METAIR
INVESTMENTS LIMITED
automotive | industrial | retail

METAIR INVESTMENTS LIMITED

(INCORPORATED IN THE REPUBLIC OF SOUTH AFRICA)

("METAIR" OR "THE GROUP")

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

METAIR
INVESTMENTS LIMITED
automotive | industrial | retail

(Reg No. 1948/031013/06)
Share code: MTA
ISIN code: ZAE 000090692

REVENUE 32%

OPERATING PROFIT 16%

HEPS (cents) (16%)

NET ASSET VALUE PER SHARE (cents) 37%

EBITDA R485 million

CASH GENERATED FROM OPERATIONS R335 million

	Six months ended				Year ended
	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	Change %		31 December 2013 R'000 Audited
Revenue	**3 235 218**	2 459 831	32%	↑	5 227 426
Operating profit	**318 737**	274 169	16%	↑	445 614
EBITDA	**484 599**	375 087	29%	↑	650 799
HEPS (cents)	**120**	143	(16%)	↓	219
No. of shares issued ('000)	**198 986**	152 532	30%	↑	198 986
Net asset value per share (cents)	**1 984**	1 450	37%	↑	1 895
Cash generated from operations	**334 850**	226 791	48%	↑	665 908

CONDENSED CONSOLIDATED INCOME STATEMENT

	Six months ended		Year ended
	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited
Revenue	**3 235 218**	2 459 831	5 227 426
Cost of sales	**(2 513 659)**	(1 940 270)	(4 177 984)
Gross profit	**721 559**	519 561	1 049 442
Other operating income	**68 181**	24 361	98 087
Distribution, administrative and other operating expenses	**(471 003)**	(269 753)	(701 915)
Operating profit	**318 737**	274 169	445 614
Interest income	**7 801**	7 356	15 421
Interest expense	**(49 408)**	(12 586)	(27 888)
Share of results of associates	**32 343**	38 109	61 924
Profit before taxation	**309 473**	307 048	495 071
Taxation	**(58 537)**	(77 946)	(121 172)
Profit for the period	**250 936**	229 102	373 899
Attributable to:			
Equity holders of the company	**234 809**	209 457	341 376
Non-controlling interests	**16 127**	19 645	32 523
	250 936	229 102	373 899
Depreciation and amortisation included in the above expenses	**(133 519)**	(62 809)	(143 261)
Operating lease rentals included in the above expenses	**(11 566)**	(10 944)	(32 151)
Earnings per share			
Basic earnings per share (cents)	**120**	143	229
Headline earnings per share (cents)	**120**	143	219
Diluted earnings per share			
Diluted earnings per share (cents)	**119**	140	223
Diluted headline earnings per share (cents)	**119**	140	214
Number of shares in issue ('000)	**198 986**	152 532	198 986
Number of shares in issue excluding treasury shares ('000)	**195 488**	146 667	194 566
Weighted average number of shares in issue ('000)	**195 099**	146 112	149 271
Adjustment for dilutive shares ('000)	**2 246**	3 444	3 585
Number of shares used for diluted earnings calculation ('000)	**197 345**	149 556	152 856
Calculation of headline earnings per share (R'000)			
Net profit attributable to ordinary shareholders	**234 809**	209 457	341 376
Profit on insurance recovery and impairment charges			(15 342)
Taxation effect of insurance recovery and impairment charges			1 243
Loss/(profit) on disposal of property, plant and equipment – net	**66**	(2)	(34)
Headline earnings	**234 875**	209 455	327 243

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended		Year ended
	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited
Profit for the period	**250 936**	229 102	373 899
Other comprehensive income:			
– Actuarial gains recognised			395
– Exchange gains arising on translation of foreign operations	**84 139**	73 813	51 881
– Cash flow hedges			110 377
– Taxation on other comprehensive income			(157)
Net other comprehensive income	**84 139**	73 813	162 496
Other comprehensive income for the period net of taxation	**335 075**	302 915	536 395
Attributable to:			
Equity holders of the company	**318 881**	283 085	503 872
Non-controlling interests	**16 194**	19 830	32 523
	335 075	302 915	536 395

