# KAP INDUSTRIAL HOLDINGS LIMITED (KAP)

## UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016






# WELCOME

JAAP DU TOIT
Chairman






# AGENDA

| | |
|---|---|
| WELCOME | Jaap du Toit |
| PERIOD UNDER REVIEW | Gary Chaplin |
| DIVISIONAL HIGHLIGHTS | Gary Chaplin |
| FINANCIAL PERFORMANCE | Frans Olivier |
| OUTLOOK | Gary Chaplin |

# PERIOD UNDER REVIEW

GARY CHAPLIN
Chief executive officer






## 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**

# OVERVIEW

## STRATEGIC EXECUTION

**2012** – KAP acquires Steinhoff’s industrial assets

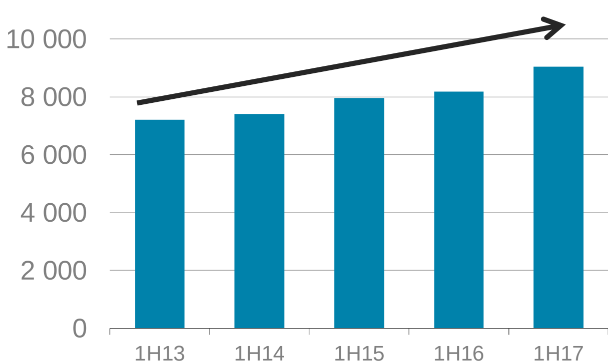
**2012–2016** – Strategic realignment and operational improvements

**2013–2015** – Disposal of non-core assets (food, footwear and sawmilling)

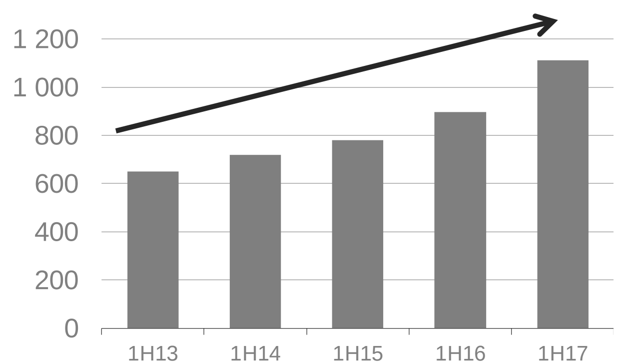
**2015–2016** – Complementary acquisitions and investments to enhance current businesses

**2017 onwards** – Strategy implementation has set base for continued growth

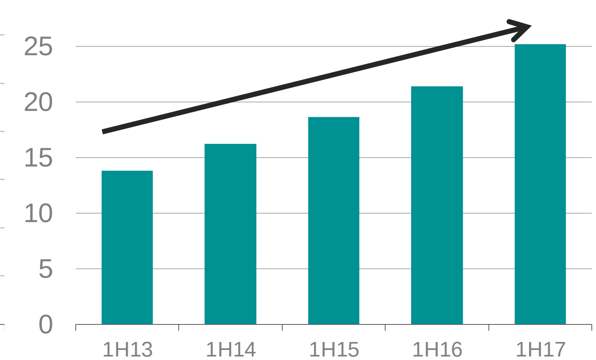
Revenue (Rm)
CAGR* 6%




Operating profit (Rm)
CAGR* 14%




HEPS (cents)
CAGR* 16%




** Compound annual growth rate of continuing operations*

## GROUP OPERATIONAL STRUCTURE

### DIVERSIFIED LOGISTICS

#### CONTRACTUAL LOGISTICS

Specialised contractual supply chain and logistics services

#### PASSENGER TRANSPORT

Personnel, commuter, intercity and tourism transport

### DIVERSIFIED INDUSTRIAL

#### INTEGRATED TIMBER

Forestry and timber manufacturing operations with primary and secondary processing

#### CHEMICAL

Manufacture of PET, UF resin and impregnated paper (PP and HDPE from 1 January 2017)

#### AUTOMOTIVE COMPONENTS

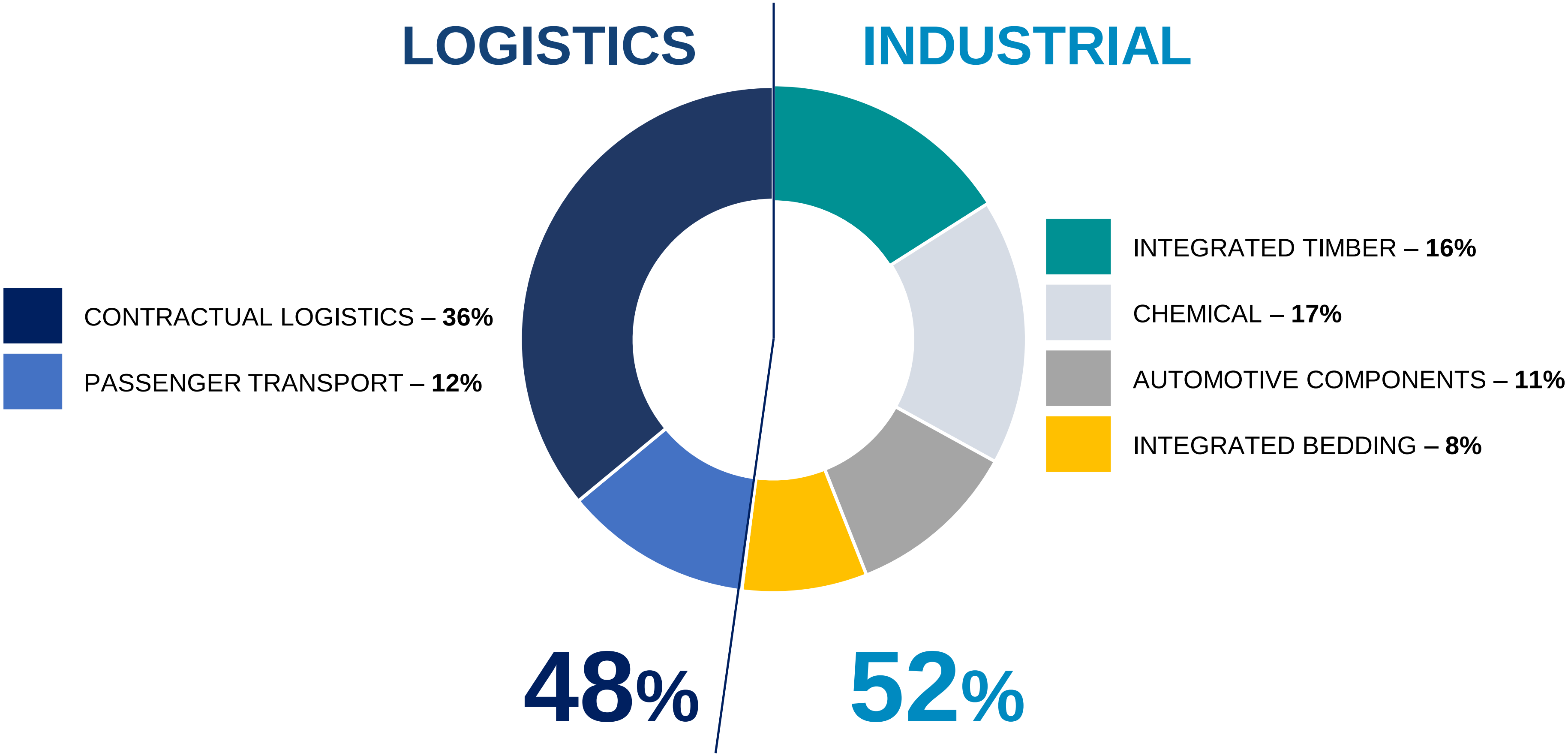
Manufacture of components used in new vehicle assembly and after-market vehicle accessories

