KAP INDUSTRIAL HOLDINGS LIMITED

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

INTRODUCTION

JAAP DU TOIT

CHAIRMAN

AGENDA

INTRODUCTION	JAAP DU TOIT
STRATEGY IMPLEMENTATION	GARY CHAPLIN
DIVISIONAL HIGHLIGHTS	GARY CHAPLIN
FINANCIAL ANALYSIS	FRANS OLIVIER
OUTLOOK	GARY CHAPLIN
Q&A	GARY CHAPLIN / FRANS OLIVIER

STRATEGY IMPLEMENTATION

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

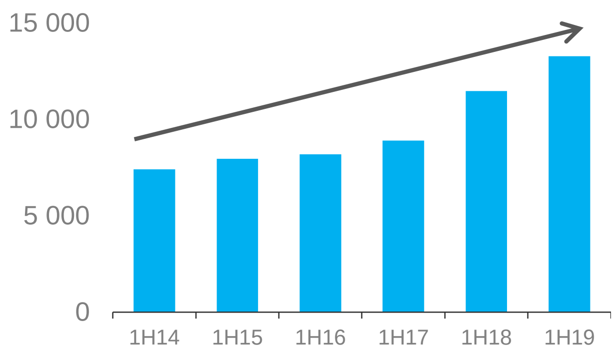
INTEGRATED INTO EVERY DAY

STRATEGY IMPLEMENTATION

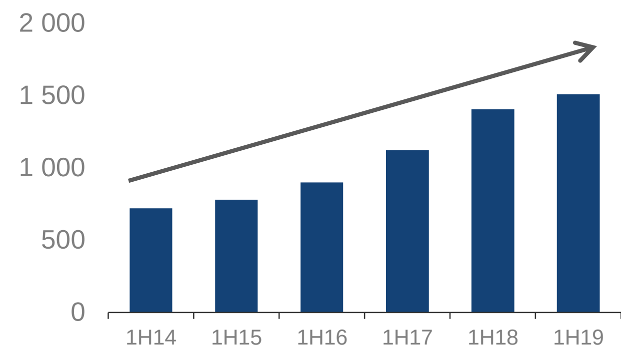
STRATEGY IMPLEMENTATION

FIVE-YEAR COMPOUND ANNUAL GROWTH AS A RESULT OF ORGANIC EXPANSION AND ACQUISITION OF COMPLEMENTARY BUSINESSES

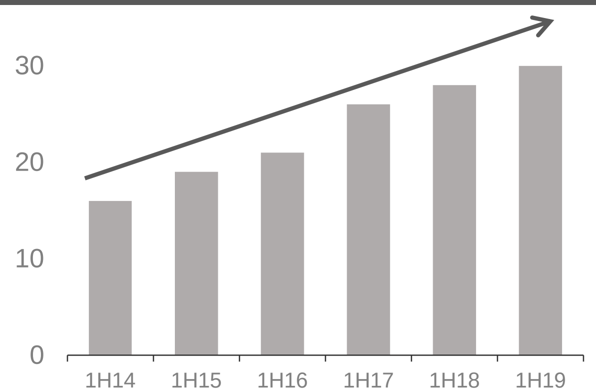
REVENUE (Rm) – CAGR* 12%



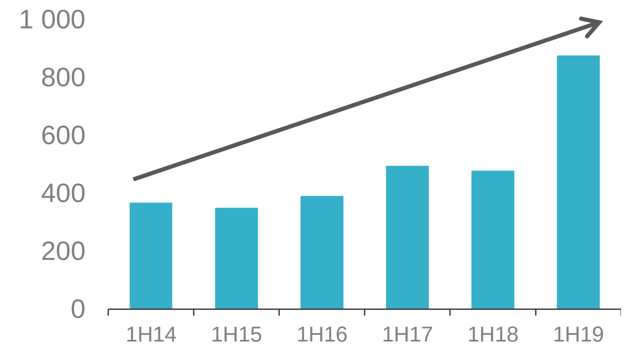
CORE OPERATING PROFIT (Rm) – CAGR* 16%



HEPS (cents) – CAGR* 13%



OPERATING CASH FLOW# (Rm) – CAGR* 19%



* Compound annual growth rate of continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.
# Cash generated from operations

STRATEGY IMPLEMENTATION

GROUP OPERATIONAL STRUCTURE

DIVERSIFIED INDUSTRIAL	DIVERSIFIED CHEMICAL	DIVERSIFIED LOGISTICS
PG BISON FELTEX RESTONIC	SAFRIPOL preferred polymer partner	UNITRANS
INTEGRATED TIMBER Integrated forestry, timber and resin manufacturing operations with primary and upgrading processes **AUTOMOTIVE COMPONENTS** Manufacture of vehicle retail accessories and components used in new vehicle assembly **INTEGRATED BEDDING** Manufacture of foam, fabrics, springs, bases and branded mattresses	**POLYMERS** Manufacture of polyethylene terephthalate (PET), high-density polyethylene (HDPE) and polypropylene (PP)	**CONTRACTUAL LOGISTICS – SA** Provision of specialised contractual supply chain and logistics services **CONTRACTUAL LOGISTICS – AFRICA** Provision of specialised contractual supply chain and logistics services **PASSENGER TRANSPORT** Provision of personnel, commuter, intercity and tourism transport services

STRATEGY IMPLEMENTATION

GROUP SEGMENTAL ANALYSIS

REVENUE*

DIVERSIFIED INDUSTRIAL	30%
DIVERSIFIED CHEMICAL	33%
DIVERSIFIED LOGISTICS	37%

OPERATING PROFIT*

DIVERSIFIED INDUSTRIAL	40%
DIVERSIFIED CHEMICAL	32%
DIVERSIFIED LOGISTICS	28%

TOTAL ASSETS

DIVERSIFIED INDUSTRIAL	36%
DIVERSIFIED CHEMICAL	35%
DIVERSIFIED LOGISTICS	29%

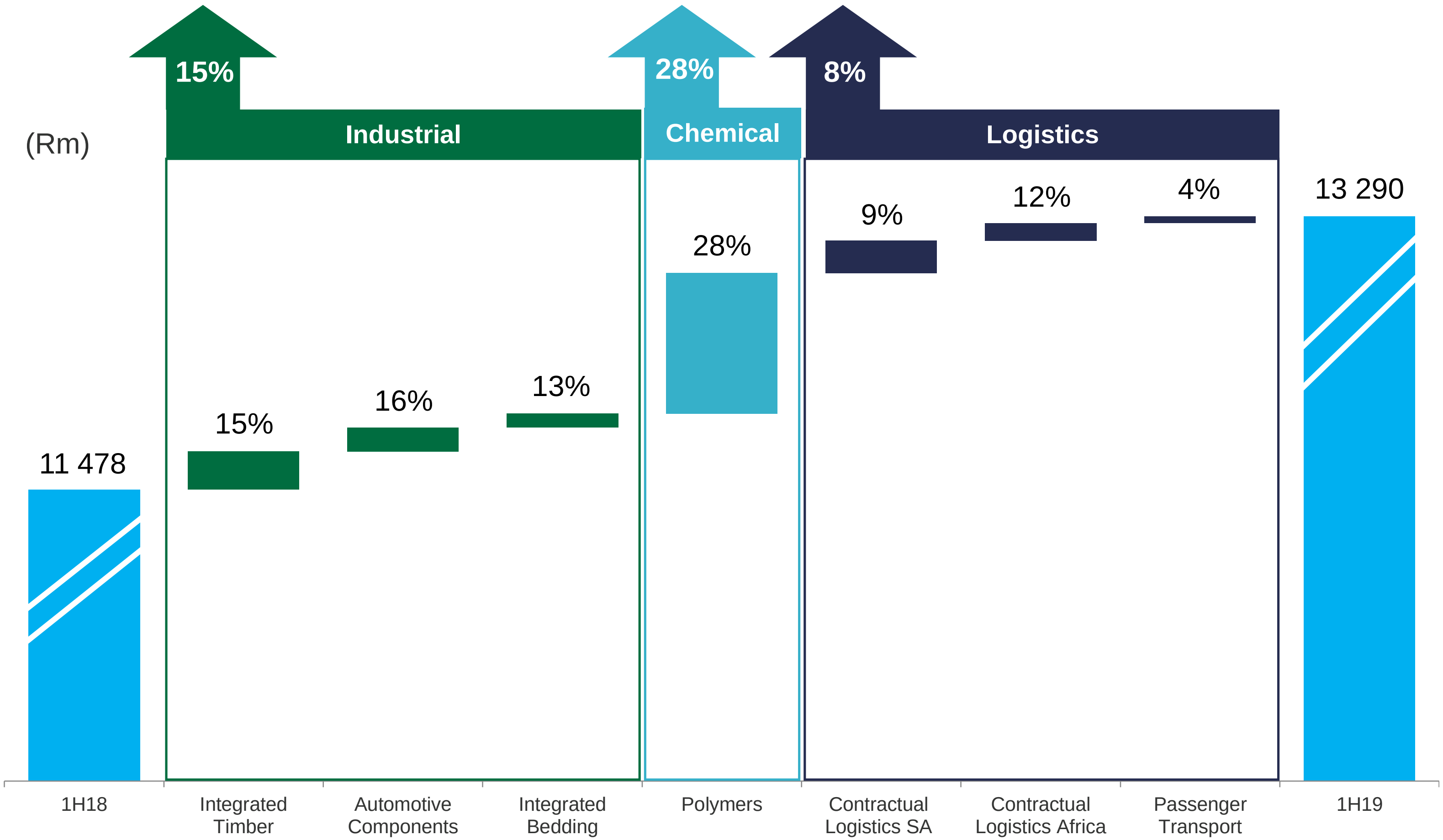
* From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

