on revenue
- Unscheduled downtime at Hosaf impacts revenue and profit growth
- Woodchem paper impregnation plant continues to exceed expectations, providing strong revenue growth and improved margin
- Exchange rate and commodity price volatility well managed, thereby protecting margin
- Improved raw material procurement and plant efficiencies support margin

Revenue
**79%** ↑

Operating profit
**111%** ↑

# CHEMICAL

## SAFRIPOL – LEADING SUPPLIER OF HDPE AND PP*

### STRATEGIC RATIONALE

- Aligns with KAP strategic drivers
- Combination of Safripol and Hosaf provides strategic positioning in three of the five polymers that underpin the plastics industry
- Transformational transaction for KAP in terms of scale
- Creation of a chemical segment to facilitate further growth

### OPERATIONAL

- Acquisition effective 1 January 2017
- Operated at full capacity (78 072 tonnes HDPE and 60 543 tonnes PP) for the six months
- Reported results impacted by globally indexed HDPE and PP margins, as well as conversion to rand
- Strong cash generation
- Initiatives started to effect improvements in procurement, conversion costs, sales and distribution
- Results for the six months were in line with expectations

* HDPE – High-density polyethylene, PP – Polypropylene

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# DIVERSIFIED LOGISTICS

**REVENUE INCREASED BY** **10%**

**R8 656m** (FY16: R7 899m)

**OPERATING PROFIT DECREASED BY** **9%**

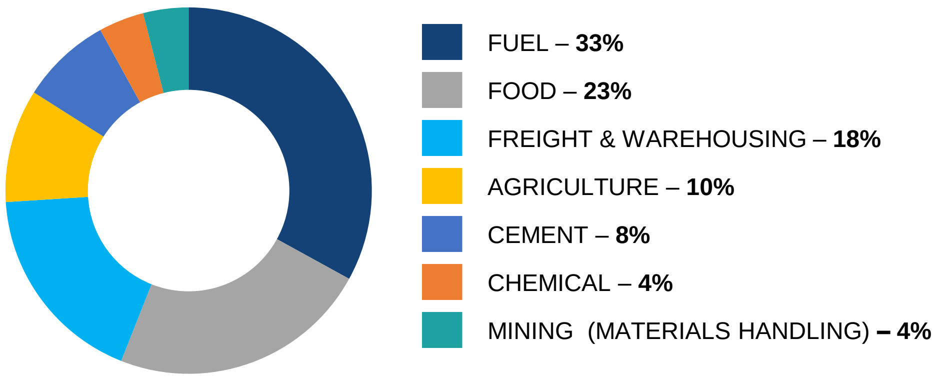
**R883m** (FY16: R969m)

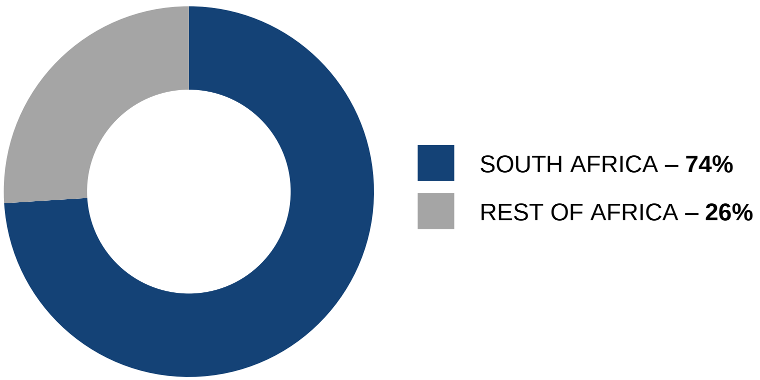
**TOTAL ASSETS INCREASED BY** **14%**

**R7 070m** (FY16: R6 228m)

# CONTRACTUAL LOGISTICS

## DIVERSE REVENUE BASE




- Revenue base diversified across sectors and geographic regions
- Blue chip and multinational customers enhance earnings profile and limit concentration risk
- Top 20 customers represent 68% of revenue (FY16: Top 15 customers represent 70% of revenue)