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended		Year ended
	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited
Balance at beginning of the period	**3 788 752**	2 052 730	2 052 730
Net profit for the period	**250 936**	229 102	373 899
Other comprehensive income for the period	**84 139**	73 813	162 496
Total comprehensive income for the period	**335 075**	302 915	536 395
Proceeds from shares issued			1 500 000
Share issue costs			(44 945)
Employee share plan:			
– Value of service provided	**6 670**	4 901	9 747
– Deferred taxation	**5 691**	16 511	15 767
Vesting of share-based payment obligation:			
– Estimated taxation effects of utilisation of treasury shares	**(4 785)**	(6 482)	(15 123)
– Loss on settlement of old scheme	**(1 263)**	(586)	(586)
Transfer of cashflow hedge to purchase consideration of subsidiary			(110 377)
Shares disposed by the Metair Share Trust	**2 583**	1 094	1 095
Dividend *	**(169 004)**	(155 951)	(155 951)
Balance at end of the period	**3 963 719**	2 215 132	3 788 752

* An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2013.
An ordinary dividend of 95 cents per share was declared in respect of the year ended 31 December 2012.

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	**2 886 438**	1 234 127	2 844 929
Intangible assets	**1 262 850**	84 452	1 243 531
Investment in associates	**215 157**	189 353	199 786
Deferred taxation	**37 840**	12 086	10 838
	4 402 285	1 520 018	4 299 084
Current assets			
Inventory	**1 384 863**	846 094	1 264 241
Trade and other receivables	**1 149 150**	718 058	1 274 387
Derivative financial assets	**1 502**	12 039	15 870
Taxation	**16 712**		21 002
Cash and cash equivalents	**537 099**	433 092	574 742
	3 089 326	2 009 283	3 150 242
Total assets	**7 491 611**	3 529 301	7 449 326
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	**1 497 931**	42 876	1 497 931
Treasury shares	**(35 468)**	(60 473)	(45 241)
Share-based payment reserve	**69 313**	54 113	58 215
Foreign currency translation reserve	**171 881**	110 106	87 809
Equity accounted earnings	**206 107**	185 307	190 742
Retained earnings	**1 968 555**	1 795 017	1 897 909
Ordinary shareholders' equity	**3 878 319**	2 126 946	3 687 365
Non-controlling interests	**85 400**	88 186	101 387
Total equity	**3 963 719**	2 215 132	3 788 752
Non-current liabilities			
Borrowings	**213 616**	163 959	1 021 976
Post-employment benefits	**104 437**	29 159	107 685
Deferred taxation	**382 709**	61 805	378 954
Deferred grant income	**135 534**		125 313
Provisions for liabilities and charges	**33 126**		21 080
	869 422	254 923	1 655 008
Current liabilities			
Trade and other payables	**753 205**	653 160	1 472 949
Borrowings	**1 489 890**	56 298	180 796
Taxation	**18 616**	7 342	41 682
Provisions for liabilities and charges	**123 650**	75 718	141 406
Derivative financial liabilities	**1 612**		1 492
Bank overdrafts	**271 497**	266 728	167 241
	2 658 470	1 059 246	2 005 566
Total liabilities	**3 527 892**	1 314 169	3 660 574
Total equity and liabilities	**7 491 611**	3 529 301	7 449 326
Net asset value per share (cents) attributable to ordinary shareholders calculated on number of shares in issue excluding treasury shares	**1 984**	1 450	1 895
Capital expenditure	**121 272**	54 329	135 027
Capital commitments:			
– contracted	**110 895**	96 516	68 605
– authorised but not contracted	**106 302**	88 366	287 923

