Kap

BEING THE CHANGE

UNAUDITED RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

INTRODUCTION	Patrick Quarmby
OPERATIONAL REVIEW	Gary Chaplin
FINANCIAL REVIEW	Frans Olivier
STRATEGY & OUTLOOK	Gary Chaplin
Q&A	Gary Chaplin/Frans Olivier

INTRODUCTION

PATRICK QUARMBY

INDEPENDENT NON-EXECUTIVE CHAIRPERSON

OPERATIONAL REVIEW

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

OPERATING ENVIRONMENT

Continued political instability and uncertainty

Subdued macroeconomic environment with generally softer consumer demand

Escalated electricity supply and other infrastructure disruptions

Commodity prices less volatile but remain elevated

Global supply chains settling at a new normal

US dollar/rand exchange rate weakness

- Varying impacts on consumers, customers and our operations
- Accelerating efforts to build resilience and create opportunity in the current environment

SALIENT FEATURES

Revenue up 12%
to R15 billion

EBITDA down 2%
to R2.2 billion

Operating profit down 8%
to R1.4 billion

Operating profit margin
down 210 bps to 9.3%

Headline earnings per share
down 17% to 31.0 cents

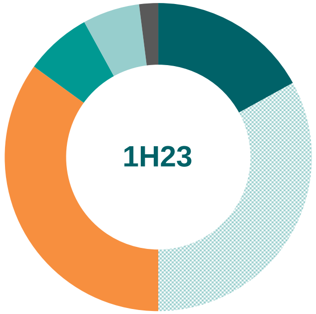
Cash generated from
operations down 96%
to R0.1 billion

* Revenue, EBITDA, operating profit before capital items, operating profit margin and headline earnings per share from continuing operations

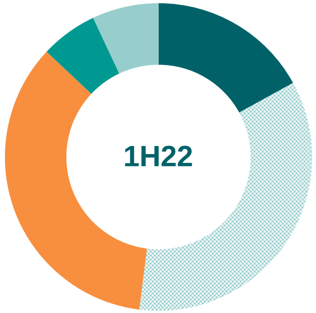
- KAP remained resilient, supported by its diversified business model
- Results impacted primarily by lower sales volumes and a major plant breakdown at Safripol, slower than expected recovery in Restonic and Unitrans Africa, and higher finance costs
- Cash generation lower due to an increase in working capital

SEGMENTAL ANALYSIS

Revenue

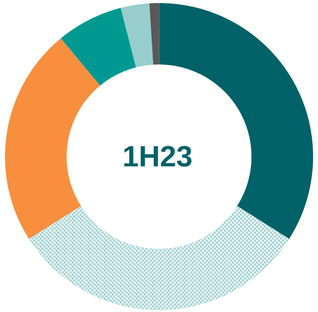


- PG Bison – **17%**
- Safripol – **33%**
- Unitrans – **35%**
- Feltex – **7%**
- Restonic – **6%**
- DriveRisk – **2%**

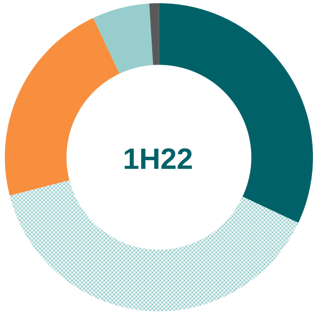


- PG Bison – **17%**
- Safripol – **35%**
- Unitrans – **35%**
- Feltex – **6%**
- Restonic – **7%**
- DriveRisk – **0%**

Operating profit



- PG Bison – **34%**
- Safripol – **32%**
- Unitrans – **23%**
- Feltex – **7%**
- Restonic – **3%**
- DriveRisk – **1%**



- PG Bison – **32%**
- Safripol – **39%**
- Unitrans – **22%**
- Feltex – **0%**
- Restonic – **6%**
- DriveRisk – **1%**

PG BISON

Robust customer demand supported by 14% increased capacity

- Demand was robust across most market segments, allowing raw board plants to operate at planned capacity
- Annual capacity 103 200 m^3 higher following Mkhondo particleboard expansion in March 2022
- 1H23 production volumes up 9% and sales volumes up 2%
- Value-add production affected by unscheduled maintenance on three of the division’s MFB presses and delayed commissioning of the seventh press due to semiconductor chip shortages; this restricted total sales volumes and temporarily increased inventory levels
- Value-added product ratio decreased to 62% (1H22: 66%)
- Average selling price increases and higher sales volumes adequately offset raw material and operational cost inflation
- Continued focus to develop export markets to supplement local sales to facilitate optimal production efficiencies

Revenue
R2 659 million
up 10%

Operating profit
R489 million
down 1%

Operating margin
18.4%
from 20.4%

SAFRIPOL

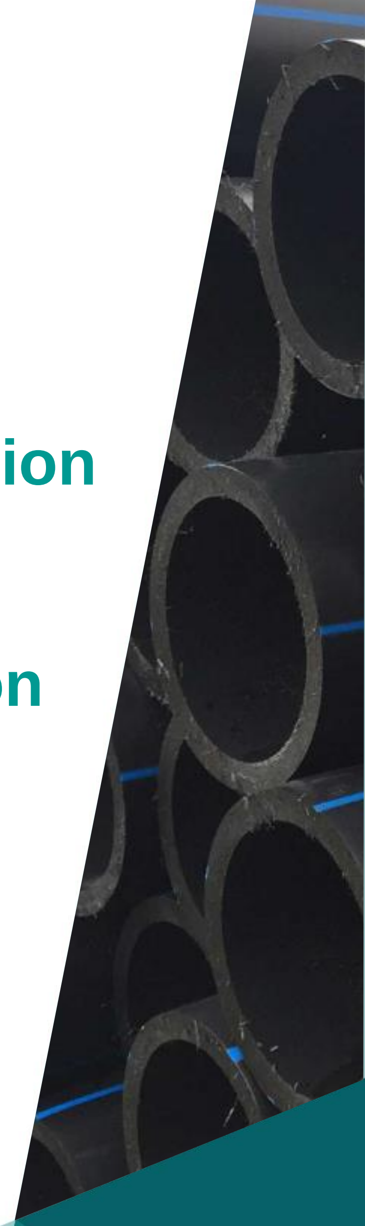
Softer performance impacted by lower sales volumes and a major plant breakdown