STRATEGY IMPLEMENTATION
F2019 FOCUS

- Multiple projects embarked on and acquisitions concluded in recent years
- R7.8 billion invested in 24 months to 30 June 2018
- Good execution record, with the exception of Safripol (Durban) expansion
- Focus for F2019
    - Final implementation of various expansion projects
    - Final integration of various acquisitions
    - Extraction of value from capital invested
    - Strong cash generation

STRATEGY IMPLEMENTATION

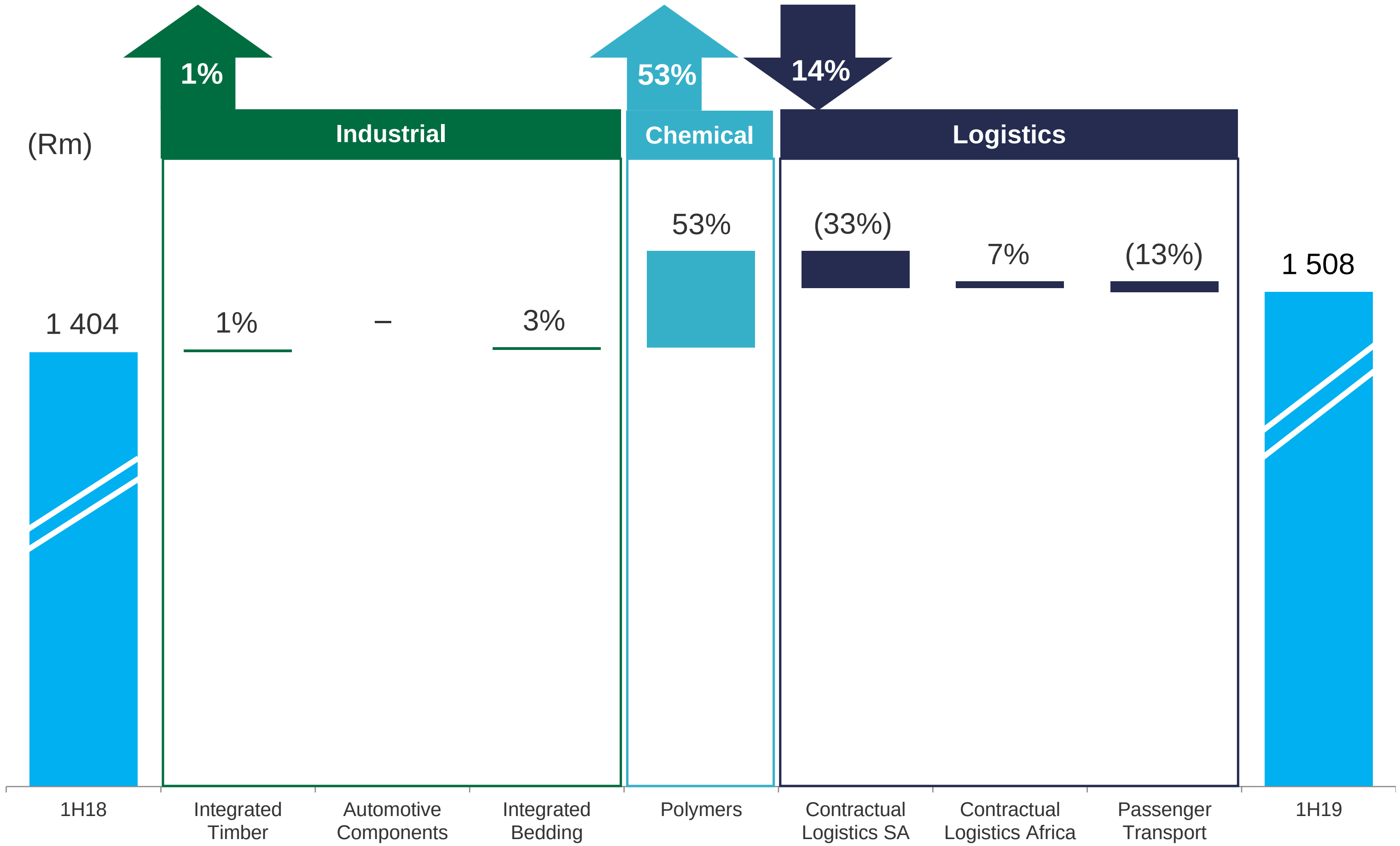
REVENUE ANALYSIS



Comparative segmental information restated for the move of the group's resin business from chemical to industrial.