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended		Year ended
	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited
Operating activities			
Profit before taxation	**309 473**	307 048	495 071
Non-cash items	**168 899**	18 751	211 434
Working capital changes	**(143 522)**	(99 008)	(40 597)
Cash generated from operations	**334 850**	226 791	665 908
Interest paid	**(49 408)**	(12 586)	(27 888)
Taxation paid	**(97 734)**	(67 824)	(88 814)
Dividends paid	**(169 004)**	(155 951)	(155 951)
Dividend income from associates	**16 976**	24 698	43 077
Net cash inflow from operating activities	**35 680**	15 128	436 332
Investing activities			
Interest received	**7 801**	7 356	15 421
Net cash utilised in other investing activities	**(679 812)**	(49 484)	(2 318 046)
Net cash outflow from investing activities	**(672 011)**	(42 128)	(2 302 625)
Net cash inflow/(outflow) from financing activities	**493 373**	(36 778)	2 099 626
Net (decrease)/increase in cash and cash equivalents	**(142 958)**	(63 778)	233 333
Cash and cash equivalents at beginning of the period	**407 501**	216 428	216 428
Exchange gains/(loss) on cash and cash equivalents	**1 059**	13 714	(42 260)
Cash and cash equivalents at end of the period	**265 602**	166 364	407 501

CONDENSED SEGMENTAL REVIEW

	Revenue			Profit before interest and taxation		
	Six months ended		Year ended	Six months ended		Year ended
	30 June 2014 R'000 Unaudited	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited	**30 June 2014 R'000 Unaudited**	30 June 2013 R'000 Unaudited	31 December 2013 R'000 Audited
Local						
Original equipment	**1 737 503**	1 691 514	3 143 576	**117 999**	156 257	221 968
Aftermarket	**986 332**	595 812	1 440 130	**110 111**	92 221	224 263
Non-auto	**308 153**	233 451	486 399	**41 072**	12 925	18 162
	3 031 988	2 520 777	5 070 105	**269 182**	261 403	464 393
Direct exports						
Original equipment	**54 587**	54 210	105 307	**7 715**	6 888	(3 638)
Aftermarket	**543 745**	283 135	772 275	**41 133**	24 750	60 901
Non-auto	**28 380**	18 363	44 810	**6 139**	937	1 494
	626 712	355 708	922 392	**54 987**	32 575	58 757
Property rental	**47 790**	34 503	90 671	**43 172**	34 013	90 026
Reconciling items: *						
– Share of results of associates				**32 343**	38 109	61 924
– Managed associates	**(423 482)**	(416 654)	(765 071)	**(42 520)**	(46 410)	(62 486)
Other reconciling items **	**(47 790)**	(34 503)	(90 671)	**(6 084)**	(7 412)	(105 076)
Total	**3 235 218**	2 459 831	5 227 426	**351 080**	312 278	507 538
Net interest expense				**(41 607)**	(5 230)	(12 467)
Profit before taxation				**309 473**	307 048	495 071

* Although the results of Hesto Harnesses Proprietary Limited does not qualify for consolidation due to the application of IFRS 10 and IAS 28, the results of Hesto Harnesses Proprietary Limited have been included in the segmental review as Metair has a 74,9% equity interest and is responsible for the operational management of this associate.

** The reconciling items relate to Metair head office companies and property rental.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Accounting policies

These condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the JSE Limited Listings Requirements and the requirements of the Companies Act, 71 of 2008. The accounting policies applied in the preparation of the condensed consolidated interim financial statements are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements.

This interim report has not been reviewed or audited by the Group's auditors.

Contingencies

At 30 June 2014, bank and other guarantees given by the group to third parties amounted to R3.7 million (2013: R3.7 million). The company provided guarantees for funding provided by Absa Bank Limited to Metindustrial and Inalex and no material liabilities are likely to arise and the financial guarantee cost is insignificant.

Borrowings

During the period the group repaid long-term loans of R0.3 million (2013: R23.7 million), raised long-term loans of R13.8 million (2013: R0.6 million), raised short-term loans of R576.9 million (2013: Nil) and repaid short-term loans of R93.6 million (2013: R7.7 million).

Change of directors

With effect from 25 March 2014 Mr Sjoerd Douwenga was appointed as finance director, in place of Mr Brian Jacobs.
With effect from 1 January 2014 Mr Brand Pretorius was appointed to the board as an independent non-executive director and Mr David Wilson as non-executive director.