- Higher rand-based raw material margins increased operating profit by R80 million:
  - HDPE and PET margins higher, PP lower
- This was offset by:
  - Lower sales volumes due to subdued converter demand, which was a combination of lower consumer demand and reduced offtake due to stage 6 loadshedding
  - Major breakdown at the PET plant due to regular unscheduled stoppages caused by external events; 38 days of lost production, some lost sales
  - Total sales volumes reduced by 11% due to abovementioned factors, while production volumes reduced by 1%
- Lower margin exports to supplement local sales and manage inventory
- Significant working capital increase due to lower sales volumes, increased raw material prices and the impact of the plant breakdown
- For comparative purposes: R91 million operating profit recognised in 1H22 related to retrospective ethylene price adjustments applicable to FY21

Revenue
R5 156 million
up 7%

Operating profit
R450 million
down 26%

Operating margin
8.7%
from 12.7%



UNITRANS

Satisfactory performance in a challenging market

- **Unitrans South Africa**
  - Petrochemical, Mining and Food operations performed well, supported by ad hoc petroleum volumes, increased mining volumes and new poultry contracts respectively
  - General linehaul volumes remained subdued in line with industry; restructure of these operations is in progress
  - Lost Pick n Pay contract assets being internally deployed or sold
- **Unitrans Africa**
  - Agriculture operations challenged by high rainfall impacting costs
  - Fuel volumes lower due to South African ban on diesel exports; restructure of Road Freight operations completed
  - Mining performed well, supported by contract expansion
  - Rail to be discontinued and assets disposed
- **Unitrans Passenger**
  - Performance supported by renegotiation of certain loss-making legacy contracts, increased kilometres, cash ticket sales and special hires
- Net new contracts of R631 million in annualised revenue secured

Revenue
R5 428 million
up 12%

Operating profit
R334 million
down 3%

Operating margin
6.2%
from 7.1%

FELTEX

Improved performance supported by automotive sector recovery

- Good recovery in the automotive sector following disruptions in prior period
  - Vehicle assembly volumes increased by 41%
  - LCV and SUV sales increased by 12% and 48% respectively
- Despite improved volumes, OEM offtake remained variable, negatively impacting production efficiencies and cost management
- Technical challenges related to start-up of component production for the Mercedes C-class experienced in 1H22 now resolved
- Insurance income of R50 million related to interim settlement for prolonged business interruption from the April 2022 KwaZulu-Natal floods
- Price adjustments to account for raw material cost escalations partly successful, remains work in progress

Revenue
R1 088 million
up 32%

Operating profit
R97 million
up > 100%

Operating margin
8.9%
from 0.2%

RESTONIC

Market softness negatively impacted on profitability, restructuring of operations in progress

- Consumer demand weaker than expected for the period
  - Impact of higher interest rates and inflation, retail price point inelasticity
  - Significant retail trade disruption due to loadshedding
- Bedding unit sales volumes down 5%, current levels comparable to 1H19 pre-Covid levels
- Foam and textile volumes, key inputs to the bedding and furniture manufacturing industry, down 8% and 11% respectively
- Selling price increases could not offset higher raw material, operational, distribution and marketing costs, and negative operational leverage effects of lower sales and production volumes
- Restructuring of operations to focus on more profitable products and markets, improving efficiencies and reducing costs

Revenue
R925 million
up 1%

Operating profit
R41 million
down 57%

Operating margin
4.4%
from 10.4%

DRIVERISK

Performance challenged by rapid US dollar/rand weakening, fundamentals remain strong

- Acquired on 1 December 2021
- South African operations performed well operationally; however, operating profit below expectations due to rapid weakening of US dollar/rand exchange
- Australasian operations performed satisfactorily, supported by a major contract in the mining sector
- Two small bolt-on acquisitions concluded to accelerate the development and deployment of technology solutions
- Interest in product offering and sales pipeline strong
- Development of complementary revenue streams progressing well