# CONTRACTUAL LOGISTICS


- Petrochemical division impacted by lower industry fuel volumes
- Good operational performance in agriculture provides improved results from stable volumes
- Materials handling and cement divisions volumes remain subdued but stable
- Food division revenue continued to show growth despite lower poultry volumes; however, cost overruns impacted profit
- Structure of contracts provides some protection through economic cycle
- Operations right-sized to eliminate idle resources without compromising growth potential
- Lucerne and Xinergistix performed ahead of expectations
- Rest of Africa businesses performed well

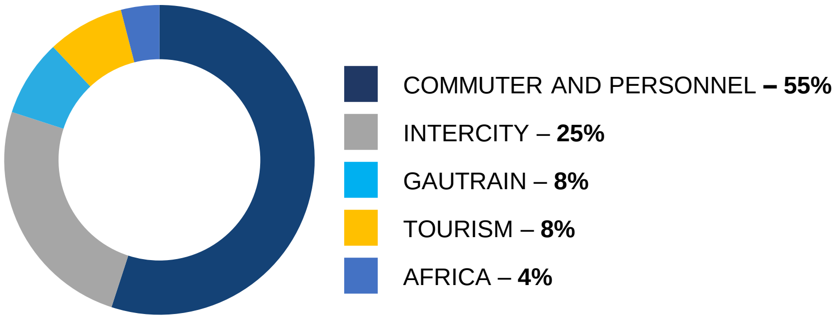
Revenue
**11%** ↑

Operating profit
**10%** ↓

# PASSENGER TRANSPORT


## REVENUE ANALYSIS

Focus remains on increasing long-term contractual revenue base and conservative rest of Africa growth



# PASSENGER TRANSPORT


- Good performance and contract growth in the commuter and personnel transport divisions despite subdued activity in mining sector
- Significant new personnel contract in mining sector well executed
- Personnel transport contract in Mozambique continued to perform ahead of expectations with contract expansion
- Gautrain bus feeder services and tourism division performed to expectations
- Slower activity and lower passenger numbers significantly impacting intercity operating profit

Revenue

**7%** ↑

Operating profit

**5%** ↓

# FINANCIAL ANALYSIS

**FRANS OLIVIER**

CHIEF FINANCIAL OFFICER

# FINANCIAL HIGHLIGHTS

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## STRATEGY IMPLEMENTATION PRODUCES SUSTAINABLE, QUALITY EARNINGS

| Results from continuing operations | FY17 | FY16 | Increase |
|---|---|---|---|
| Revenue (Rm) | **19 783** | 16 047 | 23% |
| Operating profit before capital items (Rm) | **2 499** | 1 997 | 25% |
| Operating margin | **12.6%** | 12.4% | 20 bps |
| Headline earnings per share (cents) | **55.6** | 48.2 | 15% |
| Cash generated from operations before working capital | **3 341** | 2 858 | 17% |
| Dividend per share (cents) | **21** | 18 | 17% |
| Net asset value per share (cents)[1] | **415** | 355 | 17% |

[1] Includes assets held for sale

# FINANCIAL ANALYSIS

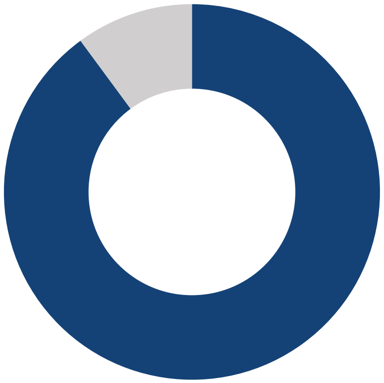
KAP

## INCOME STATEMENT

| | FY17 Rm | FY16 Rm | Increase |
|---|---|---|---|
| Revenue | **19 783** | 16 047 | 23% |
| Operating profit before capital items | **2 499** | 1 997 | 25% |
| Capital items | **(34)** | (19) | |
| Net finance costs | **(515)** | (312) | 65% |
| Finance costs | **(633)** | (356) | |
| Investment income | **118** | 44 | |
| Associate companies and joint ventures | **15** | 24 | |
| Taxation | **(510)** | (487) | |
| Minorities | **(50)** | (46) | |
| Profit attributable to owners of the parent | **1 405** | 1 157 | 21% |
| Add back capital items net of taxation | **26** | 15 | |
| Headline earnings | **1 431** | 1 172 | 22% |
| | | | |
| Weighted average number of ordinary shares (m) | **2 574** | 2 433 | 6% |
| Headline earnings per share (cents) | **55.6** | 48.2 | 15% |