The interim results presentation will be available on Metair's website (www.metair.co.za) and an investor and analyst audio webcast of the presentation will be broadcast on Monday, 18 August 2014 at 09:30. The audio webcast can be accessed through http://www.corpcam.com/Metair18082014. Alternatively a telephone conference call facility will be available at 09:30 on Monday, 18 August 2014 in SA on 011 535 3600 / 010 201 6800 or internationally on +27 11 535 3600 / +27 10 201 6800.

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SPONSOR
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INVESTOR RELATIONS
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Signed on behalf of the board in Johannesburg on 15 August 2014

O M E Pooe – Chairman

C T Loock – Managing Director

The interim report was produced under the supervision of Mr S Douwenga (Finance Director) B Comm (Hons), CA (SA).

EXECUTIVE DIRECTORS: CT Loock (Managing); S Douwenga (Finance)
NON-EXECUTIVE DIRECTORS: OME Pooe (Chairman); A Joffe; DR Wilson
INDEPENDENT NON-EXECUTIVE DIRECTORS: RS Broadley; L Soanes*; A Galiel; JG Best; SG Pretorius
COMPANY SECRETARY: SM Vermaak
*British

INTERIM RESULTS COMMENTARY

Metair is pleased to report interim results for the six months ended 30 June 2014 to the market.

Profit after tax attributable to equity holders of the company increased to R234.8 million compared to R209.5 million in the previous period. Although Mutlu Akü's performance was excellent, the contribution from the Original Equipment Manufacturer (OEM) businesses was disappointing. Continued labour disruptions destabilised the manufacturing environment.

This is the first time that the results of Metair's latest acquisition, Mutlu Akü in Turkey, are included for a full reporting period.

The result is further distorted in that Mutlu Akü has traditionally earned the majority of its earnings in the second half of the year. As a consequence, notwithstanding Mutlu group's (Mutlu) outstanding first half performance, the dilutionary effect of the additional 46.4 million shares issued to acquire Mutlu and the acquisition debt of R1.35 billion has resulted in HEPS for the period of 120 cents per share compared to 143 cents in the comparable period.

Mutlu Akü acquisition

Mutlu Akü produced excellent results for the period. Profit before interest and tax increased from R15 million to R90 million. This was achieved as a consequence of, inter alia, reduced hard currency debt levels, excellent cost management and group synergies. The integration of Mutlu Akü is progressing according to the plans and objectives set by Metair.

The acquisition cost of R2.9 billion was funded by a combination of internal cash resources, equity of R1.5 billion and a bridge finance facility of R1.35 billion at JIBAR plus 150 basis points. R40.2 million of interest was incurred on the bridge funding for the six months to 30 June 2014. In addition, R17.9 million of additional depreciation and amortisation relating to the Mutlu Akü fair value allocation was expensed at a Metair level.

During the reporting period the group increased its shareholding in Mutlu Akü from 75% to 96,7% and in July Metair initiated the minority squeeze-out process available under the Turkish Capital Market Board's Regulations. Our intention is to increase our shareholding to 100% and delist Mutlu Akü.

Labour disruptions

The effect of continued labour disruptions in South Africa resulted in the destabilisation of the manufacturing environment with resultant pressure on manufacturing excellence and efficiency.

The group was fortunate that local vehicle production was not directly negatively affected by any labour action, nor did we experience any major production allocation shifts as a result of current and previous labour disruptions.

The competitiveness challenge in the OEM sector can only be met under a stable production environment and is paramount in achieving overall efficiency targets.

Bridge finance facility refinancing and revolving credit facility

On 13 August 2014 we announced that Metair refinanced the bridge finance facility with R1.4 billion of five-year preference shares at a dividend rate of 69% of the South African prime rate. Metair also raised a five-year R750 million group revolving credit facility at JIBAR plus 205 basis points which can be utilised for working capital and capital expenditure requirements.