Revenue
R288 million

Operating profit
R10 million

Operating margin
3.5%

FINANCIAL REVIEW

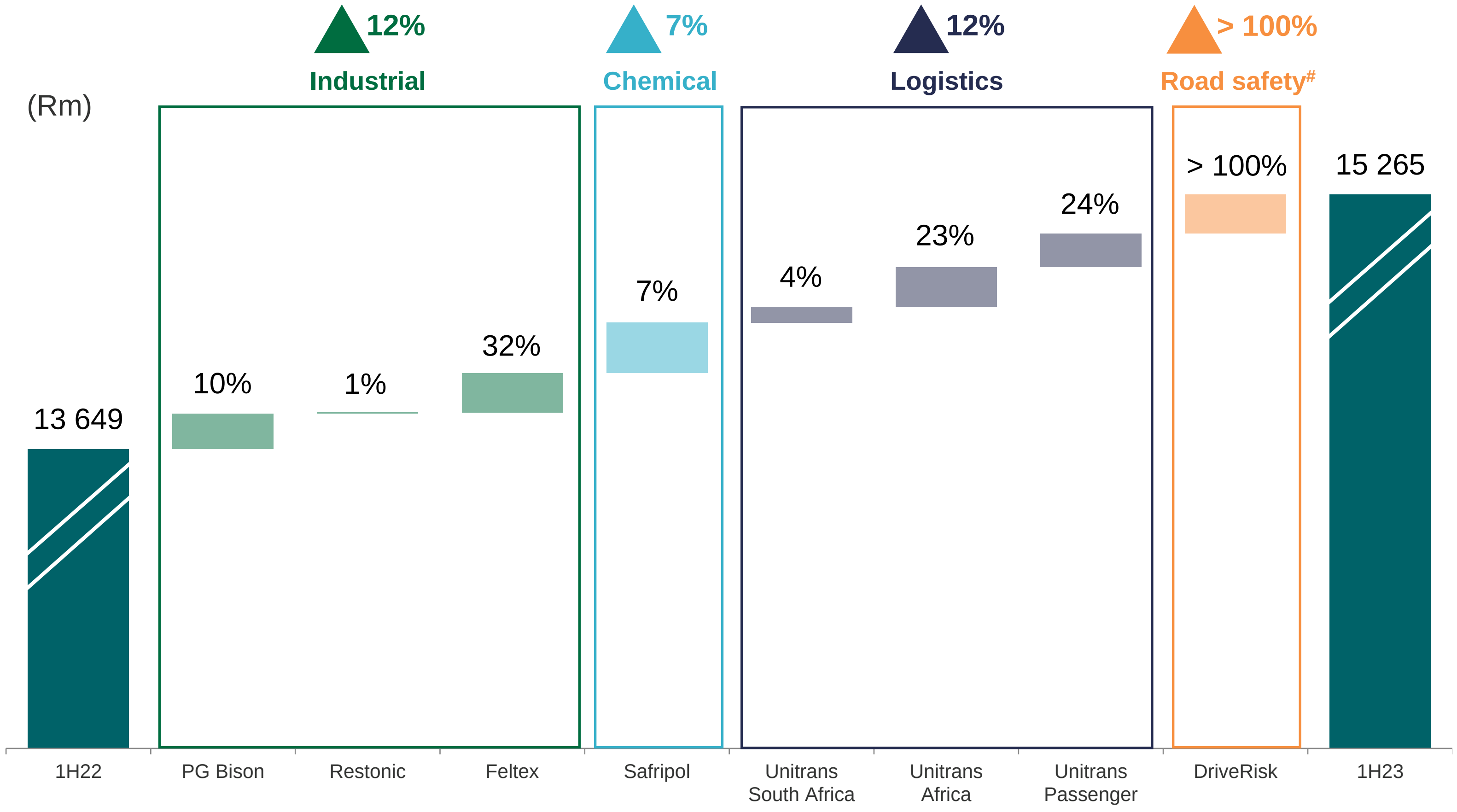
FRANS OLIVIER

CHIEF FINANCIAL OFFICER

FINANCIAL HIGHLIGHTS

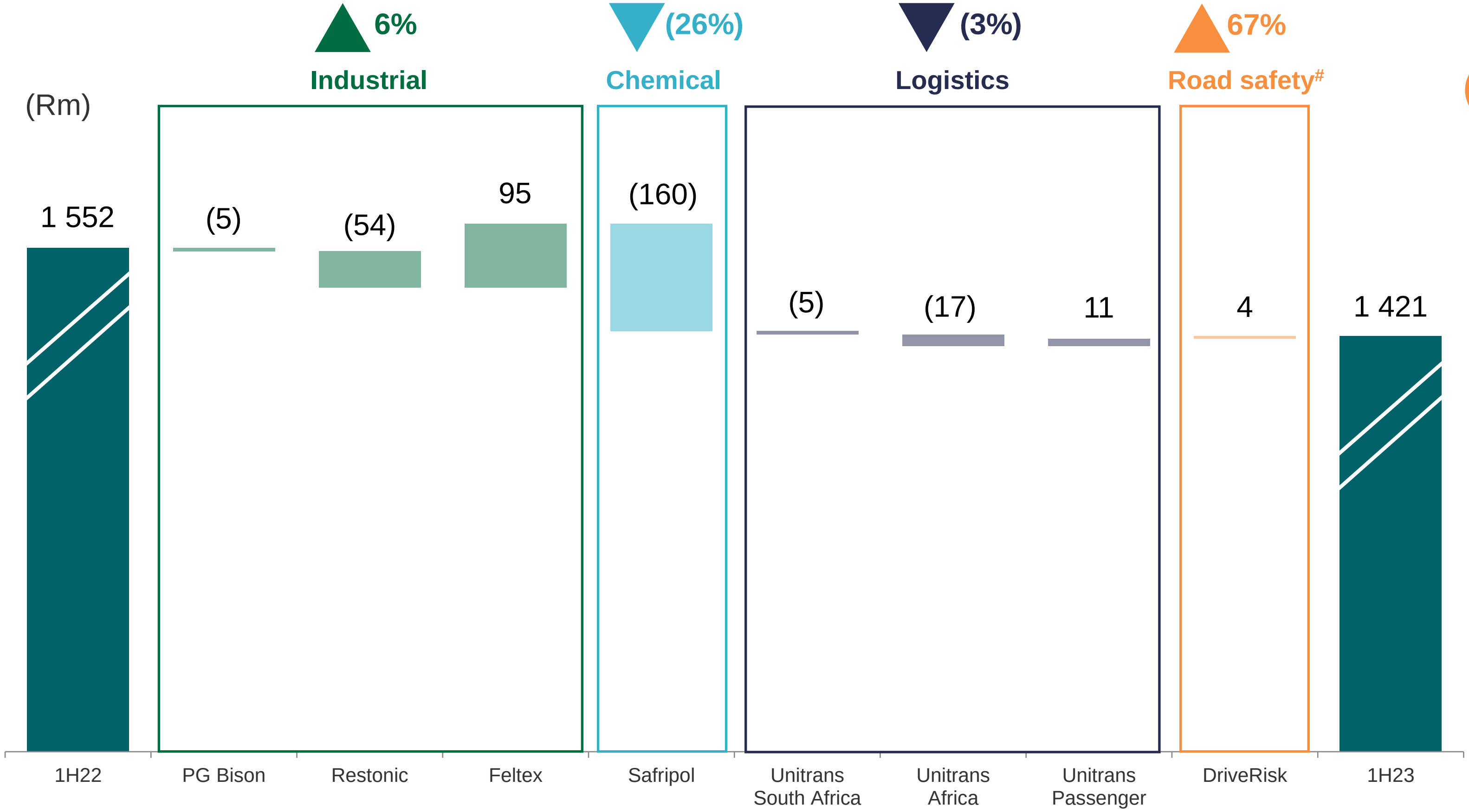
From continuing operations	1H23	1H22		Variance
Revenue (Rm)	**15 265**	13 649	▲	12%
EBITDA (Rm)	**2 181**	2 223	▼	2%
Operating profit before capital items (Rm)	**1 421**	1 552	▼	8%
Operating profit margin	**9.3%**	11.4%	▼	210 bps
Headline earnings per share (cents)	**31.0**	37.2	▼	17%
EBITDA: interest cover (times)	**6.5**	8.3	▼	22%
Net debt: EBITDA (times)	**2.3**	2.0	▲	15%