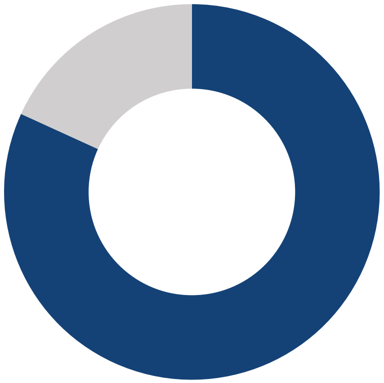
## GEOGRAPHIC MARKETS – REVENUE AND PROFITABILITY BREAKDOWN

### Revenue



SOUTH AFRICA – **89%**
NON SOUTH AFRICA – **11%**

### Operating profit[1]



SOUTH AFRICA – **81%**
NON SOUTH AFRICA – **19%**

- Provides diversity in markets and broader growth opportunities
- Provides improved margins to compensate for sovereign risk where relevant
- Spread across divisions

[1] Before capital items

# FINANCIAL ANALYSIS

## CURRENCY DRIVERS OF REVENUE AND PROFITABILITY

**Revenue**

RAND driven activities – **70%**
US DOLLAR driven activities – **30%**

**Operating profit[1]**

RAND driven activities – **65%**
US DOLLAR driven activities – **35%**

- Dollar driven activities impact revenue and raw material prices, therefore representing 'dollar margin' businesses
- Provides currency diversity without the complexity of doing business in foreign jurisdictions

[1] Before capital items

# FINANCIAL ANALYSIS

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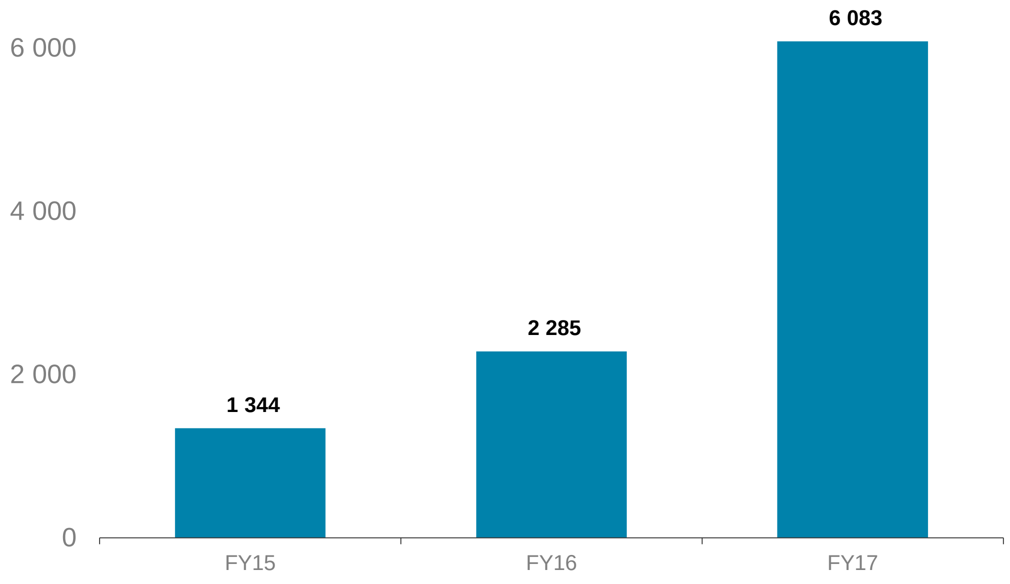
## BALANCE SHEET