#### INTEGRATED BEDDING

Manufacture of foam, fabrics, springs, bases and mattresses

# FINANCIAL HIGHLIGHTS

## DIVERSE REVENUE BASE

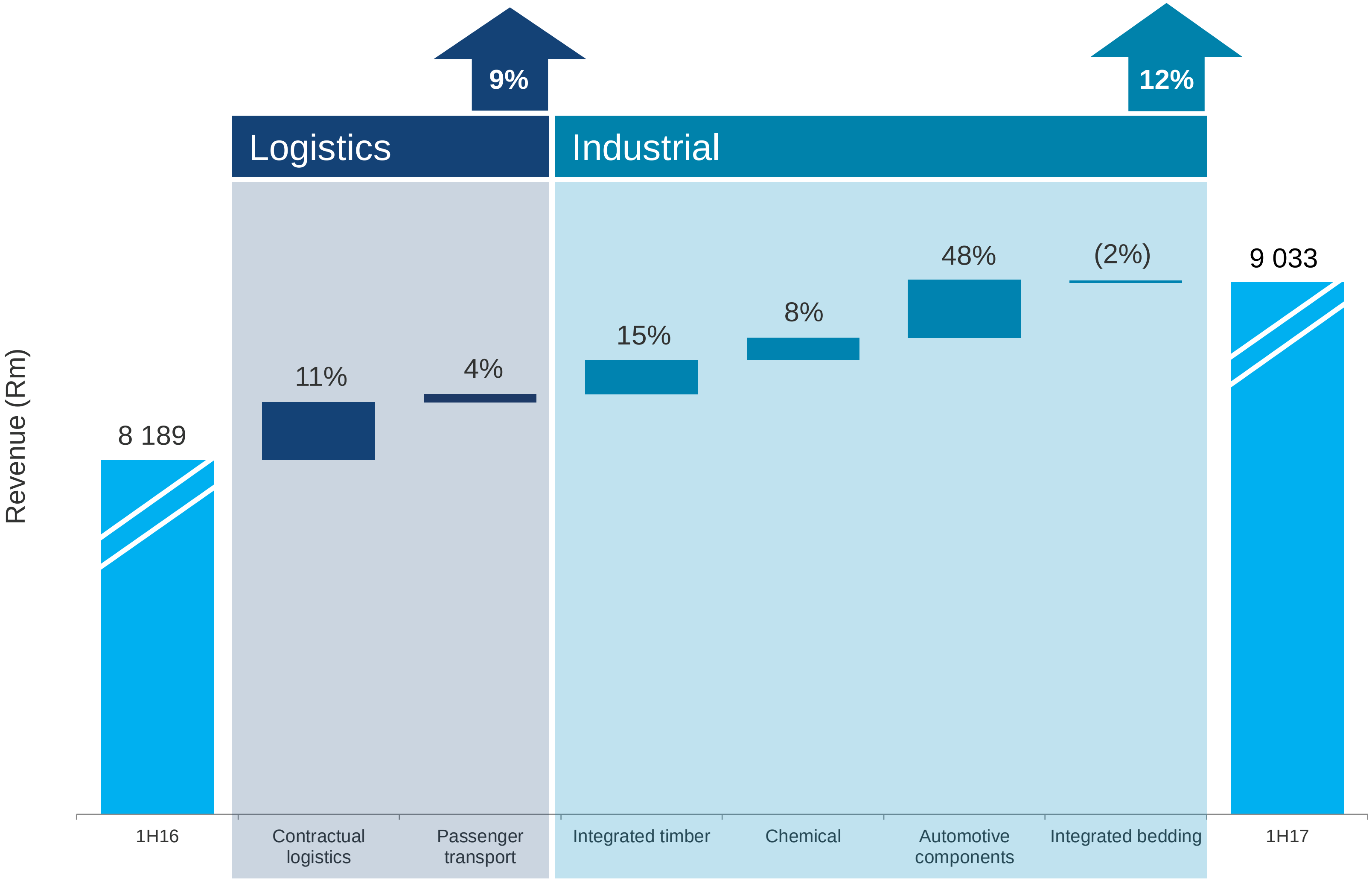


# FINANCIAL HIGHLIGHTS

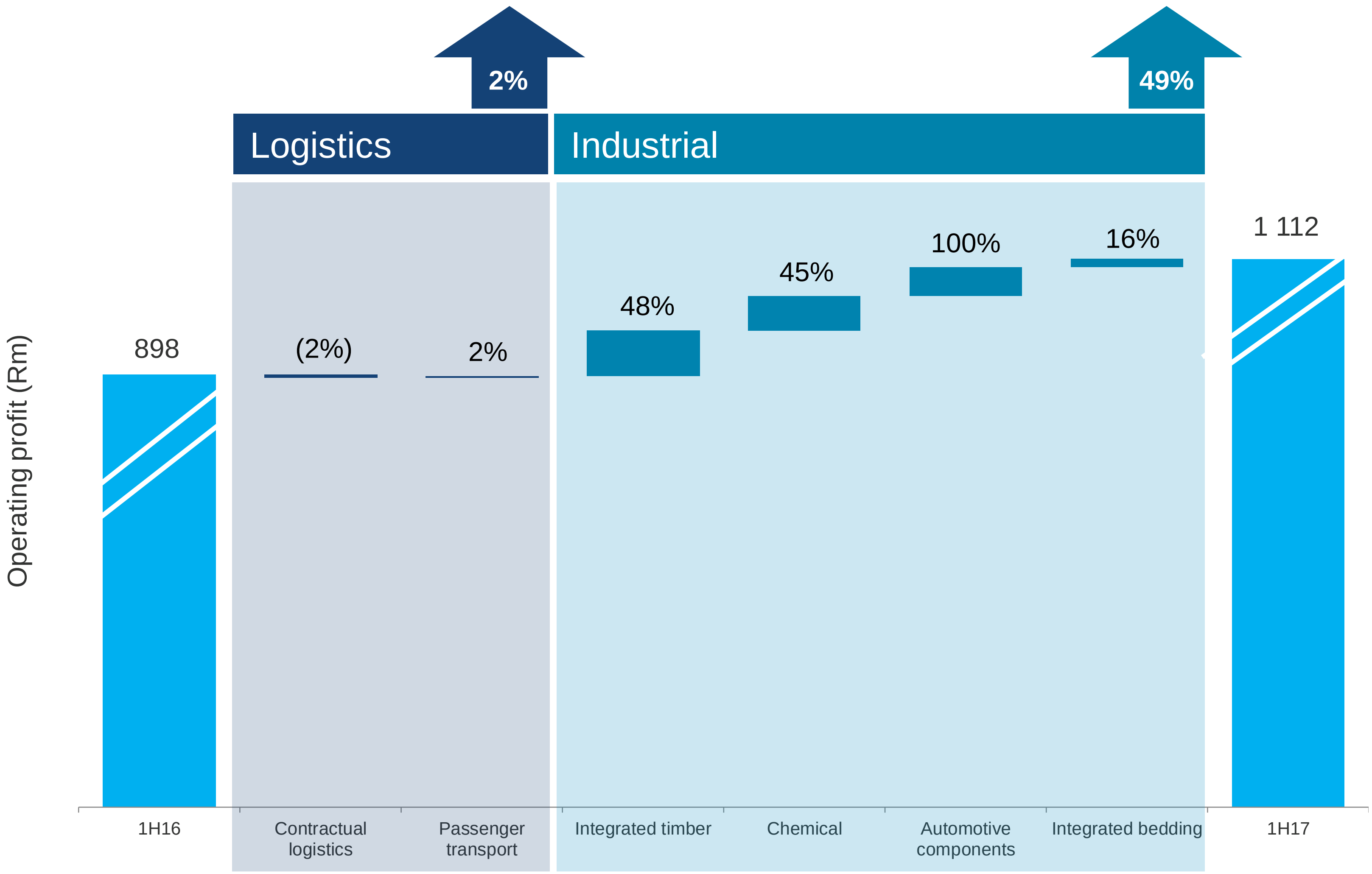
## STRATEGY IMPLEMENTATION CONTINUES TO IMPROVE QUALITY OF EARNINGS

| | **1H17** | **1H16** | **Increase** |
|---|---|---|---|
| Revenue (Rm) | **9 033** | 8 189 | 10% |
| Operating profit before capital items (Rm) | **1 112** | 898 | 24% |
| Operating margin | **12.3%** | 11.0% | 130 bps |
| Headline earnings per share (cents) | **25.2** | 21.4 | 18% |
| Cash generated from operations (Rm) | **495** | 391 | 27% |
| Net asset value per share (cents) | **387** | 330 | 17% |