GROUP REVENUE ANALYSIS*



* From continuing operations
\# DriveRisk was acquired on 1 December 2021

GROUP OPERATING PROFIT ANALYSIS*



Insurance income related to the April 2022 KwaZulu-Natal floods for business interruption:

– Feltex R50 million
– Safripol R35 million
– Unitrans R17 million

Safripol ethylene price adjustment of R91 million in prior period

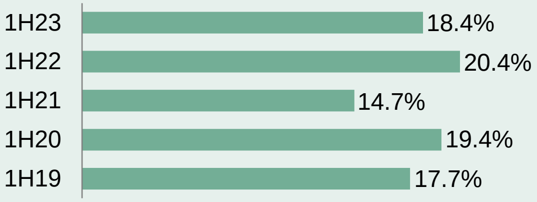
Unitrans termination penalty of R18 million (2H22: R107 million)

* From continuing operations
\# DriveRisk was acquired on 1 December 2021

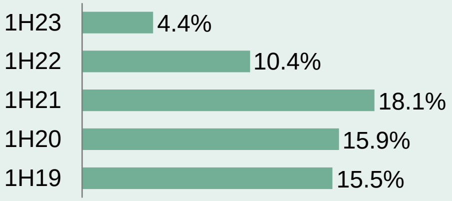
GROUP MARGIN ANALYSIS*

KAP operating profit margin decreased 210 bps to 9.3%

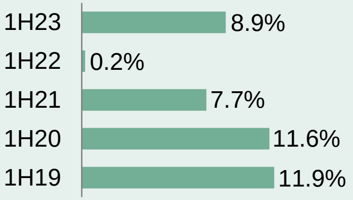
PG Bison



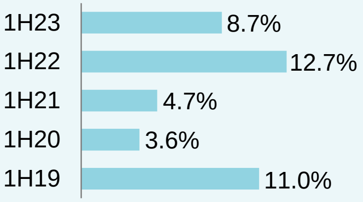
Restonic



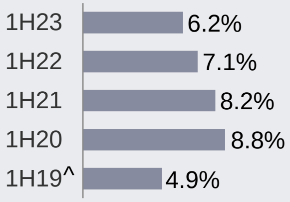
Feltex



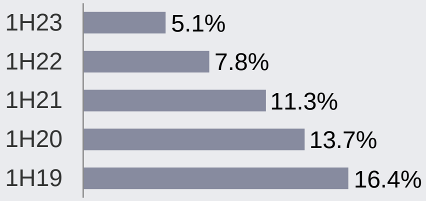
Safripol



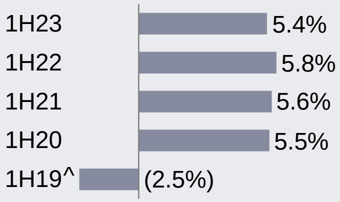
Unitrans



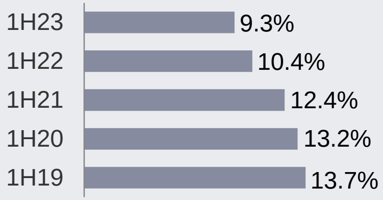
Unitrans Africa



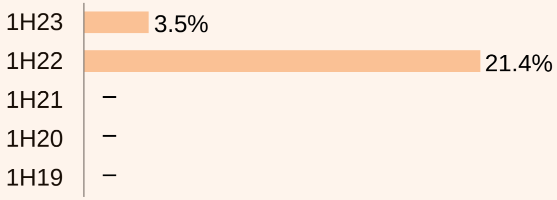
Unitrans South Africa



Unitrans Passenger



DriveRisk#



* From continuing operations
^ Including cost of R194 million relating to the Unitrans B-BBEE transaction
# DriveRisk was acquired on 1 December 2021

FINANCIAL ANALYSIS

Income statement

From continuing operations	1H23 Rm	1H22 Rm	Variance
Revenue	**15 265**	13 649	12%
EBITDA	**2 181**	2 223	(2%)
Depreciation and amortisation	**(760)**	(671)	13%
Capital items	**4**	12	
Operating profit	**1 425**	1 564	(9%)
Net finance costs	**(358)**	(233)	54%
Associate companies and joint ventures	**34**	6	
Taxation	**(294)**	(383)	
Minorities	**(38)**	(14)	
Earnings attributable to owners of the parent	**769**	940	(18%)
Add back capital items net of taxation	**(3)**	(9)	
Headline earnings	**766**	931	(18%)
Weighted average number of ordinary shares (m)	**2 472**	2 502	(1%)
Headline earnings per share (cents)	**31.0**	37.2	(17%)

Challenging macroeconomic environment

Safripol Durban PET plant 38 days lost production

Increased depreciation due to investments

Increased net finance costs related to interest rate increases and increased net debt

Effect of shares repurchased in prior period

FINANCIAL ANALYSIS

Balance sheet

	31 Dec 22 Rm	30 Jun 22 Rm	31 Dec 21 Rm
Property, plant and equipment	**14 483**	14 130	13 582
Right-of-use assets	**423**	426	344
Intangible assets	**2 381**	2 363	2 544
Goodwill	**704**	683	641
Biological assets	**1 502**	1 491	1 501
Net working capital	**4 681**	2 462	3 059
Other assets	**404**	372	221
Assets	**24 578**	21 927	21 892
Total equity	**11 875**	11 750	10 926
Net interest-bearing liabilities	**9 920**	7 459	7 908
Other liabilities	**2 783**	2 718	3 058
Equity and liabilities	**24 578**	21 927	21 892
Net asset value per share (cents)	**469**	466	433