Improved quality of net asset value

| | FY17<br>Rm | FY16<br>Rm |
|---|---|---|
| Property, plant, equipment and investment properties | **11 832** | 8 128 |
| Intangible assets | **4 082** | 1 167 |
| Goodwill | **1 251** | 911 |
| Biological assets | **1 978** | 1 890 |
| Net working capital | **624** | (27) |
| Other assets | **407** | 278 |
| **Assets** | **20 174** | 12 347 |
| Total equity | **11 348** | 8 862 |
| Net interest bearing liabilities | **5 777** | 2 069 |
| Other liabilities | **3 049** | 1 416 |
| **Equity and liabilities** | **20 174** | 12 347 |
| **Net asset value per share (cents)** | **415** | 355 |

# SIGNIFICANT CONTINUED INVESTMENTS RESULT IN STRONG ASSET BASE OF NEW TECHNOLOGY ASSETS

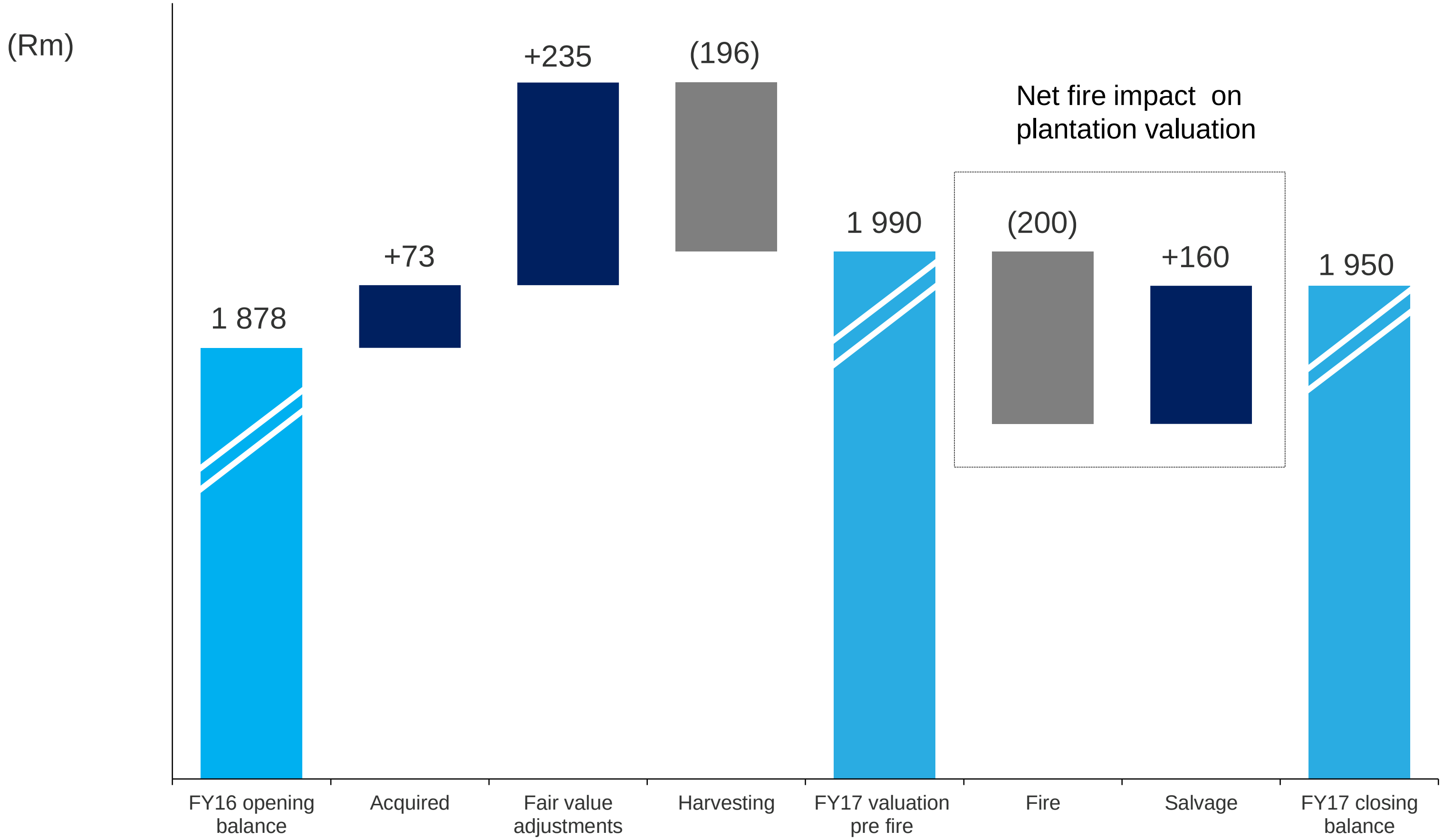
## Capex and acquisition investments (Rm)