Financial commentary

Group revenue increased to R3 235 million (2013: R2 460 million), operating profit increased to R318.7 million (2013: R274.2 million) and profit after tax increased to R250.9 million (2013: R229.1 million). The improvement in operating performance was mainly due to the inclusion of the full half-year contribution from Mutlu.

Although operating profit and profit before tax was negatively impacted by the additional interest and depreciation associated with the Mutlu acquisition, we are very pleased with the group's earnings before interest, tax, depreciation and amortisation (EBITDA) generation, which improved to R485 million (2013: R375 million).

The group also continues to benefit from operating in lower tax rate jurisdictions. In addition, as part of our refinancing and associated internal restructuring, we have also been able to account for previously unrecognised deferred tax assets during the current reporting period.

Cash and cash equivalents increased to R266 million from R166 million at year-end. Net debt (borrowings less cash and cash equivalents) was R1 438 million as at the end of the period compared to R795 million as at year-end. The increase in net debt from year-end is due to draw-downs made to buy out minorities of Mutlu Akü during the mandatory tender offer process.

Operational commentary

Original equipment manufacturing (OEM) segment

The overall trend in the OEM segment was a general decline in production volumes, as manufacturers launch new models. Model launches are necessary to meet the latest carbon emission standards taking effect in 2016.

Emerging African economies with largely improved economies and increased motorisation have introduced higher import duties on vehicles. Vehicle exports to these markets have reduced slightly.

Aftermarket segment

Aftermarket demand for the group's products varied across the different regions and export markets during the period. The major local markets in Romania and Turkey were softer during the period mostly on the back of a warmer than normal winter period. In South Africa the aftermarket demand remained strong.

Non-automotive and export segment

The group is now exporting to approximately 46 countries. Demand in major export markets like Middle East, Africa and Russia remained strong during the period.

The mining sector demand continued to be depressed as result of the protracted mining sector labour dispute.

Start/Stop battery technology

The group's Start/Stop battery strategy has evolved to centre around Mutlu Akü's Technical Centre in Turkey. The acquisition of Mutlu Akü has assisted the group in its technical progress in becoming a leading international Start/Stop lead acid battery supplier. Mutlu Akü have expanded and refocused the group's Start/Stop technology path to include the enhanced flooded battery (EFB) to our advanced glass matt (AGM) product range. Mutlu Akü is already supplying three OEM customers with Start/Stop batteries from this technology.

Centralising our technology base in Turkey should enable the group to meet the ever-increasing focus on the affordability of this technology. The group proved to be uncompetitive on enquiries received at the onset of the acquisition of Mutlu Akü. Fortunately, the group has received further enquires that could benefit from the integration, cost savings and synergy extraction targeted from the Mutlu Akü' acquisition.

Prospects

Original equipment (OE) segment

Post-June 2014 the South African automotive industry experienced a four-week strike in the steel and engineering industry. Although well-executed contingency plans by the automotive industry limited the loss of production in the OE sector to only two weeks, the long-term effects of continued labour disruption remain to be seen as the effects of labour disruptions both current and previous years continue to play out.

Barring any other structural resets or labour-related changes we believe that the SA automotive industry has now prematurely settled at current production levels. Newly launched models could reach higher production levels if international criteria for a successful launch are met. The group will have to remain diligent and focus on stabilisation of the manufacturing environment.

The outlook in other markets remains stable at this stage.

Aftermarket segment

The second half of this year will be the first second half that the group will experience in Mutlu Akü and its markets. We remain positive in regard to our expectation and outlook in these markets although these target markets have some geopolitical challenges. Aftermarket demand in South Africa should be stable.

Building on the first-half performance of Mutlu Akü is an imperative.

Non-automotive segment

With the stabilisation of the mining sector labour disputes and the global focus on green and renewable energy and energy storage solutions, we are hopeful for a return to normality in this sector.

Conclusion

Metair remains committed to executing its strategy and achieving the key performance criteria for 2014. Our financial performance is dependent upon, inter alia, OE volumes, a stable environment, internal inflation and the exchange rate. Subject to these factors, we expect the financial performance in 2014 to be satisfactory.