Balance sheet remains strong

Significant investment in operating assets and businesses

Capital work in progress of R1.2 billion (31 Dec 21: R1.1 billion)

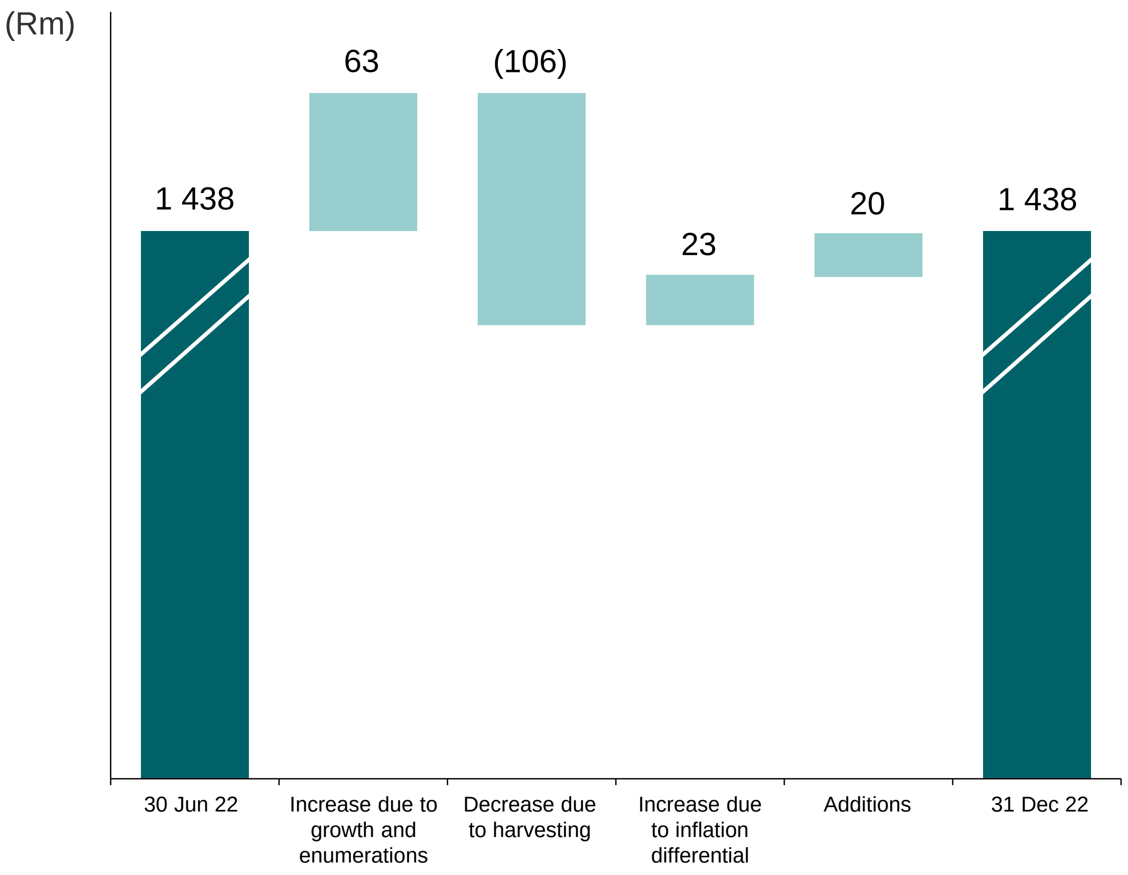
Increase in net working capital

Increase in net debt

Net asset value increase 8%

FINANCIAL ANALYSIS

Plantation revaluation



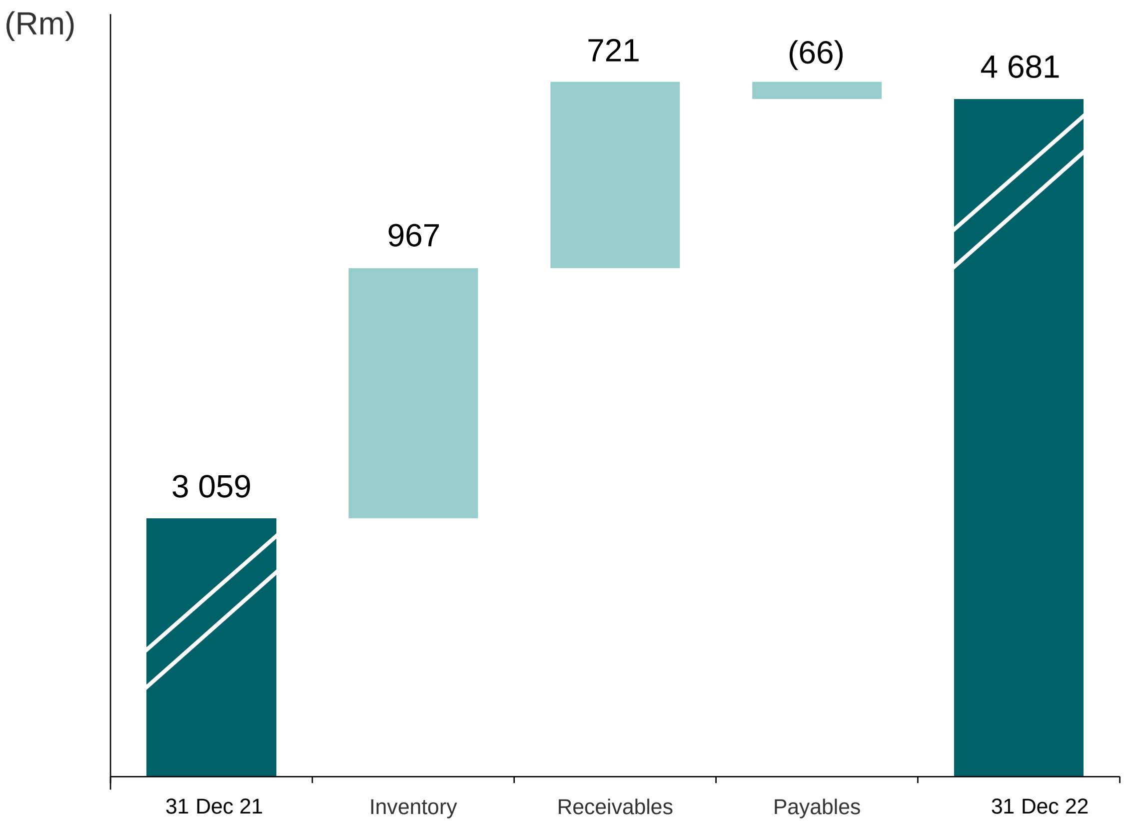
Additions to northeastern Cape plantations of R20 million (639 ha)

