Sephaku Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/003306/06)
Share code: SEP
ISIN: ZAE000138459

SEPHAKU HOLDINGS LTD

Provisional audited financial results for the year ended 31 March 2016

Aganang and Delmas plants collectively achieve steady state capacity utilisation and revenue of R2,3 billion. Métier achieves revenue of R874 million.

Sephaku Holdings Limited ("SepHold" or "the company") is pleased to present the group's provisional financial results for the year ended 31 March 2016. SepHold, Métier Mixed Concrete (Pty) Ltd ("Métier" or "the subsidiary") and Dangote Cement SA (Pty) Ltd, formerly Sephaku Cement (Pty) Ltd ("Cement" or "the associate") are collectively referred to as the group.

Salient points

Group

- Operating profit increased by 42% from R59,3 million to R84,2 million
- Net earnings increased by 28% from R47,2 million to R60,4 million
- Basic earnings per share increased by 5,57 cents per share from 24,43 cents to 30,00 cents
- Headline earnings per share increased by 5,41 cents per share from 24,43 cents to 29,84 cents

Metier

- Revenue increased by 13% from R775,4 million to R874,3 million
- Earnings before interest, taxation, depreciation and amortisation "EBITDA" margin decreased from 18% (R139,1 million) to 15% (R132,3 million)
- Operating profit margin decreased from 14% (R108,9 million) to 12% (R101,7 million)
- Net earnings were R58,2 million from R64,7 million

Cement[1]

- Sales revenue of R2,3 billion (2015: R919 million) by end of December 2015
- EBITDA margin increased from 14% (R129,7 million) to 22% (R505,5 million)
- Operating profit margin increased from 6% (R59,5 million) to 15% (R336,9 million)
- Net earnings of R50,4 million (2015: R99,8 million due to a deferred tax asset)

[1] Cement has a December year-end as a subsidiary of Dangote Cement PLC

Commenting on the results, Chief Executive Officer, Dr Lelau Mohuba said, *"Cement and Métier continue to perform satisfactorily in spite of the highly competitive landscape. We are pleased to have reached the 80% steady state capacity utilisation at Cement. SepHold's focus for the 2016 financial year was always the attainment of growth and improvement in the quality of our earnings. Although we recorded significant growth in revenues, our margins were under pressure due to lower pricing experienced in what has become a highly contested building materials sector.*

We are however determined to retain and or grow our market share as we pursue our optimisation programmes to improve cost efficiencies. Cement began its optimisation programme during its 2015 financial year and we have started achieving the targeted impact of the improved processes. Furthermore, the appointment of Kenneth Capes as the Business Development Director at SepHold will enable the group to identify available expansion and synergistic opportunities in our sector. The introduction of other assets in the portfolio will minimise the risk profile whilst strengthening the group to become more competitive"

Financial review

Revenue for the group increased from R775,4 million to R874,3 million with Cement's revenue increasing by 150% from R919 million to R2,3 billion as a result of achieving and maintaining steady state production capacity from May to December 2015.

As disclosed in last year's post period commentary, the earnings and margins at Aganang were impacted in the first half of the year due to kiln downtime. The kiln was stopped for a two week planned maintenance period in March 2015 during which the technical team identified a latent defect in a critical component resulting in an extended downtime period of six weeks. Métier experienced increased price competition as the construction industry remained constrained and inconsistent payment of a key customer resulted in a six week stoppage of one plant.

Subsequently, margins at both companies were under pressure with Metier's EBITDA margin decreasing from 18% (R139 million) in FY 2015 to 15% (R132 million) and the operating margin from 14% (R109 million) to approximately 12% (R102 million). Cement reported EBITDA of R506 million an increase to 22% (FY2014: 14%) for the financial year ended December 2015 and a profit after tax of R50,4 million. Therefore, SepHold accounted for R18,2 million (36%) as equity earnings in the consolidated earnings. The group profit after tax increased from R47,2 million to R60,4 million which is a 28% increase year-on-year. It must be noted that the 2015 financial year included non-cash IFRS adjustments with a net effect of R26,9 million that would make the comparative normalised earnings R20,2 million.

Operational review

Métier

Metier's revenue increased largely due to the additional output from the eleventh plant that commenced production in September 2014 and increased revenue in its pumping services division. The subdued overall demand from the construction industry resulted in prices remaining flat on a year-on-year basis, therefore Métier had to prioritise cost management and the production of high-value concretes to assist margins. The decline in margins was due to increased price competition and the stoppage of supply into a significant government contract for a period of six weeks in the first half of the financial year due to inconsistent payment.

During the reporting period, Métier completed its new main operational premises that includes a fully equipped workshop. A laboratory was constructed at the premises that will contribute significantly to Metier's supply promise of consistent and customised products, reliability of the concrete and technical support to its valued customers. The laboratory will also provide a service that was previously outsourced resulting in the reduction of testing costs by 10%. Furthermore, targeted employees will be trained and developed through this laboratory to strengthen the technical skills base.

Métier strengthened its management team by appointing Jürgens Du Toit who has over 24 years experience in the mining and building materials industries. Kenneth Capes, was appointed the chief executive officer of Métier and also increased his area of responsibility in the Group to assist SepHold with its growth strategy as the business development director. Kenneth's extensive experience in building materials and proven deal-making skills will significantly contribute to the group's expansion objectives. The subsidiary began the period under review with a robust order book and successfully implemented its supply contracts.

Outlook

Métier will continue to explore viable expansion opportunities in all markets to enable it to grow its footprint and earnings in South Africa. This growth will be informed by prevailing market conditions and the strategic positioning that places Métier at an advantage to its competitors.

The subsidiary anticipates continued competitive pressures and will be focussing on controlling costs while striving for service excellence, which continues to be Metier's strength.