## **REVENUE** ANALYSIS



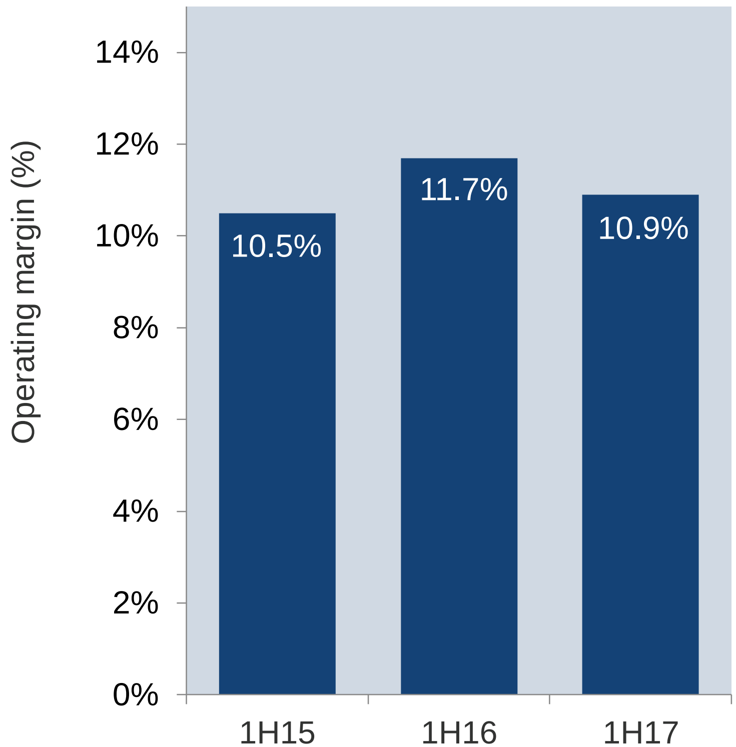
## **OPERATING PROFIT** ANALYSIS



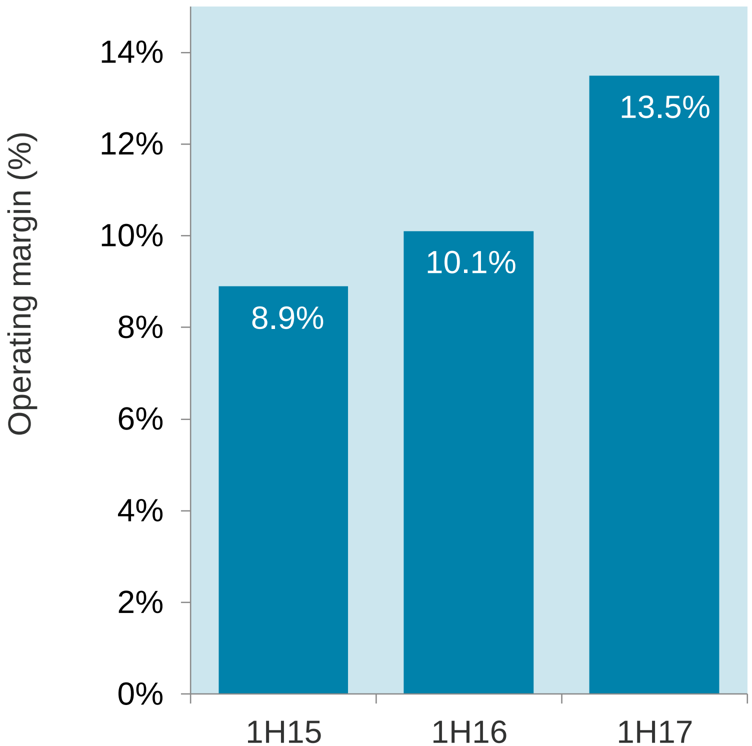
## **MARGIN** ANALYSIS

- KAP operating profit margin expands by 130 bps
- Logistics margin impacted by competitive market conditions and normalises following prior year non-recurring items
- Industrial margin driven by capital expansion projects and integration activities

### Logistics




### Industrial



# DIVISIONAL HIGHLIGHTS

GARY CHAPLIN
Chief executive officer






# DIVISIONAL HIGHLIGHTS

## DIVERSIFIED LOGISTICS SEGMENT

| | |
|---|---|
| Gross revenue increases by **9% to** | **R4 473m** (1H16: R4 099m) |
| Operating profit increases by **2% to** | **R488m** (1H16: R478m) |
| Operating margin decreases by **80 bps to** | **10.9%** (1H16: 11.7%) |

- Subdued economic environment impacts performance
- Long-term contracts and diversification across various sectors protects core revenue base
- Recent consolidation and restructuring of contractual logistics division retains focus on specific sectors
- Acquisition of Lucerne facilitates increased exposure to chemical sector
- Margin impacted by consolidation of Xinergistix

# DIVISIONAL HIGHLIGHTS: CONTRACTUAL LOGISTICS

CONTINUED EXECUTION OF “ONE UNITRANS” STRATEGY

To facilitate growth within specific industry sectors, to consolidate our approach into Africa, to optimise the utilisation of assets and infrastructure and to improve efficiencies.


- FMCG
- Poultry
- Sugar/Molasses
- Refrigeration
- Animal feed


- Fuel
- Lubricants
- Gas
- Chemicals
- Alcohol

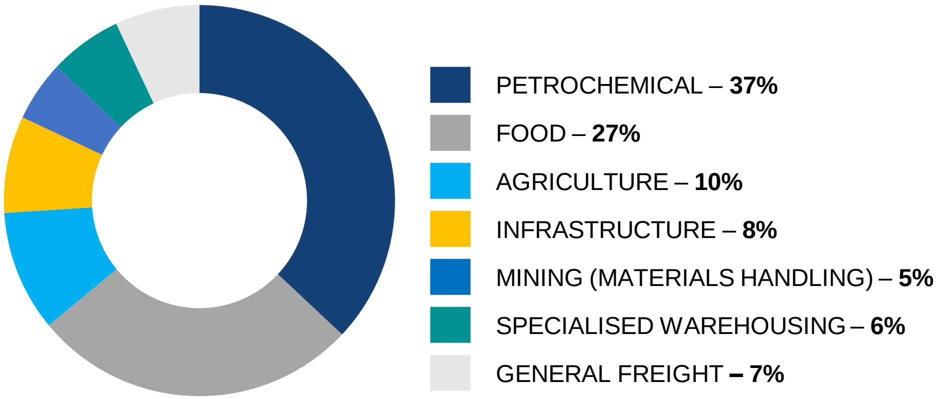

- Transport
- Land preparation
- Infrastructure development and maintenance

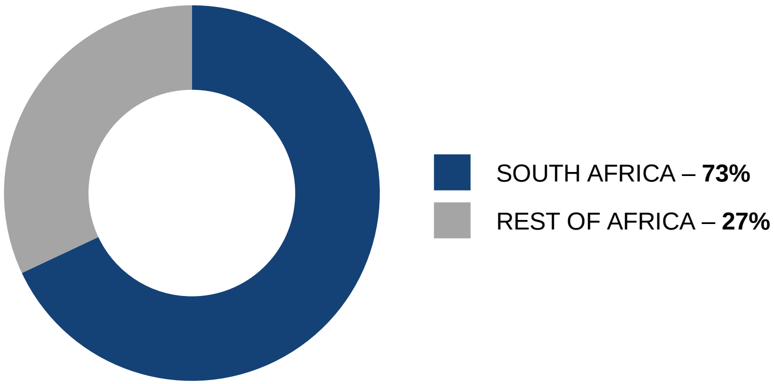

- Materials handling
- Cement
- Explosives


- Warehousing
- Distribution
- Freight forwarding

# DIVISIONAL HIGHLIGHTS: CONTRACTUAL LOGISTICS

## DIVERSE REVENUE BASE




- Revenue base diversified across both sectors and geographic regions
- Blue chip and multinational customers enhance earnings profile and limit concentration risk
  - Top 20 customers represent 70% of revenue (1H16:  Top 15 customers represents 75% of revenue)
  - Exposure to mining limited to materials handling in the more robust commodity sectors

# DIVISIONAL HIGHLIGHTS: CONTRACTUAL LOGISTICS

**REVENUE**
**UP 11%**

**OPERATING PROFIT**
**DOWN 2%**

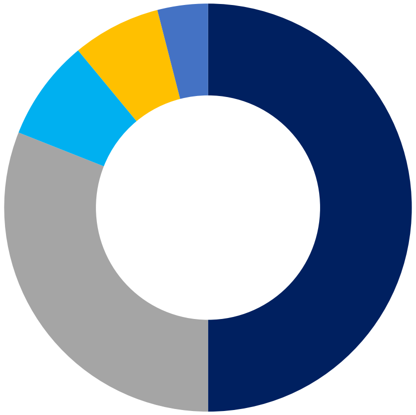
- Petrochemical division impacted by 12% lower industry fuel volumes
- Agriculture division impacted by drought-related lower volumes
- Mining and infrastructure divisions volumes remain subdued but stable
- Food division revenue continued to show growth
- Structure of contracts provides protection through economic cycle
- Cost containment and improved efficiencies continued to support margin and competitiveness
- Lucerne integration progressing well