STRATEGY IMPLEMENTATION

OPERATING PROFIT ANALYSIS

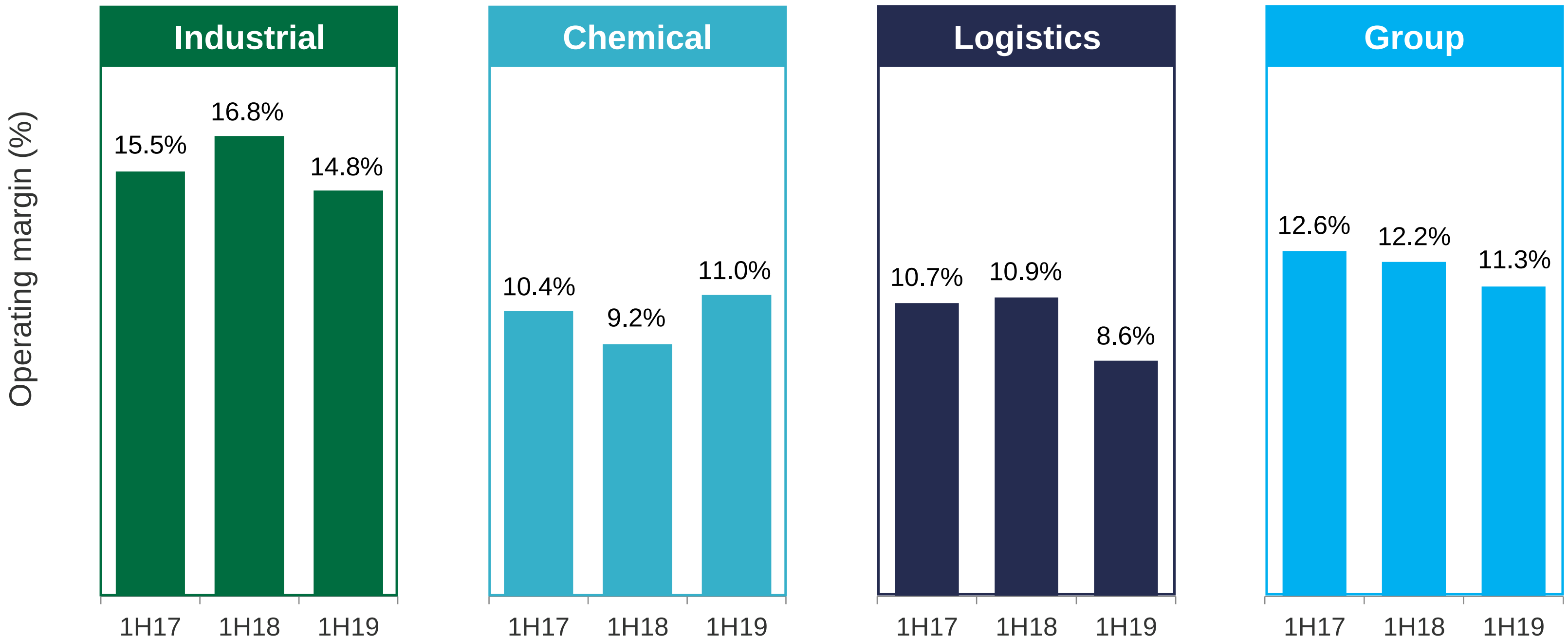


From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.
Comparative segmental information restated for the move of the group's resin business from chemical to industrial.

STRATEGY IMPLEMENTATION

MARGIN ANALYSIS

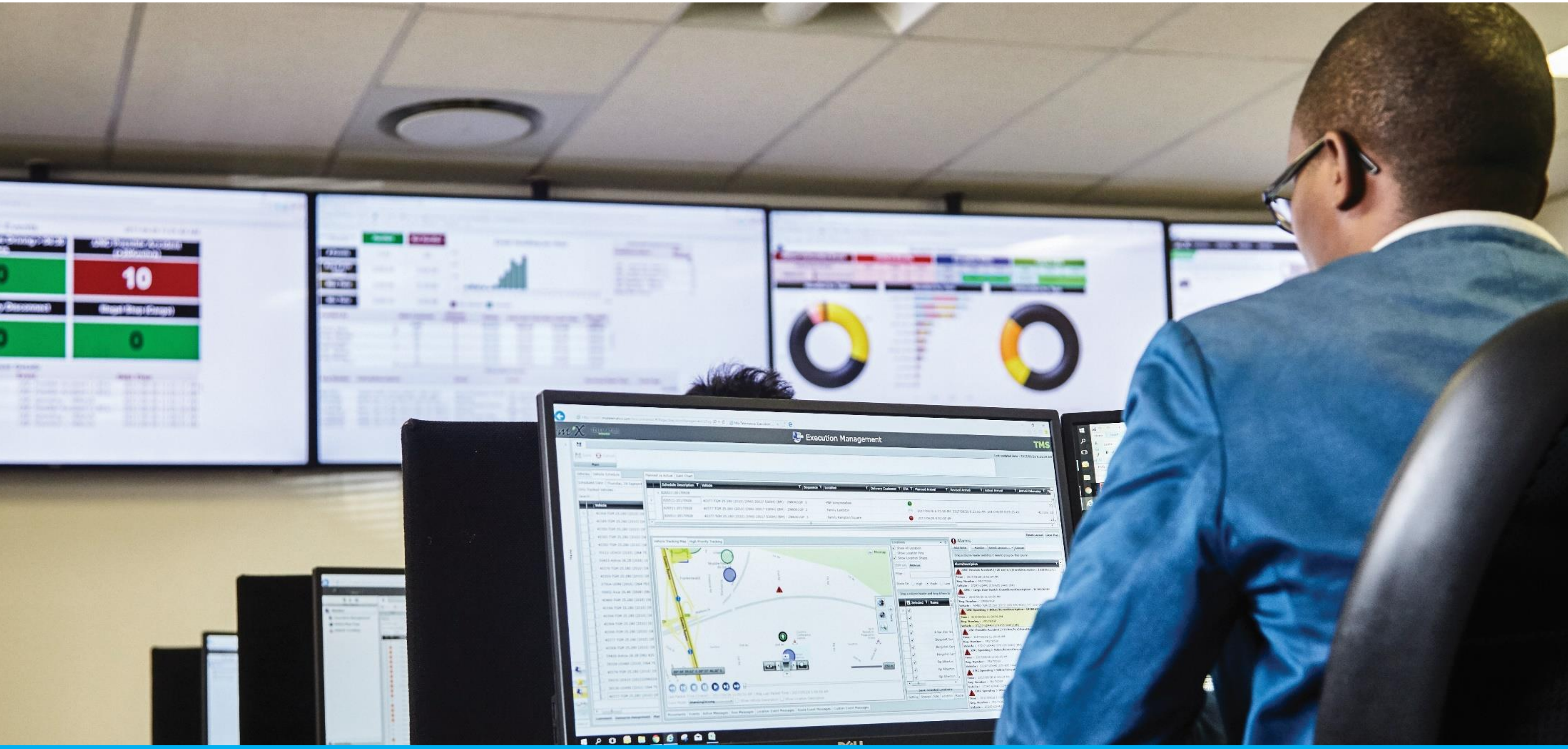
KAP operating profit margin reduced 90 bps to 11.3%



From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.
Comparative segmental information restated for the move of the group's resin business from chemical to industrial.

DIVISIONAL HIGHLIGHTS

GARY CHAPLIN
CHIEF EXECUTIVE OFFICER



INTEGRATED TIMBER

PG BISON

- Recent technology upgrades and expansions operating ahead of expectation
- Export sales volumes increased to 17% to support increased production
- Value-add ratio stable at 54%, thereby protecting R/m^3 profit
- Successful new product launches support value-add ratio
- Completion of recovery operations in relation to June 2017 plantation fires
- November 2018 fire damage to 845 ha
- Material operational impact of recent fires on plantation, sawmill and pole operations
- Pole operations further impacted by Western Cape drought
- Inclusion of resin and paper; management remains with Chemical division

BISONBORD SUPAWOOD MELAWOOD MELAWOOD SUPAGLOSS FORMICA THESEN WOODLINE

REVENUE

15% ↑

OPERATING PROFIT

1% ↑

AUTOMOTIVE COMPONENTS

- Industry new vehicle assembly volumes increased by 10%
- VW Polo and BMW X3 model introductions running well
- Strong volume growth supported revenue growth
- Continuous improvement projects and new technology implementations delayed, impacting negatively on margins
- Maxe operations continued to exceed expectation
- Autovest challenged by subdued motor retail environment
- Sale of loss-making canopy operation effective 1 October 2018

REVENUE

16% ↑

OPERATING PROFIT

FLAT

INTEGRATED BEDDING

RESTONIC vita vitafoam DESLEE MATTEX

- Continued furniture retail focus on bedding category supports volume growth
- Volume growth continues to drive integrated business model
- Intra-division sales of foam and textiles continue to grow
- 'Black Friday' orders drove higher volumes of low-margin product beyond efficient manufacturing capacity, which impacted negatively on margin
- Significant and rapid raw material price increases impacted negatively on margin
- Continued growth in independent market through Support-a-Paedic (recent acquisition)
- Technology and machinery upgrades continued, targeting completion for next peak trading period