- PLANT & MACHINERY – **27%**
- VEHICLES & BUSES – **23%**
- INTANGIBLE ASSETS **– 21%**
- LAND & BUILDINGS – **12%**
- BIOLOGICAL ASSETS – **10%**
- GOODWILL **– 7%**

# FINANCIAL ANALYSIS

## PLANTATION REVALUATION




- Fire damages 4 456 ha (10% of planted area)
- Net impact from fire on valuation (post salvage) is R40m, which is covered in full by insurance

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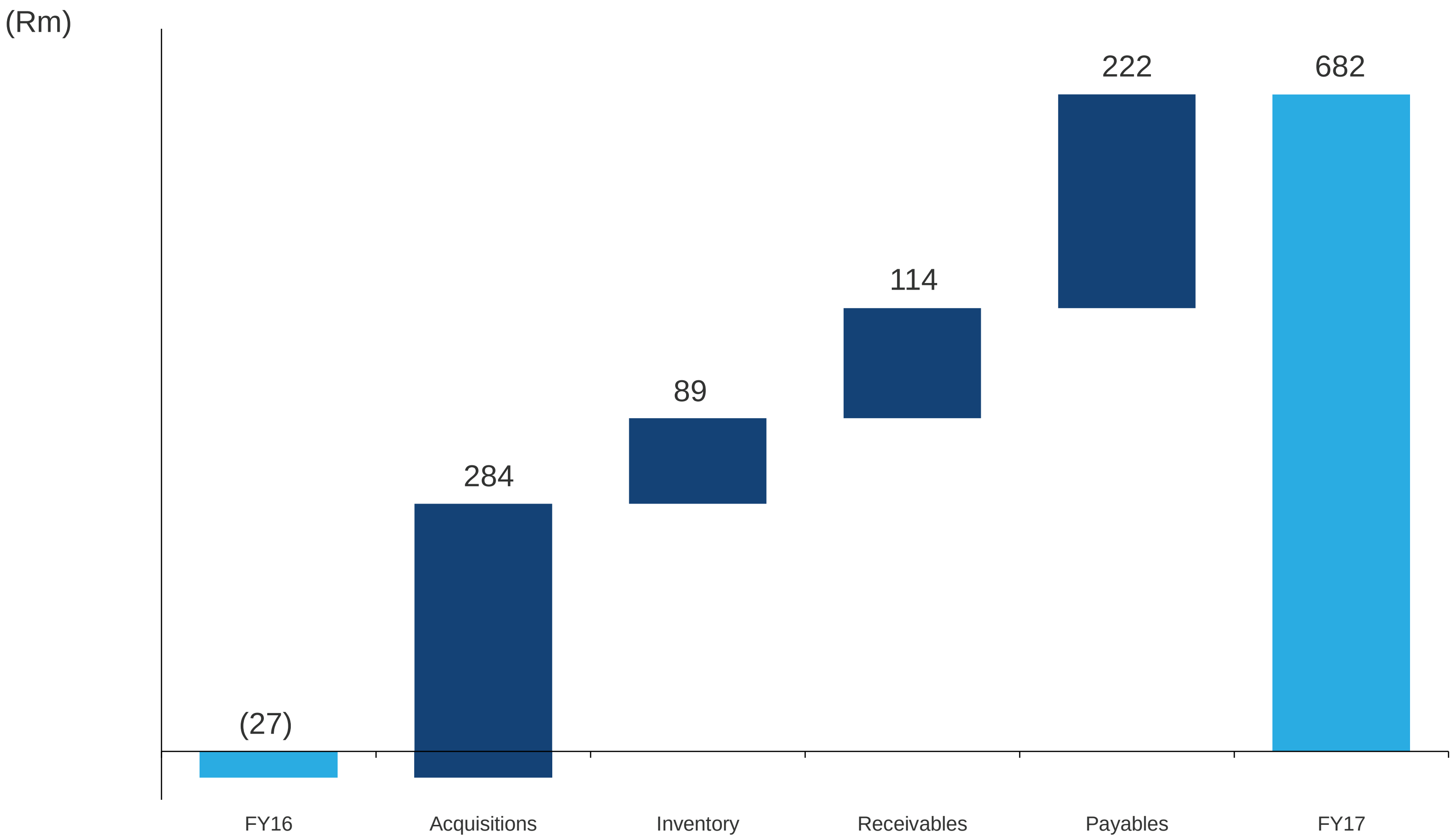
## WORKING CAPITAL BREAKDOWN