# DIVISIONAL HIGHLIGHTS: PASSENGER TRANSPORT

KAP


## REVENUE ANALYSIS

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



- COMMUTER AND PERSONNEL **– 55%**
- INTERCITY – **26%**
- GAUTRAIN – **8%**
- TOURISM – **7%**
- AFRICA – **4%**

BOJANALA BUS · CITILINER · GREYHOUND · Magic TRANSFERS · MEGA BUS · MEGA COACH · MEGA EXPRESS

# DIVISIONAL HIGHLIGHTS: PASSENGER TRANSPORT

KAP

**REVENUE UP**
**4%**

**OPERATING PROFIT UP**
**2%**


- Good performance and contract growth in the commuter and personnel transport divisions despite subdued activity in mining sector
- Personnel transport contract in Mozambique continued to perform ahead of expectation with contract expansion
- Gautrain bus feeder services and tourism division performed to expectation
- Intercity transport impacted by slower activity and lower passenger numbers

UNITRANS
BOJANALA BUS
CITILINER
GREYHOUND
Magic TRANSFERS
MEGA BUS
MEGA COACH
MEGA EXPRESS

# DIVISIONAL HIGHLIGHTS

## DIVERSIFIED INDUSTRIAL SEGMENT

| | |
|---|---|
| Gross revenue increases by **12% to** | **R4 637m** (1H16: R4 142m) |
| Operating profit increases by **49% to** | **R624m** (1H16: R420m) |
| Operating margin increases by **340 bps to** | **13.5%** (1H16: 10.1%) |

- Robust organic growth in all divisions
- Strategy implementation and recent capital investments drive revenue growth and enhance operating margin
- Increased intragroup trade further improves margin
- Successful implementation of Autovest acquisition

# DIVISIONAL HIGHLIGHTS: INTEGRATED TIMBER

KAP

**REVENUE UP**

**15%**

**OPERATING PROFIT UP**

**48%**

PG BISON

BISONBORD SUPAWOOD MELAWOOD MELAWOOD SUPAGLOSS

SURFACE INNOVATIONS FORMICA THESEN WOODLINE

- Continued focus on product and customer service package
- Market structure evolution facilitates value-add strategy
- Increased ratio of higher margin value-added products
- Technology and efficiency improvements of MDF plant
- Timing impact of annual plant maintenance shuts
- Positive impact of Woodchem paper impregnation line
- Strong improvement in forestry, sawmilling and pole operations

# DIVISIONAL HIGHLIGHTS: CHEMICAL

KAP

**REVENUE UP**

**8%**

**OPERATING PROFIT UP**

**45%**


- Hosaf and Woodchem performed well and continued to operate at capacity
- ZAR/USD exchange rate impacts on revenue, however, with neutral impact on operating profit
- Woodchem paper impregnation plant commissioning concluded in January 2016 and exceeds expectations
- Exchange rate and commodity price volatility well managed, thereby protecting margin
- Improved raw material procurement and plant efficiencies improve margin

Hosaf where quality is action

WOODCHEM

# DIVISIONAL HIGHLIGHTS: AUTOMOTIVE COMPONENTS

KAP

**REVENUE UP**

**48%**

**OPERATING PROFIT UP**

**100%**

- Autovest acquisition successfully implemented, thereby introducing a new diversified revenue stream
- Solid organic revenue growth driven by 4% increase in new vehicle assembly volumes, which was supported by robust export volumes and a new model introduction
- Strong sales of recent new models supports improved product mix and resultant margin
- Continued automation initiatives and technology investments also improve margin

FELTEX
AUTOVEST
autoneum
AUTO ARMOR Entire Car Protection
caravelle automotive carpets
BUCCO canopies
Fehrer
Kilber
IAC FELTEX
MAXE
SA CANOPY
Rhino Linings

# DIVISIONAL HIGHLIGHTS: INTEGRATED BEDDING

KAP

**REVENUE DOWN**

**2%**

**OPERATING PROFIT UP**

**16%**

- Competitive furniture retail sector drives higher volumes at lower selling prices
- Volume growth in Vitafoam and DesleeMattex, facilitated by increased intragroup trade, drives operating profit growth
- Temporary global TDI shortage proactively managed with neutral profit impact
- Phase 1 of new integrated bedding facility improves operating efficiencies in manufacture of key raw materials
- Technology investments continue to drive margin improvement and improved product quality

RESTONIC Since 1938

vita vitafoam

DESLEE MATTEX

# FINANCIAL PERFORMANCE

FRANS OLIVIER
Chief financial officer






# FINANCIAL HIGHLIGHTS

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# FINANCIAL PERFORMANCE

KAP

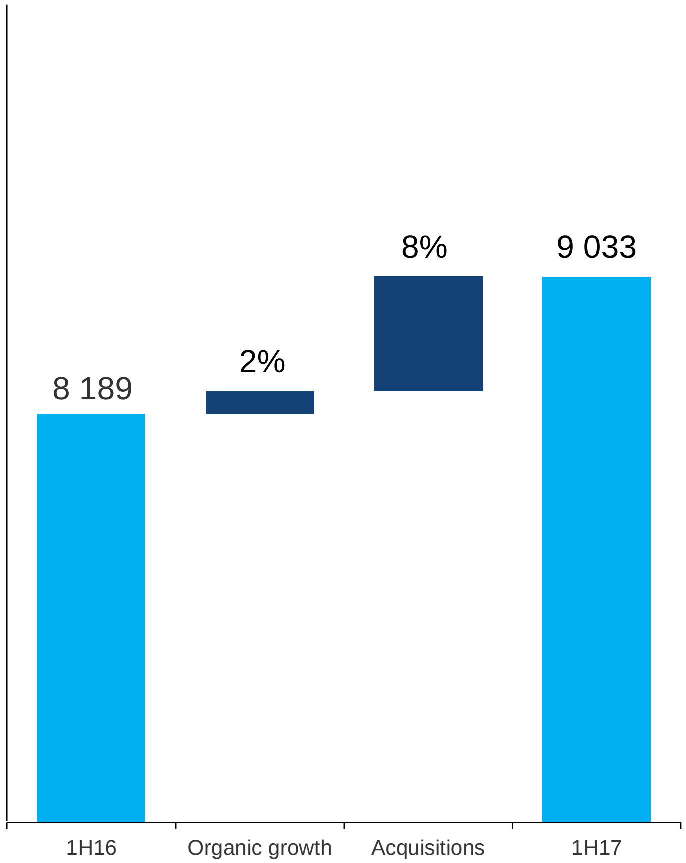
## INCOME STATEMENT

| | 1H17 Rm | 1H16 Rm | Increase |
|---|---|---|---|
| Revenue | **9 033** | 8 189 | 10% |
| Operating profit before capital items | **1 112** | 898 | 24% |
| Capital items | **4** | (8) | |
| Net finance costs | **(198)** | (151) | 31% |
| Finance costs | **(278)** | (159) | |
| Investment income | **80** | 8 | |
| Associate companies and joint ventures | **10** | 10 | |
| Taxation | **(271)** | (213) | |
| Minorities | **(28)** | (23) | |
| Profit attributable to owners of the parent | **629** | 513 | 23% |
| Add back capital items net of taxation | **(3)** | 6 | |
| Headline earnings | **626** | 519 | 21% |
| | | | |
| Weighted average number of ordinary shares (m) | **2 487** | 2 424 | 3% |
| Headline earnings per share (cents) | **25.2** | 21.4 | 18% |