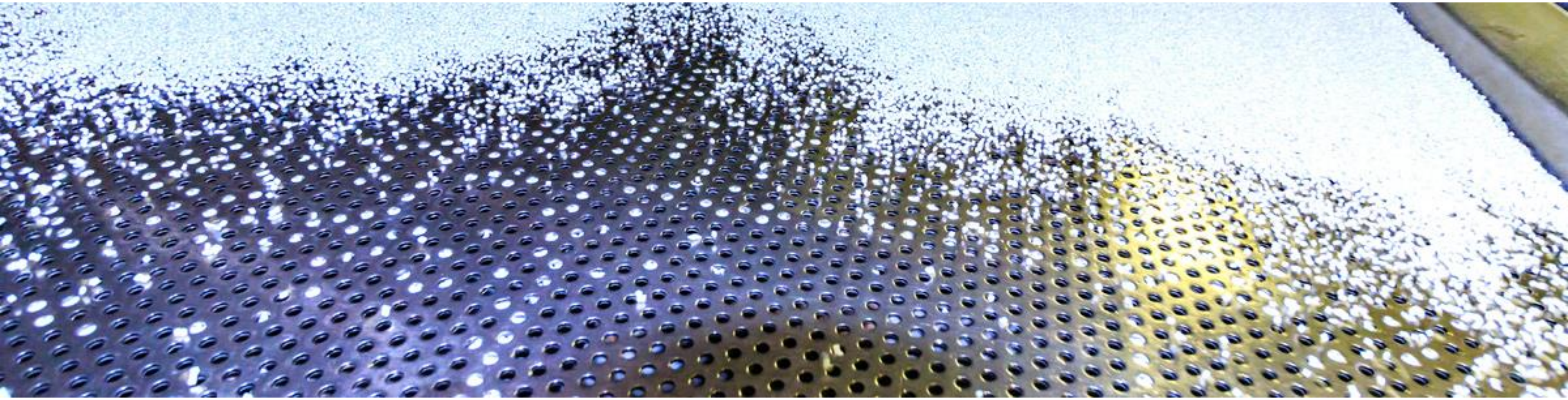
REVENUE

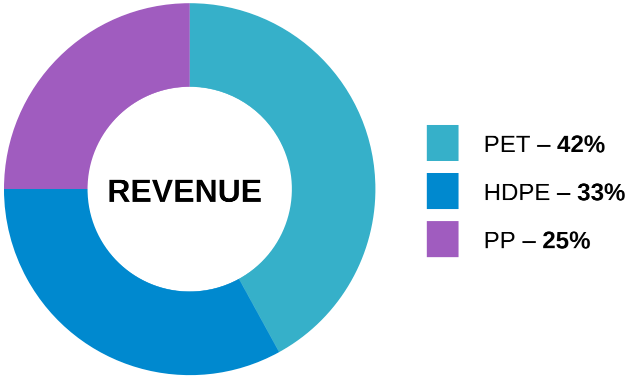
13% ↑

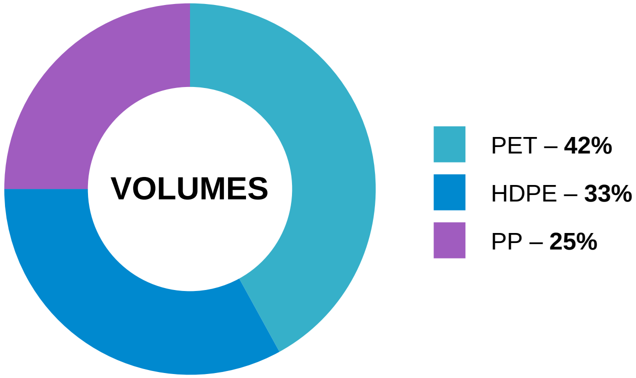
OPERATING PROFIT

3% ↑

CHEMICAL







CHEMICAL

SAFRIPOL
preferred polymer partner

- Commercial drivers:
  - Import parity price of PET, HDPE and PP (driven by global supply/demand)
  - Indexed raw material prices: ethylene, propylene, PTA, MEG and PIA
  - Rand/US dollar exchange
  - Commodity and currency changes during 'procurement to sales cycle'
- Domestic demand for the product remains strong, with PET customer base restored
- Plastic converters strike impacted December sales with a resultant increase in inventory
- Export demand remains strong
- Operational performance significantly improved in Durban
- Review of anti-dumping duties and import duties in progress

REVENUE

28% ↑

OPERATING PROFIT

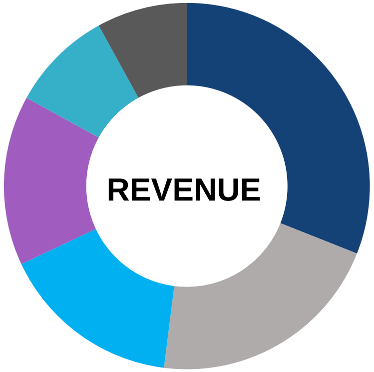
53% ↑

CHEMICAL

- PET (polyethylene terephthalate) sales volumes up 60%
- PET production volumes up 344%
- PET US dollar margins up 16%
- HDPE (high-density polyethylene) sales volumes down 19%
- HDPE production volumes flat
- HDPE US dollar margins up 23%
- PP (polypropylene) sales volumes down 6%
- PP production volumes down 5%
- PP US dollar margins up 4%
- Average rand/US dollar exchange of R14.18 (1H18: R13.41)

CONTRACTUAL LOGISTICS – SOUTH AFRICA

DIVERSE REVENUE BASE



- FOOD – **31%**
- GENERAL FREIGHT – **21%**
- PETROLEUM – **16%**
- MINING & CEMENT – **15%**
- SPECIALISED WAREHOUSING – **9%**
- CHEMICALS – **8%**

- 45% of division sold effective 3 September 2018 in B-BBEE transaction
- South African operations now independently managed
- New executive management structure implemented effective 1 December 2018
- New operational and support structure targeted for March 2019 implementation

CONTRACTUAL LOGISTICS – SOUTH AFRICA

- Trading environment stable during first quarter but extremely challenging during second quarter
- Revenue inflated by cost recoveries (mainly fuel)
- Volume and margin pressure in all areas, a reflection of subdued economic activity
- Food business materially down due to cost recovery difficulties on major contract
- General Freight business performed ahead of prior period
- Petroleum business down mainly due to lower non-contractual, ad-hoc volumes
- Mining & Cement, Specialised Warehousing and Chemicals businesses stable
- Annualised revenue of new contracts – R151 million
- Annualised revenue of renewals – R419 million
- Annualised revenue of contracts lost – R66 million

REVENUE

9% ↑

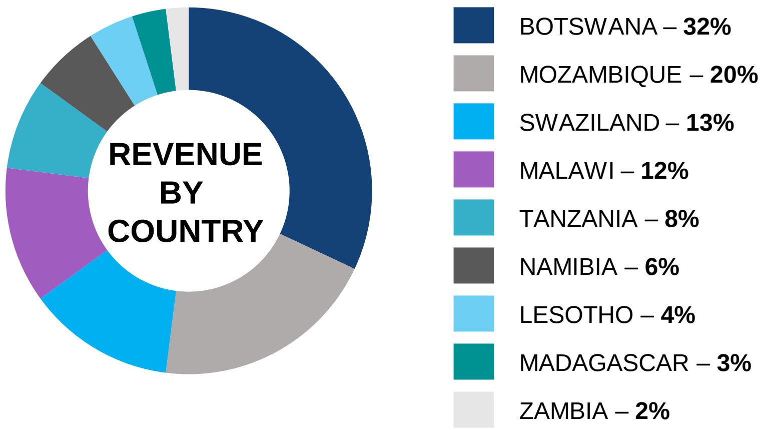
OPERATING PROFIT*

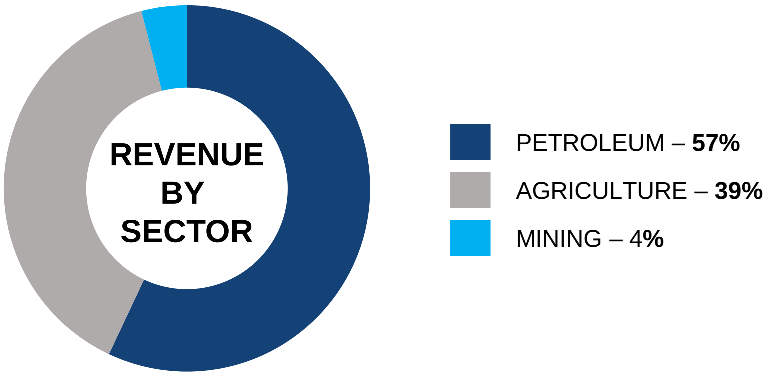
33% ↓

* Excluding B-BBEE cost

CONTRACTUAL LOGISTICS – AFRICA

DIVERSE REVENUE BASE





- Following South African Logistics B-BBEE transaction, African operations now independently managed
- New executive management structure implemented effective 1 December 2018
- No change to in-country operational structure