Conversion from sawlogs to pulpwood for internal use

Harvesting in southern Cape plantations greater than growth

FINANCIAL ANALYSIS

Working capital breakdown



Net working capital increased mainly due to Safripol (R818 million) and PG Bison (R227 million)

Inventory impacted by lower sales and raw material and cost escalations

Receivables impacted primarily by higher selling prices

Strategic inventory to mitigate global supply chain disruptions

High inventory levels to normalise by year-end and align with demand

Focus on optimising net working capital

FINANCIAL ANALYSIS

Cash flow

	1H23 Rm	1H22 Rm
EBITDA	**2 181**	2 223
Net revaluation of biological assets	**10**	66
Discontinued operations	**–**	10
Other non-cash adjustments	**63**	58
Cash generated from trading	**2 254**	2 357
Working capital changes	**(2 203)**	(1 053)
Inventory	**(433)**	(250)
Receivables	**(566)**	(458)
Payables	**(1 204)**	(345)
Cash generated from operations	**51**	1 304
Net finance costs	**(348)**	(246)
Taxation	**(278)**	(289)
Cash flow from operating activities	**(575)**	769
Cash conversion ratio*	**2%**	58%

* Conversion of EBITDA (from continuing and discontinued operations) to cash generated from operations

EBITDA decreased by 2%

Continued efforts to normalise working capital throughout the year

Cash generated from operations decreased to R51 million

Increased finance costs

Cash conversion expected to normalise by year-end

Cash conversion target of 90%

FINANCIAL ANALYSIS

Cash flow (continued)

	1H23 Rm	1H22 Rm
Cash flow from operating activities	**(575)**	769
Investing activities	**(1 050)**	(1 344)
Expansion capex*	**(524)**	(364)
Replacement capex^	**(408)**	(588)
Acquisition of subsidiaries and businesses	**(67)**	(387)
Other investing activities	**(51)**	(5)
Free cash flow before dividends	**(1 625)**	(575)
Dividends paid	**(741)**	(391)
Shares repurchased	**–**	(310)
Other financing activities	**855**	1 164
Movement in cash and cash equivalents	**(1 511)**	(112)

* Net of government grants received
^ Net of proceeds on disposal, insurance proceeds and government grants received

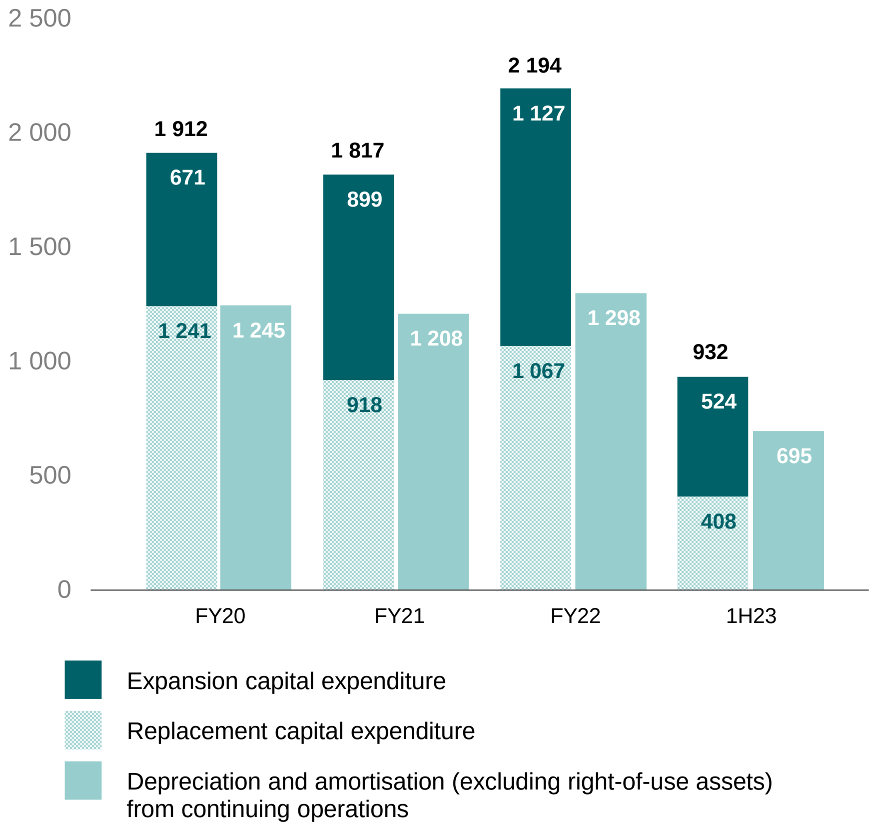
Continued investment in capital projects

Ordinary dividend of 29 cents per share paid

FINANCIAL ANALYSIS

Investment to drive growth and efficiency benefits

Capital expenditure (Rm)