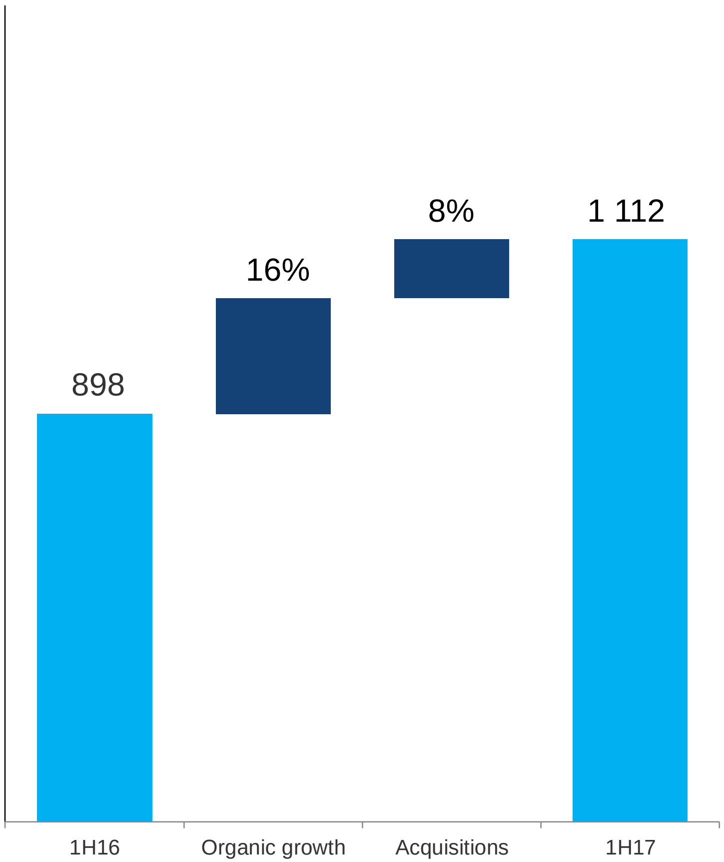
# FINANCIAL PERFORMANCE

## REVENUE AND OPERATING PROFIT GROWTH ANALYSIS

**Revenue (Rm)**




**Operating profit (Rm)**



## BALANCE SHEET

Improved quality of net asset value

| | 31 Dec 2016 Rm | 31 Dec 2015 Rm |
|---|---|---|
| Property, plant, equipment and investment properties | **9 404** | 7 600 |
| Intangible assets and goodwill | **2 204** | 1 603 |
| Biological assets | **1 971** | 1 844 |
| Net working capital | **1 125** | 1 305 |
| Other assets | **230** | 318 |
| **Assets** | **14 934** | 12 670 |
| Total equity | **10 608** | 8 218 |
| Net interest-bearing borrowings | **2 617** | 3 201 |
| Interest bearing liabilities | **7 140** | 4 255 |
| Cash and cash equivalents | **(4 523)** | (1 054) |
| Other liabilities | **1 709** | 1 251 |
| **Equity and liabilities** | **14 934** | 12 670 |
| **Net asset value per share (cents)** | **387** | 330 |

# FINANCIAL PERFORMANCE

## TANGIBLE FIXED ASSET PROFILE

VEHICLES AND BUSES 37%


PLANT AND MACHINERY 30%

BIOLOGICAL ASSETS 17%

LAND AND BUILDINGS 16%

## CASH FLOW

| | 1H17 Rm | 1H16 Rm |
|---|---|---|
| Operating profit | **1 112** | 898 |
| Depreciation and amortisation | **440** | 425 |
| EBITDA | **1 552** | 1 323 |
| Net revaluation of biological assets | **(4)** | (15) |
| Other non-cash adjustments | **36** | 45 |
| Cash generated before working capital changes | **1 584** | 1 353 |
| Working capital changes | **(1 089)** | (962) |
| Inventory | **(74)** | (98) |
| Receivables | **(296)** | (288) |
| Payables | **(719)** | (576) |
| Cash generated from operations | **495** | 391 |
| Net finance charges | **(198)** | (151) |
| Taxation | **(120)** | (159) |
| Net dividends | **(452)** | (377) |
| Cash flow from operating activities | **(275)** | (296) |

## CASH FLOW – CONTINUED

| | 1H17<br>Rm | 1H16<br>Rm |
|---|---|---|
| Cash flow from operating activities | **(275)** | (296) |
| Investing activities | **(1 473)** | (863) |
| Expansion capex | **(581)** | (397) |
| Replacement capex | **(640)** | (443) |
| Acquisition of investments | **(227)** | – |
| Other investing activities | **(25)** | (23) |
| Cash flow after investing activities | **(1 748)** | (1 159) |
| Financing activities | **3 686** | 804 |
| Movement in cash and cash equivalents | **1 938** | (355) |

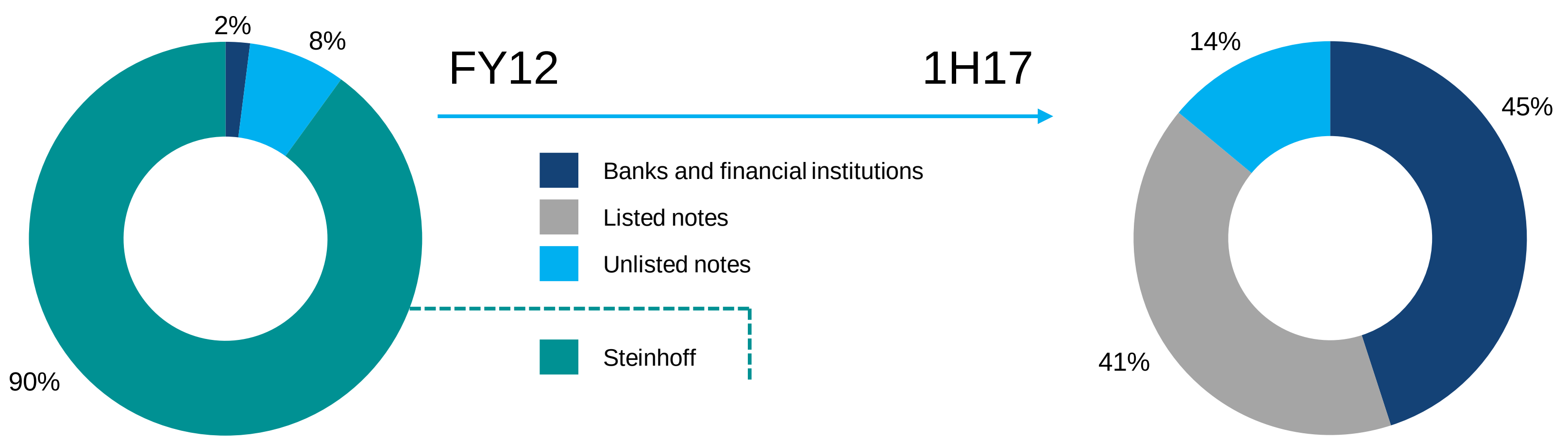
# DEBT STRUCTURE AND COVER RATIOS

KAP

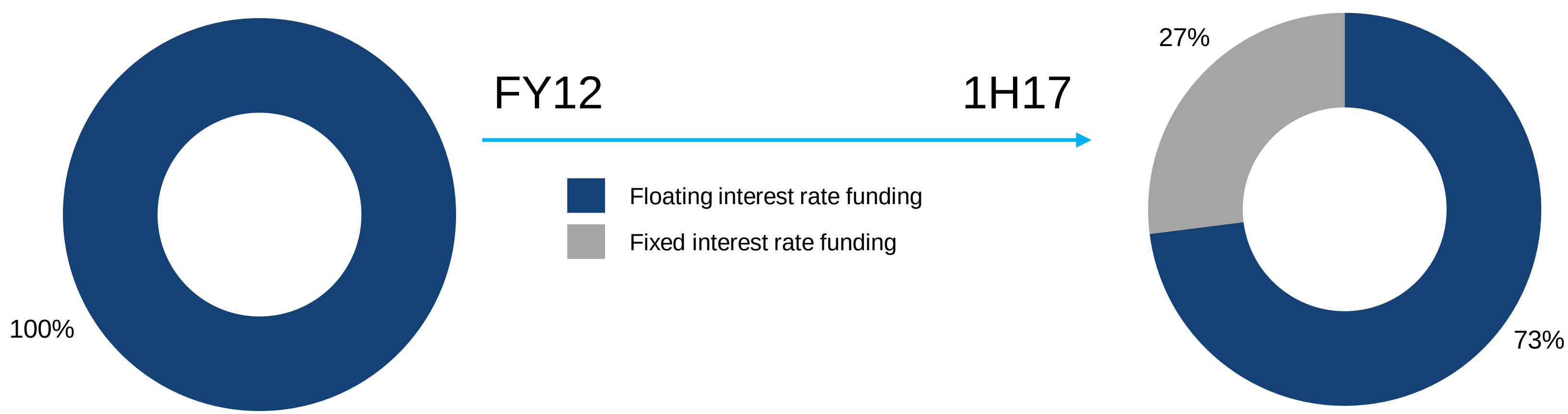
| | **31 Dec 16** | **31 Dec 15** |
|---|---|---|
| Net interest-bearing debt (Rm) | **2 617** | 3 201 |
| Equity excl. non-controlling interest (Rm) | **10 294** | 8 037 |
| Gearing: net debt:equity | **25%** | 40% |
| Net debt to EBITDA (times) < 3.2 (rolling 12 months) | **0.9** | 1.2 |
| EBITDA interest cover (times) > 4.5 (rolling 12 months) | **8.4** | 9.4 |