CONTRACTUAL LOGISTICS – AFRICA

- Core business currently Petroleum and Agriculture
- Volumes and margins stable
- No major seasonal impacts during the period
- Cost escalations successfully recovered
- Focus on expanding operations in existing territories

REVENUE

12% ↑

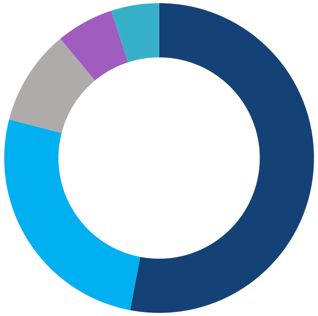
OPERATING PROFIT

7% ↑

PASSENGER TRANSPORT

- Commuter operations performed well operationally but were impacted by fuel capping formula
- Personnel operations impacted by lower client activity, which included industrial action
- Mozambique personnel and Gautrain operations continue to perform well
- Intercity operations remain under pressure in overtraded market
- Tourism operation impacted by lower tourist numbers
- Impact of fuel price increase on operating profit – R30 million

BOJANALA BUS, CITILINER, GREYHOUND, MAGIC TRANSFERS, MEGA BUS, MEGA COACH, MEGA EXPRESS



REVENUE

4% ↑

OPERATING PROFIT

13% ↓

FINANCIAL ANALYSIS

FRANS OLIVIER

CHIEF FINANCIAL OFFICER

INTEGRATED INTO EVERY DAY

FINANCIAL HIGHLIGHTS

KAP

STRATEGY IMPLEMENTATION RESULTED IN STRONG CASH GENERATION FROM OPERATIONS

Results from continuing operations	1H19	1H18	Variance
Revenue (Rm)	**13 290**	11 478	16%
EBITDA before B-BBEE cost (Rm)	**2 095**	1 905	10%
Operating profit before B-BBEE cost and capital items (Rm)	**1 508**	1 404	7%
Core headline earnings per share (cents)*	**30.1**	28.3	6%
Cash generated from operations (Rm)	**877**	479	83%
Net asset value per share (cents)	**462**	420	10%

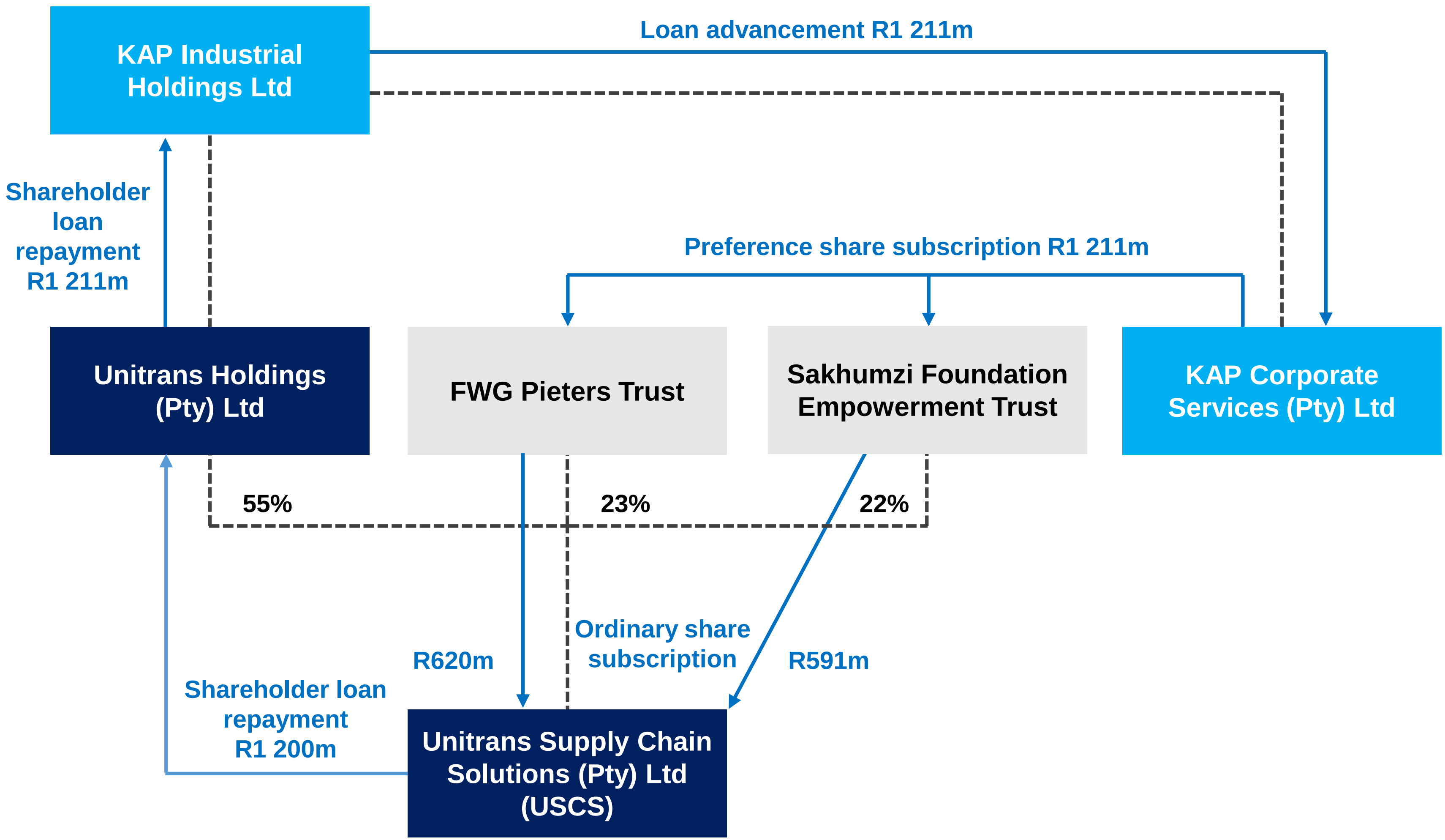
* Excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

UNITRANS B-BBEE DEAL OBJECTIVES

- Achieve > 51% ‘black’ and > 30% ‘black women’ ownership in South African logistics business
- Minimise dilution to shareholders
  - Equity interest sold at market value, taking into account peer multiples
  - Funding provided at market rates
- Ensure compliance with B-BBEE Commission requirements
- Ensure a sustainable scheme to create value for B-BBEE shareholders
- Ensure sustainable growth of South African logistics business

FINANCIAL ANALYSIS

USCS TRANSACTION STRUCTURE



FINANCIAL ANALYSIS

INCOME STATEMENT

Continuing operations	1H19 Rm	1H18 Rm	Variance
Revenue	**13 290**	11 478	16%
EBITDA before B-BBEE cost	**2 095**	1 905	10%
Depreciation and amortisation	**(587)**	(501)	
Operating profit before B-BBEE cost and capital items	**1 508**	1 404	7%
B-BBEE cost	**(194)**	–	
Capital items	**5**	(26)	
Operating profit	**1 319**	1 378	(4%)
Net finance costs	**(366)**	(328)	12%
Associate companies and joint ventures	**17**	13	
Taxation	**(322)**	(297)	
Non-controlling interest	**(32)**	(32)	
Profit attributable to owners of the parent	**616**	734	(16%)

FINANCIAL ANALYSIS

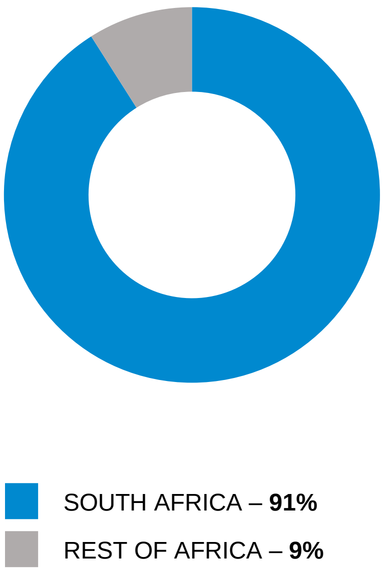
INCOME STATEMENT – CONTINUED

Continuing operations	1H19 Rm	1H18 Rm	Variance
Profit attributable to owners of the parent	**616**	734	(16%)
Add back capital items net of taxation	**(2)**	21	
Headline earnings	**614**	755	(19%)
Add back B-BBEE cost	**194**	–	
Core headline earnings	**808**	755	7%
Weighted average number of ordinary shares (m)	**2 688**	2 664	1%
Headline earnings per share (cents)	**22.8**	28.3	(19%)
Core headline earnings per share (cents)	**30.1**	28.3	6%