- Working capital movement affected by acquisitions and reduction in capex related payables

# FINANCIAL ANALYSIS

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## CASH FLOW

| | FY17<br>Rm | FY16<br>Rm |
|---|---|---|
| Operating profit from continuing operations | **2 499** | 1 997 |
| Depreciation and amortisation | **862** | 800 |
| EBITDA | **3 361** | 2 797 |
| Net revaluation of biological assets | **(4)** | (43) |
| Discontinued operations | **(44)** | (7) |
| Other non-cash adjustments | **28** | 111 |
| Cash generated before working capital changes | **3 341** | 2 858 |
| Working capital changes | **(383)** | 427 |
| Inventory | **(41)** | (73) |
| Receivables | **(334)** | (21) |
| Payables | **(8)** | 521 |
| Cash generated from operations | **2 958** | 3 285 |
| Net finance charges | **(596)** | (330) |
| Taxation | **(295)** | (266) |
| Net dividends | **(469)** | (372) |
| Cash flow from operating activities | **1 598** | 2 317 |
| Cash conversion ratio | **118%** | 164% |

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## CASH FLOW – CONTINUED

| | FY17 Rm | FY16 Rm |
|---|---|---|
| Cash flow from operating activities | **1 598** | 2 317 |
| Investing activities | **(6 083)** | (2 285) |
| Expansion capex | **(1 050)** | (735) |
| Replacement capex | **(1 190)** | (965) |
| Acquisition of investments | **(3 781)** | (573) |
| Other investing activities | **(62)** | (12) |
| Cash flow after investing activities | **(4 485)** | 32 |
| Financing activities | **3 911** | 1 174 |
| Movement in cash and cash equivalents | **574** | 1 206 |

# FINANCIAL ANALYSIS

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## SAFRIPOL ACQUISITION

| | Rm |
|---|---|
| **Safripol acquisition price** | **3 925** |
| ***Funded by:*** | |
| Equity (197m shares at R7.60) | 1 500 |
| Debt | 2 425 |

| | |
|---|---|
| ***Debt instruments breakdown:*** | **2 425** |
| Bond issuance – 3/5 years tenure | 1 374 |
| Term/revolving funding – 3 years | 1 051 |

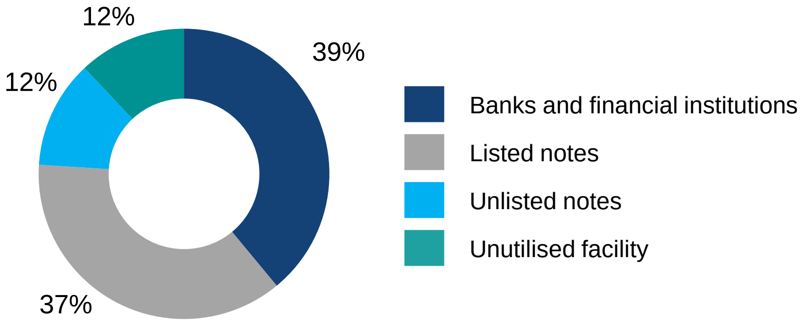
| **IFRS 3 Purchase price allocation** | **Rm** |
|---|---|
| Purchase price | **3 925** |
| Property, plant and equipment | **1 394** |
| Intangibles | **2 078** |
| Net working capital | **263** |
| Goodwill | **241** |
| Net debt | **(51)** |