# TREASURY ACTIVITY

## KAP HAS DEVELOPED DIVERSIFIED INDEPENDENT FUNDING STRUCTURE SINCE 2012

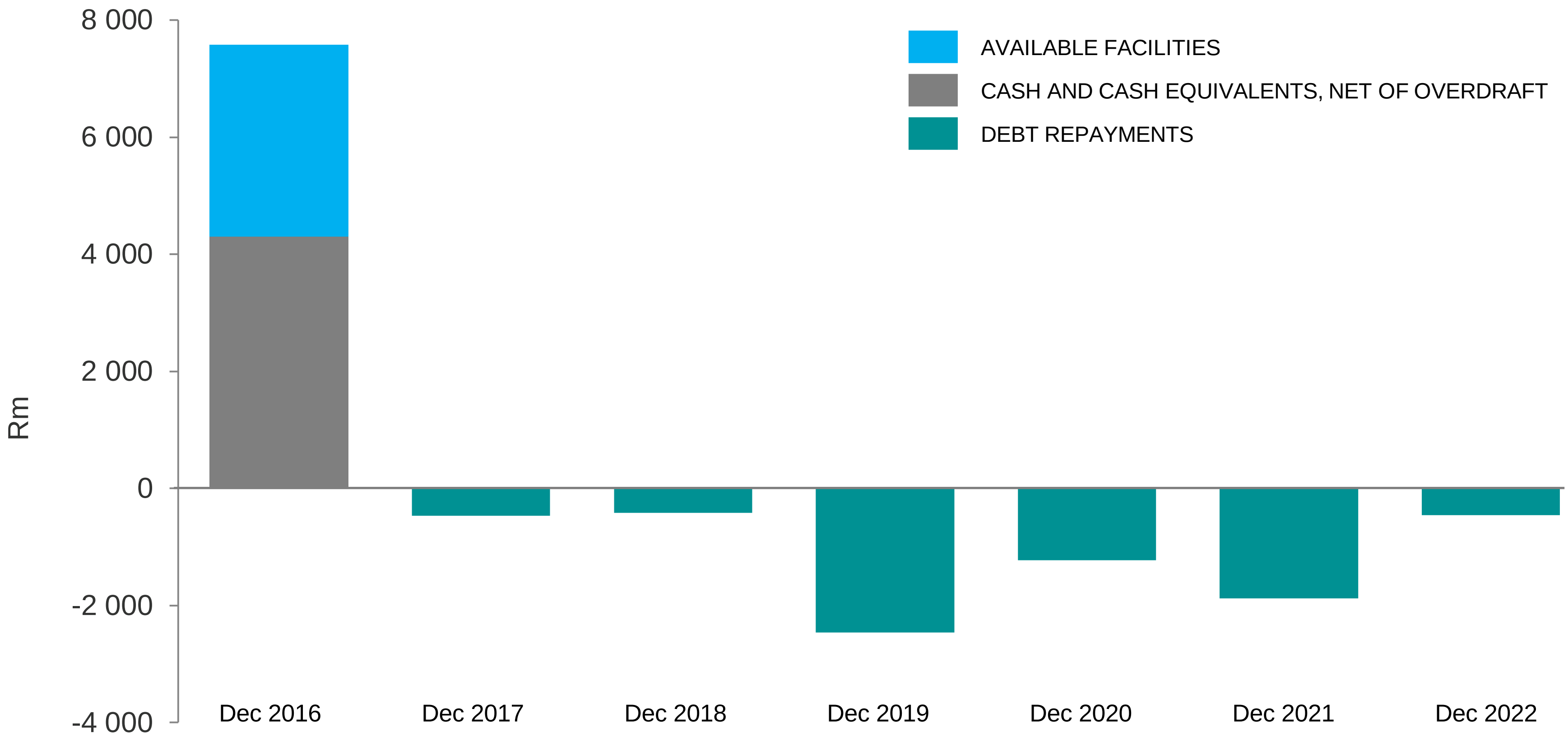



## KAP INCREASED FIXED INTEREST RATE FUNDING EXPOSURE SINCE 2012



# TREASURY ACTIVITY

## NET INTEREST-BEARING DEBT MATURITY AS AT 31 DECEMBER 2016



# SAFRIPOL ACQUISITION FUNDING

| | Rm |
|---|---|
| **Safripol acquisition price** | **4 100** |
| ***Funded by:*** | |
| Equity | 1 500 |
| Debt | 2 600 |
| | |
| ***Debt instruments breakdown:*** | **2 600** |
| Bond issuance – 3/5 years tenure | 1 374 |
| Term/revolving funding – 3 years | 1 226 |

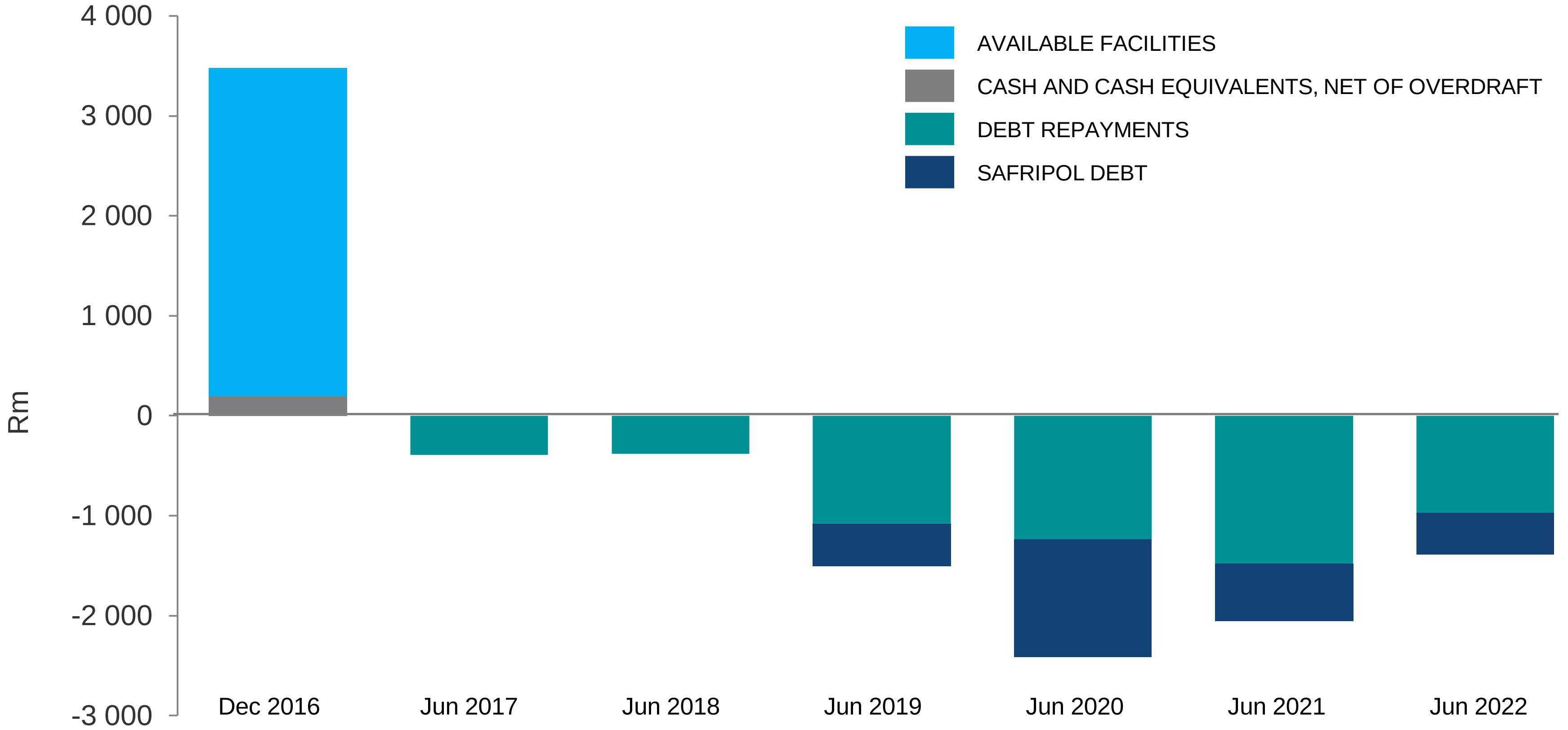
Rights issue of R1.5 billion (197 million shares) fully subscribed