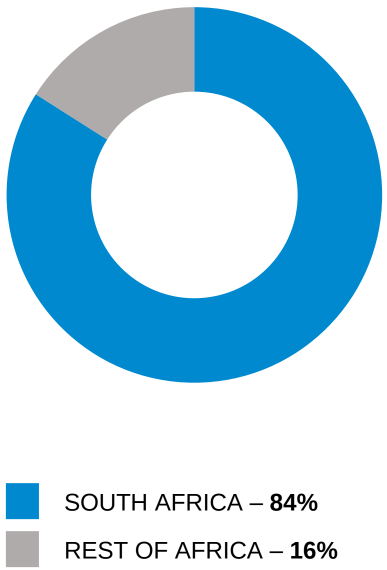
FINANCIAL ANALYSIS

GEOGRAPHIC MARKETS – REVENUE AND OPERATING PROFIT ANALYSIS

Revenue*



Operating profit*



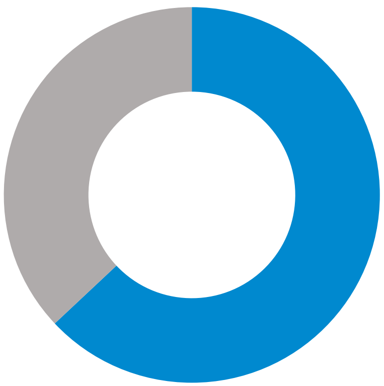
- Provides diversity in markets and broader growth opportunities
- Provides improved margins to compensate for sovereign risk and withholding taxes where relevant

* From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

FINANCIAL ANALYSIS

CURRENCY DRIVERS OF REVENUE AND OPERATING PROFIT

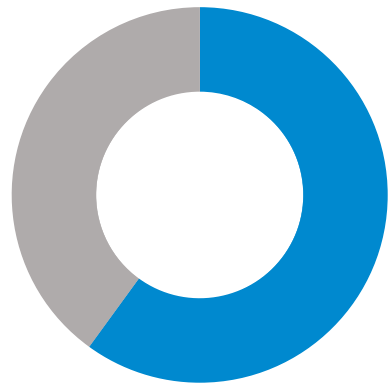
Revenue*



RAND-driven activities – **63%**

US DOLLAR-driven activities – **37%**

Operating profit*



RAND-driven activities – **60%**

US DOLLAR-driven activities – **40%**

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

* From continuing operations, excluding the non-recurring, non-cash impact of the Unitrans B-BBEE transaction.

FINANCIAL ANALYSIS

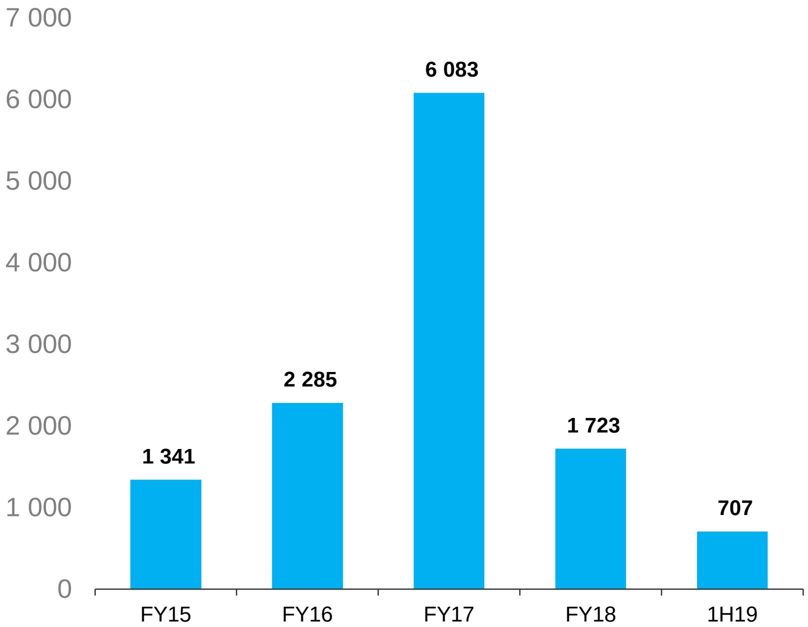
BALANCE SHEET

Balance sheet remains stable with quality assets

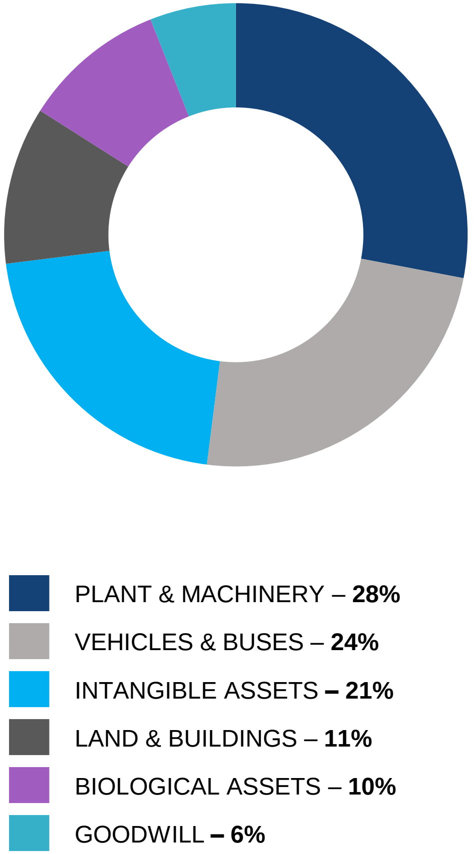
	1H19 Rm	1H18 Rm
Property, plant, equipment and investment property	**12 662**	12 384
Intangible assets	**4 097**	4 108
Goodwill	**1 283**	1 284
Biological assets	**1 907**	1 926
Net working capital	**2 598**	2 143
Other assets	**292**	446
Assets	**22 839**	22 291
Total equity	**12 695**	11 571
Net interest-bearing liabilities	**6 687**	7 460
Other liabilities	**3 457**	3 260
Equity and liabilities	**22 839**	22 291
Net asset value per share (cents)	**462**	420

CONTINUED INVESTMENTS RESULT IN STRONG ASSET BASE OF NEW TECHNOLOGY ASSETS

Capex and acquisition investments (Rm)