# DEBT STRUCTURE AND CAPACITY RATIOS

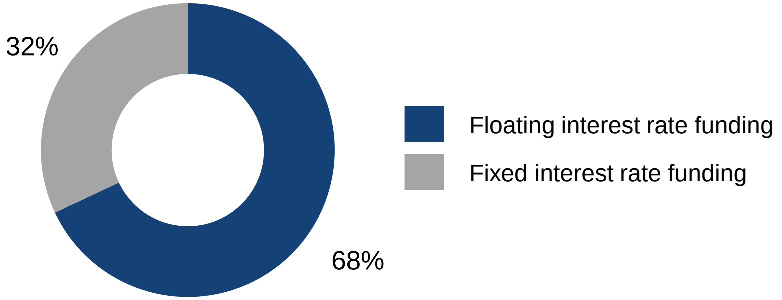
## DEBT SERVICEABILITY RATIOS REFLECTIVE OF STRONG CASH GENERATION

| | 30 Jun 17 | 30 Jun 16 |
|---|---|---|
| Net interest-bearing debt (Rm) | **5 777** | 2 069 |
| | | |
| Equity excluding non-controlling interest (Rm) | **11 035** | 8 667 |
| | | |
| Gearing: net debt:equity | **52%** | 24% |
| | | |
| Net debt to EBITDA (times) < 3.2 | **1.7** | 0.7 |
| | | |
| EBITDA interest cover (times) > 4.5 | **6.5** | 9.0 |