Material and strategic items

PG Bison

MDF expansion of R1 875 million

FY22: R152 million

1H23: R136 million

2H23: R410 million*

FY23: R546 million*

FY24: R1 046 million*

FY25: R131 million*

To be completed by July 2024

Boksburg value-add expansion (MFB & gloss) of R225 million

Pre-FY22: R31 million

FY22: R115 million

1H23: R34 million

2H23: R45 million*

FY23: R79 million*

MFB to be completed by March 2023 and gloss completed by October 2022

Safripol

HDPE conversion (replacement) of R210 million

FY22: R49 million

1H23: R60 million

2H23: R59 million*

FY23: R119 million*

FY24: R42 million*

To be completed by March 2024

Photovoltaic (10MW PV) project of R165 million

FY22: R112 million

1H23: R31 million

2H23: R22 million*

FY23: R53 million*

To be completed by August 2023

Unitrans

Replacement of R223 million

Expansion of R145 million

Total R368 million

* Estimated

TREASURY ACTIVITY

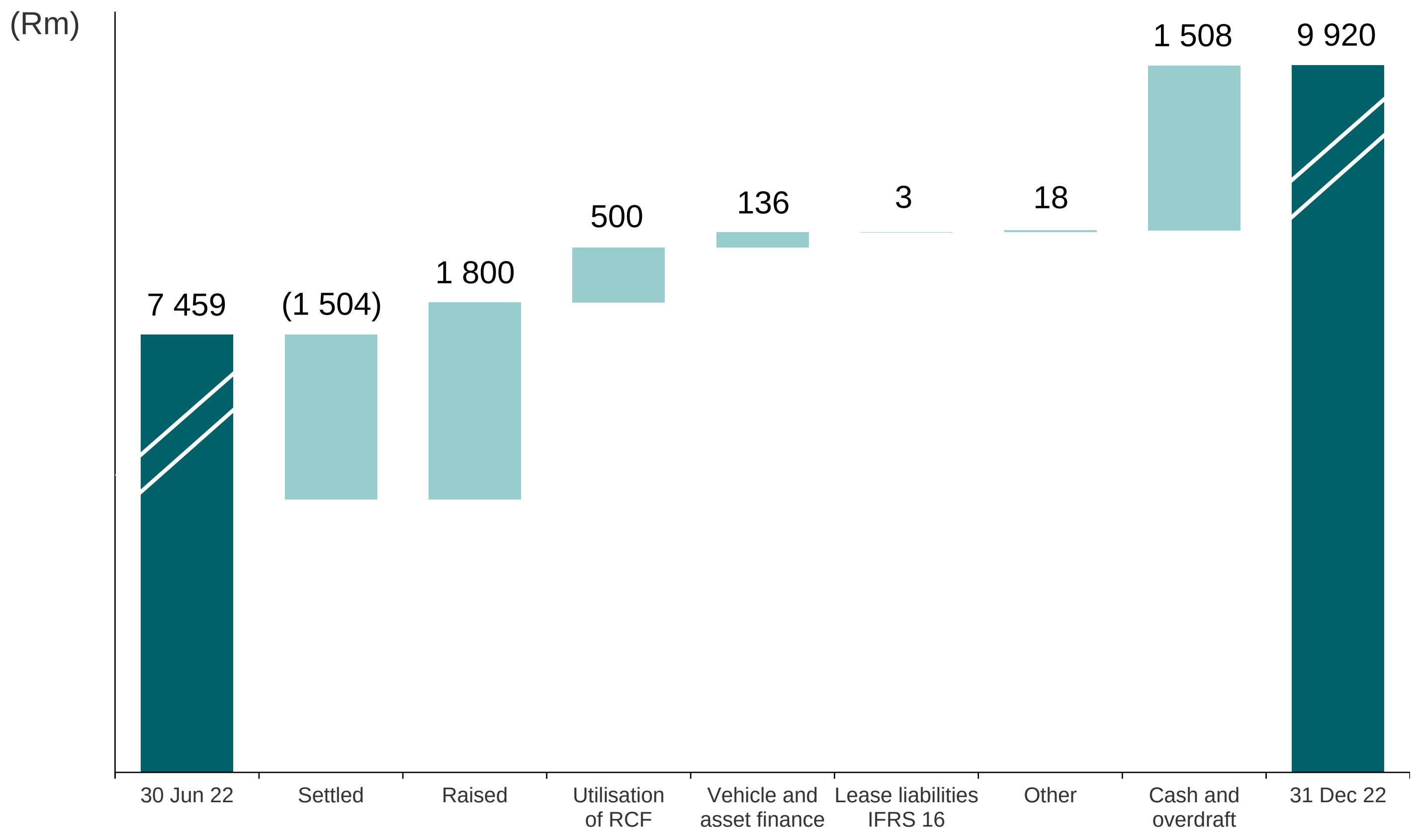
Share buy-backs

Number of shares (million)	Six months ended 31 Dec 2022	Year ended 30 Jun 2022
Ordinary shares in issue at beginning of the period	**2 472**	2 531
Shares issued in terms of share rights scheme	**5**	6
Shares repurchased and cancelled	**–**	(65)
Ordinary shares in issue	**2 477**	2 472
Weighted average ordinary shares (WANOS) in issue	**2 472**	2 487

WANOS reduced by 1%

TREASURY ACTIVITY

Movement in net interest-bearing debt



Investing activities of R1 050 million

Investment of R2 203 million in working capital

Dividends of R741 million paid

TREASURY ACTIVITY

Significant debt funding activities for the period

The following significant funding activities were concluded during the period:

Corporate bonds issued during the period with three-year tenures:

- KAP026 – Listed: R340 million
- KAP028 – Listed: R600 million

Corporate bonds issued during the period with five-year tenures:

- KAP027 – Listed: R660 million
- KAP029 – Listed: R200 million

Corporate bonds settled at maturity:

- KAP011 – Listed: R448 million
- KAP012 – Listed: R1 056 million

Large maturities intentionally replaced by smaller, more frequent issuances

Bonds issued:
R1 800 million

Bonds settled:
R1 504 million

Global Credit Rating confirmed KAP's rating as A+(za) with a stable outlook (November 2022)