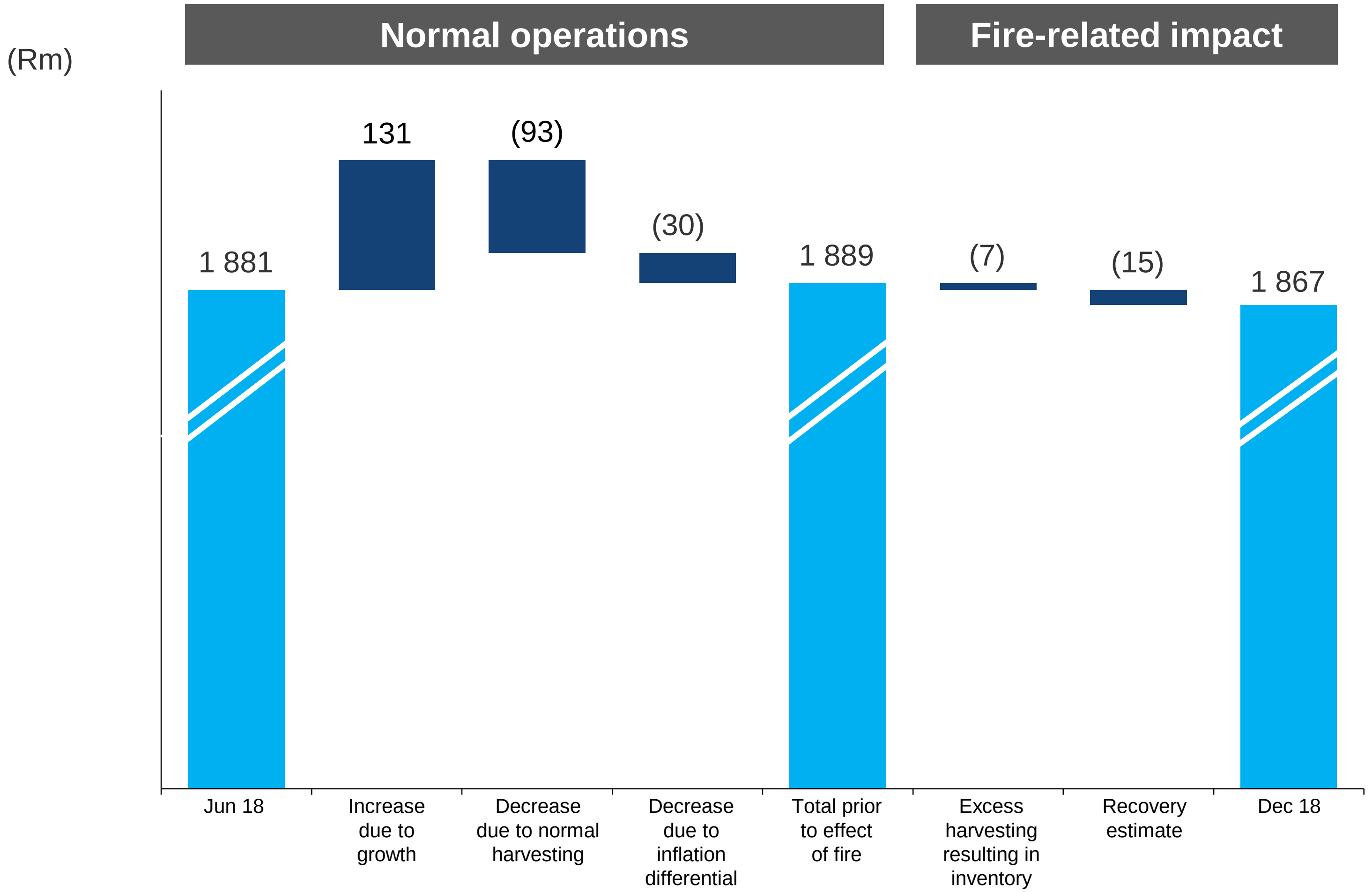


Asset base at 31 December 2018



FINANCIAL ANALYSIS

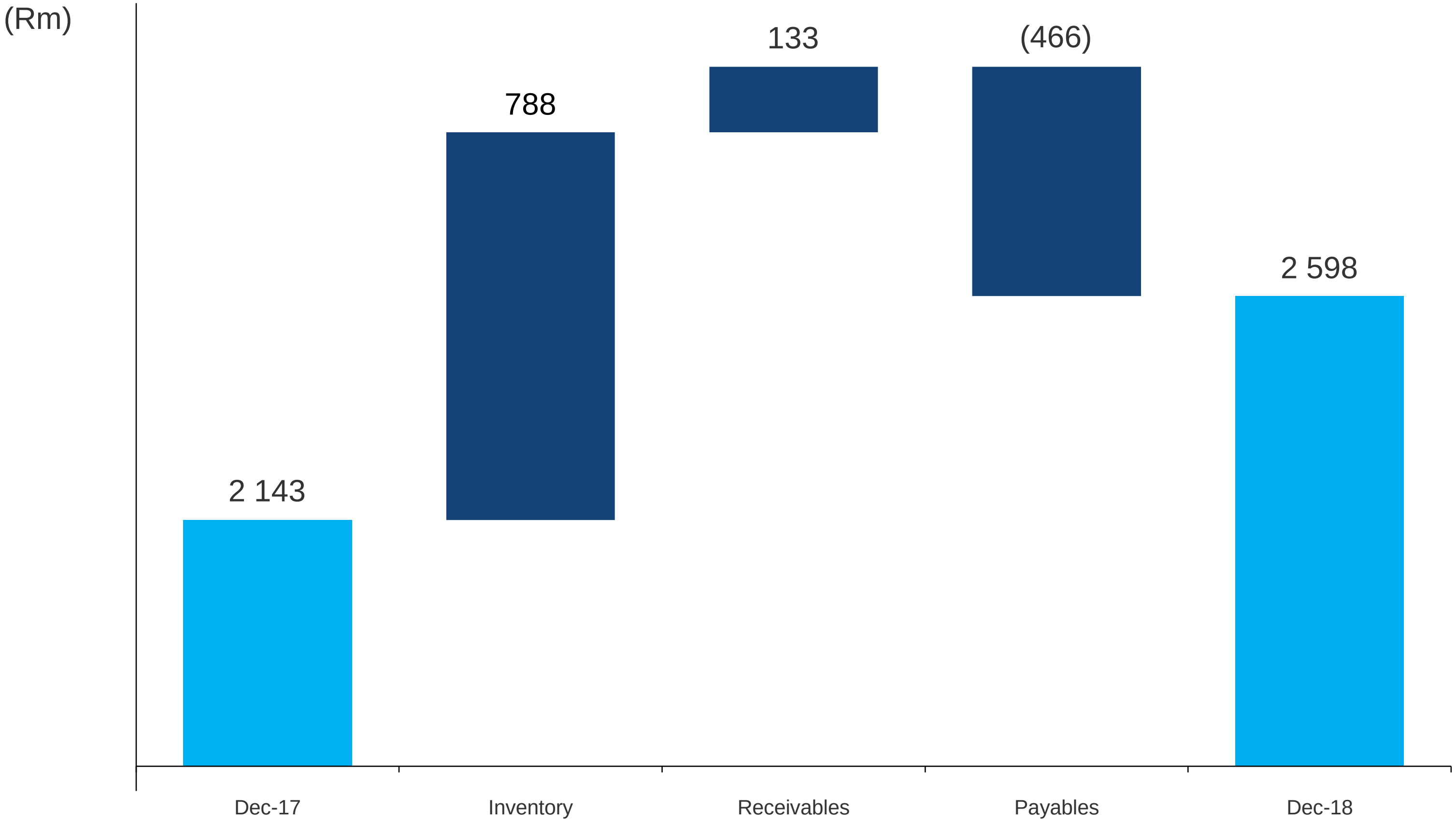
PLANTATION REVALUATION



- Harvesting completed for 2017 fire
- Fire damages 845 ha in November 2018

FINANCIAL ANALYSIS

WORKING CAPITAL BREAKDOWN



- Inventory inflated by lower December 2018 sales in Polymers due to plastic converters strike

FINANCIAL ANALYSIS

CASH FLOW

	1H19 Rm	1H18 Rm
EBITDA before B-BBEE cost	**2 095**	1 905
Net revaluation of biological assets	**13**	56
Discontinued operations	**(4)**	(17)
Other non-cash adjustments	**36**	30
Cash generated before working capital changes	**2 140**	1 974
Working capital changes	**(1 263)**	(1 495)
Inventory	**(739)**	(363)
Receivables	**(116)**	(296)
Payables	**(408)**	(836)
Cash generated from operations	**877**	479
Net finance charges	**(369)**	(384)
Taxation	**(135)**	(165)
Net dividends	**(647)**	(576)
Cash flow from operating activities	**(274)**	(646)
Cash conversion ratio	**58%**	34%