# SAFRIPOL IMPACT ON KAP GEARING

| | 31 Dec 16 Pro forma* | 31 Dec 16 | 31 Dec 15 |
|---|---|---|---|
| Net interest-bearing debt (Rm) | **6 717** | 2 617 | 3 201 |
| Equity excl. non-controlling interest (Rm) | **10 294** | 10 294 | 8 037 |
| Net debt to EBITDA (times) < 3.2 (rolling 12 months) | **1.8**** | 0.9 | 1.2 |
| EBITDA interest cover (times) > 4.5 (rolling 12 months) | **6.1^** | 8.4 | 9.4 |

* *Information includes Safripol figures on a pro forma basis*
** *Safripol EBITDA included for the 12 months 31 December 2015*
^ *Safripol EBITDA included for the 12 months 31 December 2015, interest rate assumed 10%*

# SAFRIPOL IMPACT ON DEBT MATURITY PROFILE KAP



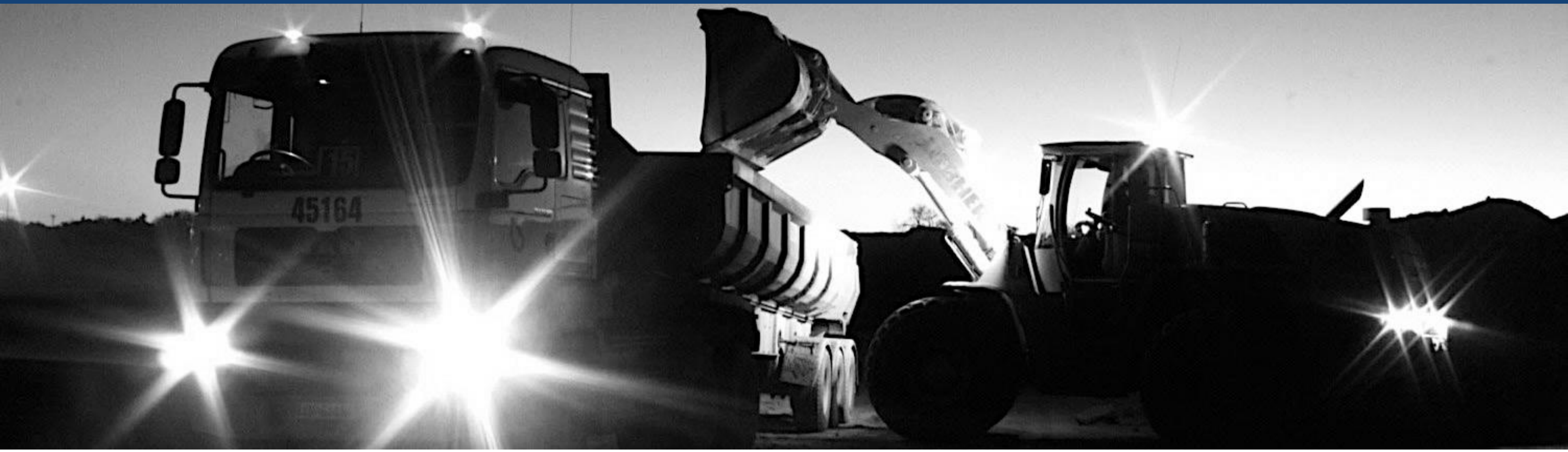
# OUTLOOK

GARY CHAPLIN
Chief executive officer






# OUTLOOK: CONTRACTUAL LOGISTICS




- Economic activity in relevant sectors expected to remain subdued
- Sustainability of earnings supported by long-term contractual nature of business
- Reduced cost structure and improved efficiencies support competitive position
- Rest of Africa operating efficiencies supported by “One Unitrans” strategy
- Acquisition of Lucerne increases exposure to chemical sector and creates growth opportunities
- Increased shareholding in Xinergistix to 51% provides potential synergies and growth opportunities

# OUTLOOK: PASSENGER TRANSPORT


- Personnel passenger numbers point toward a slow improvement in mining sector (resultant impact on commuter numbers)
- New mining personnel contract started August 2016
- Mozambique personnel contract expansion continues
- New coaches, improved marketing and dynamic fare structures directed toward improving intercity performance

# OUTLOOK: INTEGRATED TIMBER

- Business well structured for current market conditions (low cost base, strong market focus) with a clear growth strategy
- High-gloss line successfully commissioned in Boksburg
- New MFB press in Piet Retief to be commissioned April 2017
- Third phase of MDF upgrade planned for April to December 2017
- Piet Retief particleboard upgrade due in June 2017 will add volume capacity and will yield production cost and raw material savings
- Timing impact of annual plant maintenance shuts and Piet Retief commissioning

PG BISON

BISONBORD SUPAWOOD MELAWOOD MELAWOOD SUPAGLOSS

SURFACE INNOVATIONS FORMICA THESEN WOODLINE

# OUTLOOK: AUTOMOTIVE COMPONENTS

- Vehicle assembly volumes expected to remain stable
- Technology benefits of new model introductions support margin
- New model introductions provide platform for continued revenue growth in FY18
- Subdued vehicle sales expected to impact on Autovest
- Autovest business model restructure in progress in order to leverage higher growth off franchise network

# OUTLOOK: INTEGRATED BEDDING

KAP


- Continued integration activities after Restonic acquisition
  - Efficiencies of decentralised mattress assembly strategy expected to continue
  - Integration synergies in logistics, procurement and support functions in progress
  - Further raw material integration opportunities
- Distribution platform extended to independent retailers
- Consolidation of four Gauteng factories into new facility scheduled for July 2017

RESTONIC Since 1938

vita vitafoam

DESLEE MATTEX

# OUTLOOK: CHEMICAL

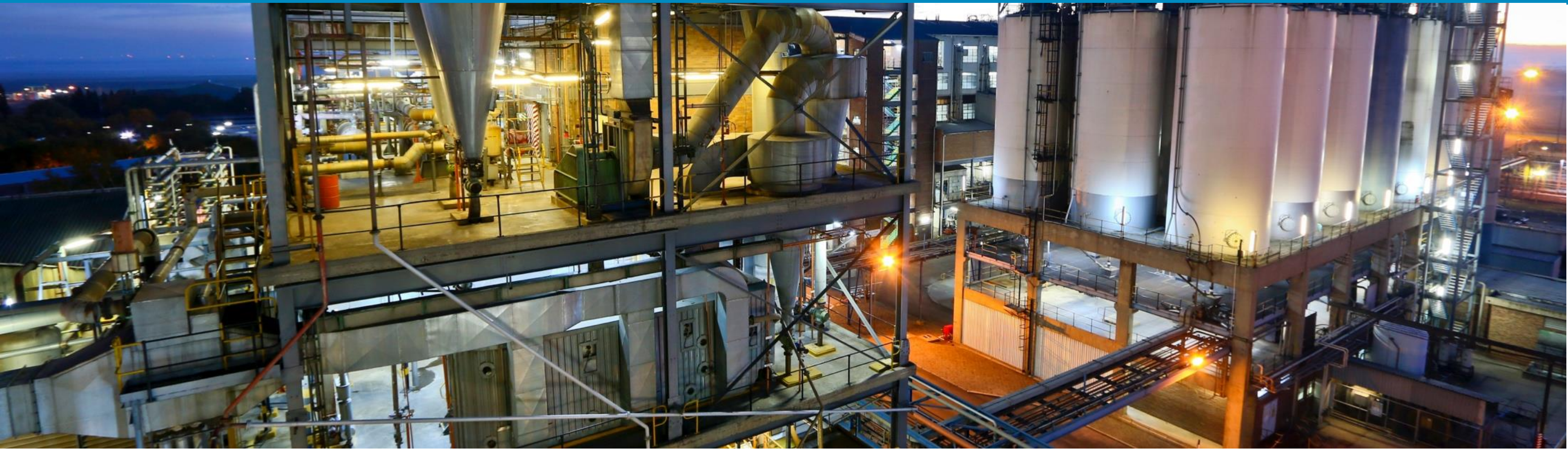
- Strong demand for PET and UF resin expected to continue
- Woodchem paper impregnation plant commissioned in January 2016 continues to operate ahead of expectation
- Third formaldehyde line under investigation
- Hosaf expansion well advanced
  - South African 2016 PET consumption 220 000 tonnes per annum
  - Hosaf expansion project expected to increase capacity from 128 000 to 240 000 tonnes per annum
  - Commissioning expected in August 2017