TREASURY ACTIVITY

Debt serviceability ratios reflective of resilient business model

	31 Dec 22	30 Jun 22	31 Dec 21
Gross interest-bearing debt (Rm)	**11 005**	9 189	8 655
Net interest-bearing debt (Rm)	**9 920**	7 459	7 908
Equity excluding non-controlling interest (Rm)	**11 629**	11 531	10 701
Gearing (net debt:equity)	**85%**	65%	74%
Net debt: EBITDA (times)	**2.3**	1.7	2.0
EBITDA: interest cover (times)	**6.5**	8.2	8.3

Net debt: EBITDA target < 2.5 times

Funding structure

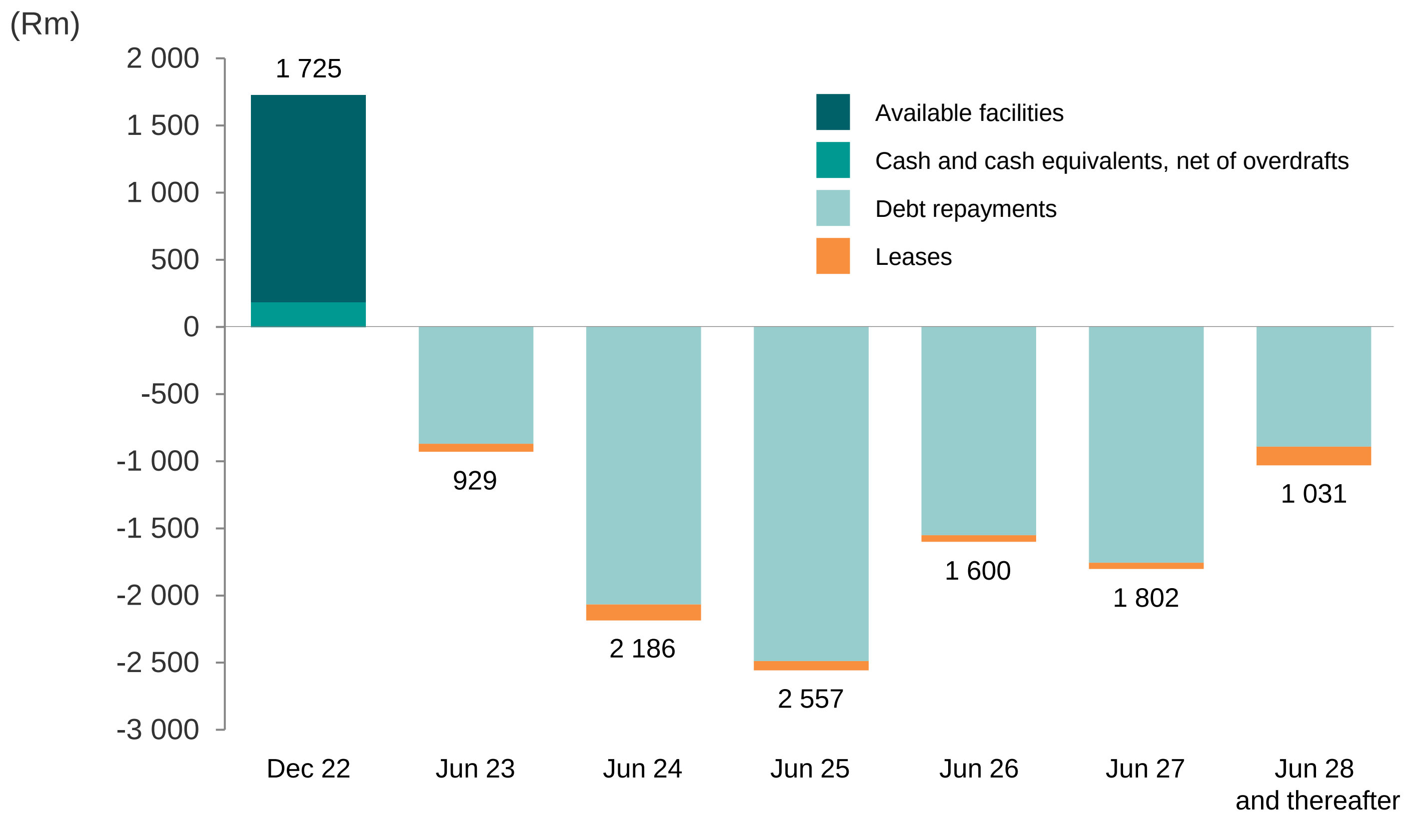
- Listed notes – **63%**
- Banks and financial institutions – **29%**
- Leases – **5%**
- Unutilised facilities – **3%**

Fixed vs floating interest rate funding

- Floating interest rate funding – **95%**
- Fixed interest rate funding – **5%**

TREASURY ACTIVITY

Net interest-bearing debt maturity as at 31 December 2022



Maturity to June 2023 includes R500 million utilisation of revolving credit facility

STRATEGY & OUTLOOK

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

GROUP OUTLOOK FOR 2H23

PG Bison
Demand to remain robust, sales volumes and margin to be supported by increased availability of value-add production facilities, development of export markets to supplement local demand

Safripol
Stable operational performance with development of export markets to supplement local demand, industry forecasts for raw material margins appear stable but near-term PET margins to be affected by higher cost raw materials in inventory, ordered prior to the plant shutdown

Unitrans
Challenging market conditions to persist, consolidation of divisions into a single Unitrans business with dedicated sector focus to be concluded in 2H23, asset rationalisation to be significantly progressed

Feltex
Performance to benefit from a continued recovery in the automotive sector and ramp up of new Ford Ranger model

Restonic
Challenging market conditions to persist, major restructuring in progress to realign operations to more profitable products and market segments, improved process efficiencies, and reduced operating costs

DriveRisk
Focus on price adjustments to offset exchange rate impacts and conversion of sales pipeline into revenue-generating units expected to improve performance

- Significant improvement in working capital and reduction in net debt expected during 2H23
- Efforts to build group resilience and create opportunity in the current environment to be accelerated; scaling up renewable energy capacity
- Increased focus on capital allocation to align with investment criteria and improve returns
- Eskom stability and infrastructure sustainability remain concerning

Q&A

THANK YOU