CASH FLOW – CONTINUED

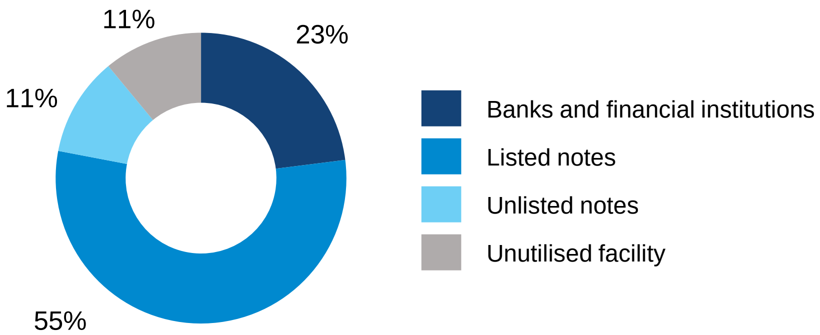
	1H19 Rm	**1H18 Rm**
Cash flow from operating activities	**(274)**	(646)
Investing activities	**(606)**	(1 144)
Expansion capex	**(240)**	(483)
Replacement capex	**(462)**	(486)
Disposal/acquisition of investments	**101**	(121)
Other investing activities	**(5)**	(54)
Cash flow after investing activities	**(880)**	(1 790)
Financing activities	**37**	436
Non-controlling interest	**(82)**	51
Loans and borrowings	**118**	457
Bank overdraft and short-term facilities	**1**	(72)
Movement in cash and cash equivalents	**(843)**	(1 354)

DEBT STRUCTURE AND CAPACITY RATIOS

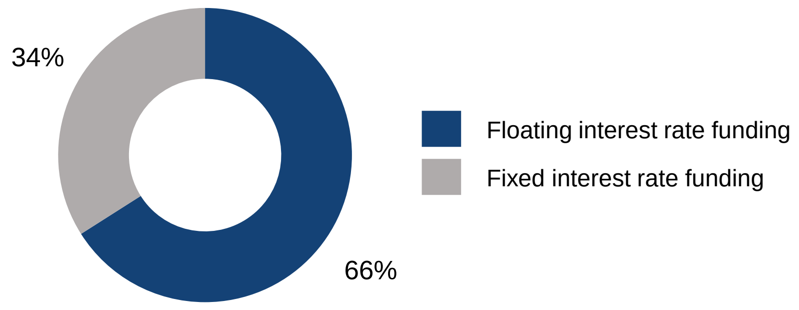
DEBT SERVICEABILITY RATIOS REFLECTIVE OF STRONG CASH GENERATION

	31 Dec 18	**31 Dec 17**
Net interest-bearing debt (Rm)	**6 687**	7 460
Equity excluding non-controlling interest (Rm)	**12 498**	11 245
Gearing: net debt:equity	**54%**	66%
Net debt to EBITDA (times) < 3.2	**1.6**	2.0
EBITDA interest cover (times) > 4.5	**5.5**	5.7

FUNDING STRUCTURE

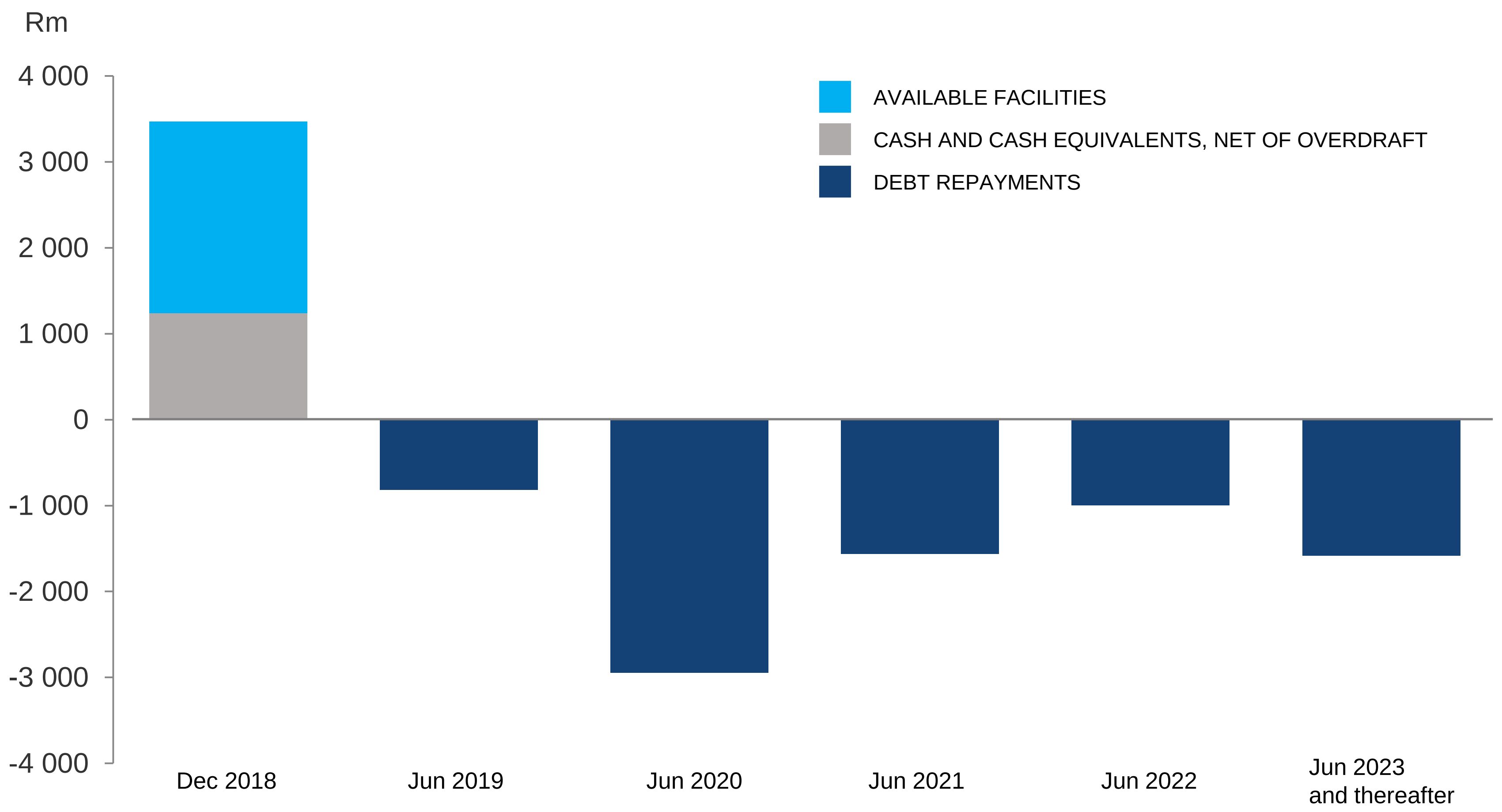


FIXED VS FLOATING INTEREST RATE FUNDING



TREASURY ACTIVITY

NET INTEREST-BEARING DEBT MATURITY AS AT 31 DECEMBER 2018



OUTLOOK

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

INTEGRATED INTO EVERY DAY

DIVERSIFIED INDUSTRIAL

Integrated Timber

- PG Bison well positioned in terms of product mix, market position and manufacturing capacity/efficiency
- Approximately R200 million expansion projects approved for F2020 implementation

Automotive Components

- Improved performance expected through implementation of continuous improvement projects and technology investments
- Approval of replacement APDP programme to create stability and support medium-term growth

Integrated Bedding

- Volume demand remains buoyant into January/February, however on low-margin products
- Strategy of market share growth and continued integration to be continued
- Increased raw material cost recovery initiatives to be pursued

DIVERSIFIED CHEMICAL

- Polymer and raw material prices and rand/US dollar exchange remain volatile
- Global polymer demand remains buoyant
- IHS short-term forecasts appear inconsistent
- Focus areas for management:
    - Selling full production volume to best advantage
    - Shortening the ‘procurement to sales cycle’ and minimising inventory in the supply chain
    - Single polymers product offering and logistics solution
    - Moving product mix toward higher value products
- Consumer sentiment towards ‘single-use plastics’ to be addressed through coordinated industry initiatives

DIVERSIFIED LOGISTICS

Contractual Logistics – South Africa

- Environment expected to remain challenging through election period
- Food and Petroleum businesses: new management and structures for increased focus
- Management focus on improved assets utilisation, operational execution and cost reduction

Contractual Logistics – Africa

- Good operational execution expected to continue
- Focus on growth opportunities

Passenger Transport

- Continued focus on operational improvements and mitigation of fuel variances
- Strategic review of Intercity operations

Q&A

GARY CHAPLIN / FRANS OLIVIER

CHIEF EXECUTIVE OFFICER / CHIEF FINANCIAL OFFICER

THANK YOU

INTEGRATED INTO EVERY DAY