Hosaf where quality is action

WOODCHEM

# OUTLOOK: CHEMICAL

Safripol
preferred polymer partner



**Acquisition of Safripol expands chemical division**

- High Density Polyethylene (HDPE) – 160 000 tonnes per year
- Polypropylene (PP) – 120 000 tonnes per year
- Business model supported by long-term industry fundamentals

**QUICK FACTS**

- Acquisition price of R4.1 billion on a debt free, cash free basis effective 1 January 2017
- Revenue for 12 months to 31 December 2015 of R4 600 million
- EBITDA for 12 months to 31 December 2015 of R735 million

# SAFRIPOL OVERVIEW

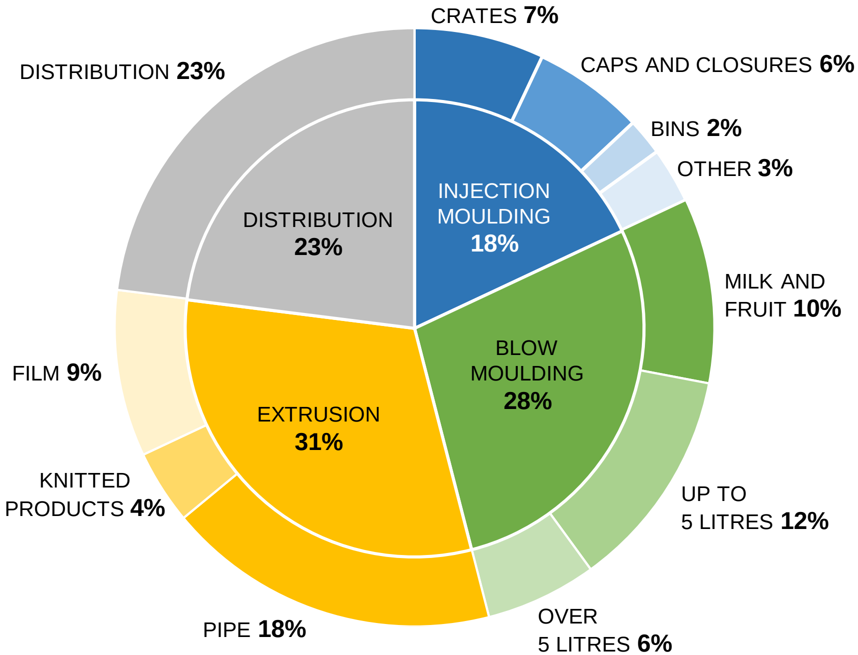
## SAFRIPOL STRATEGICALLY ALIGNS WITH KAP'S SIX STRATEGIC THEMES

| | High Density Polyethylene (HDPE) | Polypropylene – (PP) |
|---|---|---|
| **Being the leader in the markets we serve** | Sole producer of HDPE in South Africa<br>c. 65-70% market share in South Africa | Leading producer of PP in South Africa<br>c. 35%-40% market share in South Africa |
| **High barrier to entry industries** | • Strategic access to raw materials<br>• Estimate plant replacement cost of R5bn – R6bn | |
| **Sustainable earnings through diversity** | **Acquisition of Safripol expands KAP's chemical division**<br>• HDPE expands KAP's chemical product range<br>• Diverse applications of HDPE | • PP expands KAP's chemical product range<br>• Diverse applications of PP |
| **Sustainable margins through specialisation** | Sustainable market leadership position achieved through low cost of production, technology and market position | |
| **Strong cash flow generation** | Safripol market share currently limited by raw material supply | Safripol production and market share currently limited by capacity |
| **Leveraging our African base** | Safripol sells limited volumes to other sub-Saharan markets | |

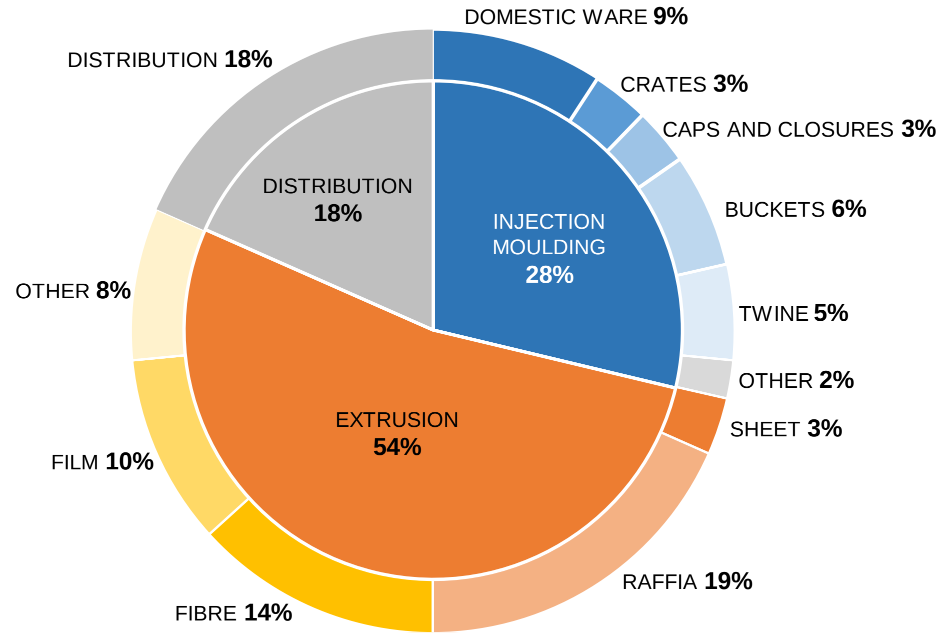
# SAFRIPOL OVERVIEW

## MARKET SEGMENTATION BY APPLICATION (2016)

### **HDPE (**High Density Polyethylene)




### **PP (**Polypropylene)



# SAFRIPOL OVERVIEW

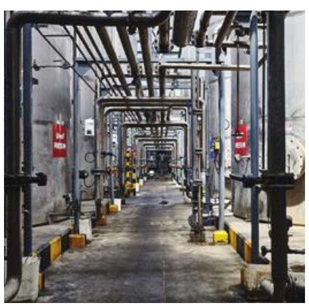
## TYPES OF PLASTIC

| No. | Plastic | Applications | Market share |
|---|---|---|---|
| 1 | **PET** Polyethylene terephthalate | Soft drink bottles, mineral water, fruit juice containers and cooking oil |  33% **Imports**; 67% **Hosaf** |
| 2 | **HDPE** High-density polyethylene | Milk jugs, cleaning agents, laundry detergents, bleaching agents, shampoo bottles, washing and shower soaps |  33% **Imports**; 67% **Safripol** |
| 3 | **PVC** Polyvinyl chloride | Pipes and fittings, profiles, rigid film, flooring, cables | sasol reaching new frontiers |
| 4 | **LDPE** Low-density polyethylene | Plastic bags, shrink wrap, milk carton coatings, general purpose containers | sasol reaching new frontiers |
| 5 | **PP** Polypropylene | Furniture, clothing, luggage, toys, bumpers, lining and external borders of cars |  10% **Imports**; 37% **Safripol**; 53% **Sasol** |
| 6 | **PS** Polystyrene | Toys, hard packing, refrigerator trays, cosmetic bags, costume jewellery, audio cassettes, CD cases, vending cups | **Imports** |

*Market share distribution source: Management internal data, DTI and SARS import statistics*

# THANK YOU



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