### FUNDING STRUCTURE

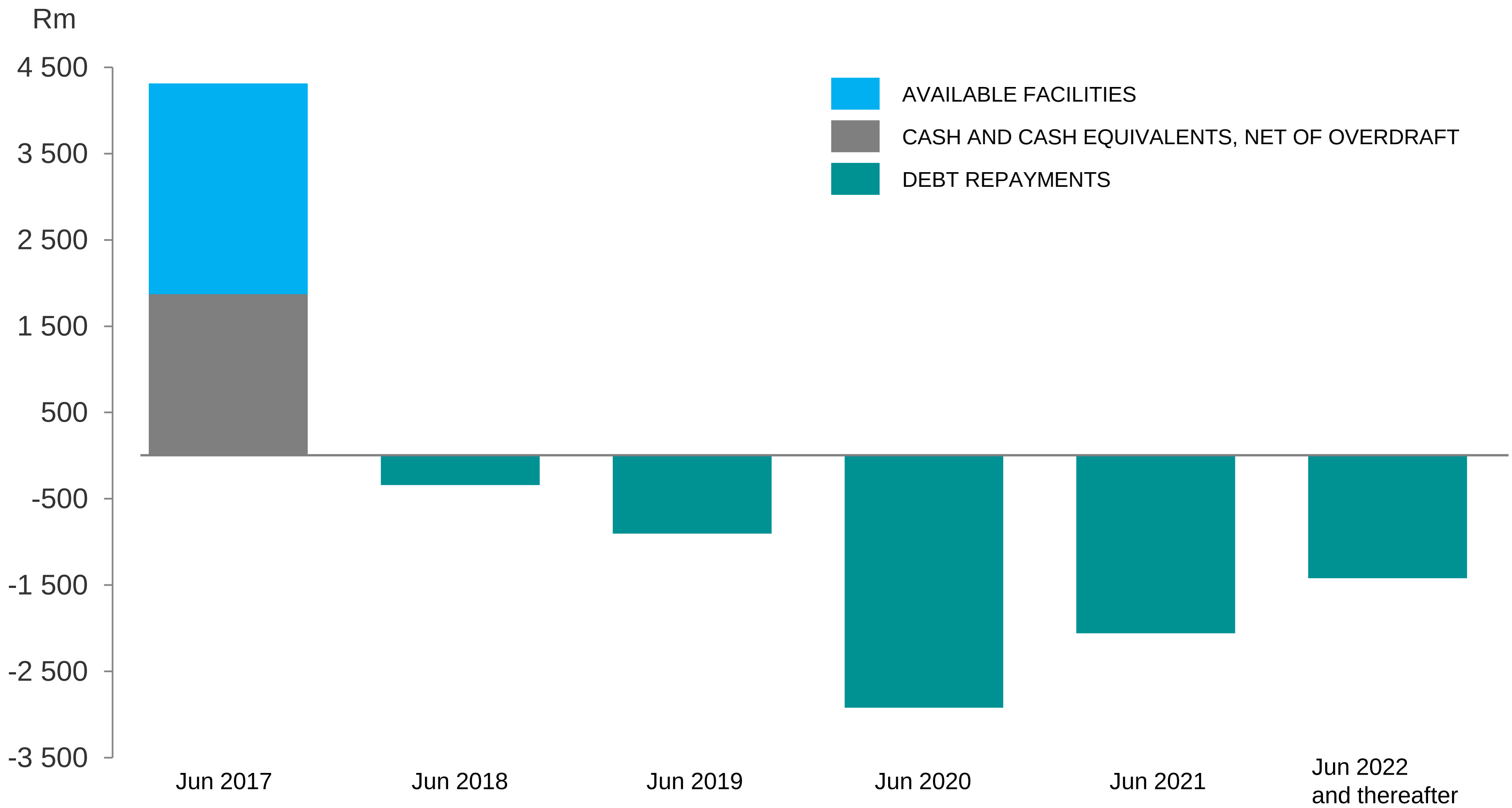



### FIXED VS FLOATING INTEREST RATE FUNDING



# TREASURY ACTIVITY

## NET INTEREST-BEARING DEBT MATURITY AS AT 30 JUNE 2017



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# OUTLOOK

**GARY CHAPLIN**

CHIEF EXECUTIVE OFFICER

# DIVERSIFIED INDUSTRIAL

KAP

- PG Bison well structured for current market conditions (low cost base, strong market focus) with a clear growth strategy
- New MFB press in Piet Retief commissioned April 2017
- Third phase of MDF upgrade planned for April to December 2017
- Piet Retief particleboard upgrade commissioned June 2017 will add volume capacity and should yield production cost and raw material savings

- In automotive components, contractual vehicle assembly volumes expected to remain stable
- New model introductions provide platform for continued revenue and operating profit growth
- Continued subdued vehicle sales expected to impact on Autovest

- Relocation to new bedding factory in Johannesburg complete with automation of manufacturing processes planned over 12 months
- Continued investment in fabric, foam and bedding technology expected to support revenue and margin

# DIVERSIFIED CHEMICAL


- Management structures and systems integration activities for the new segment largely complete
- Sales, marketing and distribution project under way to extract greater value
- Strong demand for PET, HDPE, PP and UF resin expected to continue
- Third formaldehyde line remains under investigation
- Hosaf expansion well advanced
  - South African 2016 PET consumption 230 000 tonnes per annum
  - Hosaf expansion project expected to increase capacity from 128 000 to 240 000 tonnes per annum
  - Commissioning expected in September 2017

# DIVERSIFIED LOGISTICS


- Economic activity in relevant sectors expected to remain subdued
- Sustainability of earnings remains supported by long-term contractual nature of business
- Rapid scalability of operations remains a key factor of performance in volatile economic environment
- Reduced cost structure and improved efficiencies support competitive position
- Improved B-BBEE rating in contractual logistics expected to support growth and market share gain
- Acquisition of Lucerne and Xinergistix increases exposure to new sectors and creates growth opportunities and diversity
- Rest of Africa to receive increased focus in contractual logistics and passenger divisions
- Specific management focus on turnaround of intercity operations

THANK YOU