Cement

The associate performed satisfactorily in a highly competitive environment and ramped up production to annualised steady state production by May 2015. The integrated plant in Aganang and grinding plant in Delmas were at 70% and 90% capacity utilisation by December 2015 respectively. Cement's sales volumes increased by 162% with approximately 80% attributable to its core inland markets and up to 80% supplied into the bag market.

The associate continued to advance its share of the market during the year with a strong focus on the rural markets that constituted 65% of the sales volume for the financial year ended December 2015. The Gauteng market remains an intensely contested market.

The import tariffs finalised in December 2015 and imposed on dumped cement from Pakistan have increased supply opportunities for Cement in the coastal market of KwaZulu Natal. The associate experienced an overall sales pricing decline of 2.5% during its 2015 financial year.

Optimisation programme

During the production ramp up phase, Cement was largely focused on achieving the steady state volumes and attaining its market share goal. To enhance its competitiveness, the associate commenced an optimisation programme during the final six months of 2015 that is expected to start yielding targeted cost efficiencies in the second half of the 2016 calendar year.

The programme will ensure that the four operational areas namely distribution, raw materials, production and sales are optimised. The optimisation of these functions is expected to collectively improve the EBITDA margin by five to seven percent in the foreseeable future and enable Cement to remain a formidable competitor in all its markets.

Following the Dangote Cement PLC results announcement on 26 April 2016 for their 2016 financial year first quarter ended 31 March 2016, Cement revenue decreased by 0,5% to R519 million compared to R521 million for the comparative period. These SepCem quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2016.

Provisional financial results

Summarised statement of comprehensive income

	GROUP	
	Year ended 31 March 2016 audited R	Year ended 31 March 2015 audited R
Revenue	874 253 138	775 425 242
Cost of sales	(523 460 452)	(434 430 692)
Gross profit	350 792 686	340 994 550
Other income	15 593 937	9 999 177
Operating expenses	(282 137 148)	(291 705 645)
Operating profit	84 249 475	59 288 082
Investment income	8 127 000	2 167 996
Profit from equity-accounted investment	18 154 066	35 924 506
Finance costs	(28 270 848)	(25 321 027)
Profit before taxation	82 259 693	72 059 557
Taxation	(21 839 218)	(24 898 186)
Profit for the year	60 420 475	47 161 371
Total comprehensive income attributable to:		
Equity holders of the parent	60 420 475	47 161 371
Non-controlling interest	-	-
Basic earnings per share (cents)	30,00	24,43
Diluted earnings per share (cents)	28,97	23,59
Headline earnings per share (cents)	29,84	24,43
Diluted headline earnings per share (cents)	28,82	23,59

Reconciliation of basic earnings to diluted earnings and headline earnings:		
Basic profit and diluted profit attributable to equity holders of the parent	60 420 475	47 161 371
(Profit)/loss on sale of non-current assets	(430 852)	5 425
Total taxation effect of adjustments	120 639	(1 519)
Headline earnings and diluted headline earnings attributable to equity holders of parent	60 110 262	47 165 277
Reconciliation of weighted average number of shares:		
Basic weighted average number of shares	201 426 940	193 050 707
Dilutive effect of share options	7 139 452	6 849 198
Diluted weighted average number of shares	208 566 392	199 899 905

Summarised statement of financial position

	GROUP	
	31 March 2016 audited R	31 March 2015 audited R
Assets		
Non-current assets		
Property, plant and equipment	134 180 789	128 787 297
Goodwill	223 421 981	223 421 981
Intangible asset	7 455 631	10 896 692
Investment in associate	670 467 278	652 313 212
	1 035 525 679	1 015 419 182
Current assets		
Inventories	12 244 871	8 965 203
Other financial assets	12 987 551	12 504 391
Current tax receivable	-	933 668
Trade and other receivables	110 971 487	110 752 506
Cash and cash equivalents	91 231 432	70 914 266
	227 435 341	204 070 034
Total assets	1 262 961 020	1 219 489 216
Equity and liabilities		

Equity		
Stated capital	632 950 155	631 127 028
Reserves	18 910 771	15 685 391
Retained income	258 730 837	197 907 280
	910 591 763	844 719 699
Liabilities		
Non-current liabilities		
Other financial liabilities	231 309 499	248 672 308
Deferred income	1 866 813	2 379 952
Deferred taxation	15 978 858	14 778 323
	249 155 170	265 830 583
Current liabilities		
Other financial liabilities	18 208 333	24 750 000
Current taxation payable	1 283 129	-
Operating lease liability	2 756 653	1 806 319
Trade and other payables	80 452 834	81 869 477
Deferred income	513 138	513 138
	103 214 087	108 938 934
Total liabilities	352 369 257	374 769 517
Total equity and liabilities	1 262 961 020	1 219 489 216
Net asset value per share (cents)	450,99	419,79
Tangible net asset value per share (cents)	337,68	304,86
Ordinary shares in issue	201 908 654	201 224 508

Summarised statement of cash flows

	GROUP	
	year ended 31 March 2016 audited R	year ended 31 March 2015 audited R
Cash flows from operating activities		
Cash generated from operations	117 037 155	114 192 061

Interest income	8 127 000	2 167 996
Finance costs	(28 270 848)	(19 632 742)
Taxation paid	(18 421 887)	(25 802 273)
Net cash from operating activities	78 471 420	70 925 042
Cash flows from investing activities		
Purchase of property, plant and equipment	(36 589 744)	(30 437 943)
Sale of property, plant and equipment	999 999	618 158
Net loans advanced	514 320	1 606 002
Government grant received	-	1 436 787
Net cash from investing activities	(35 075 425)	(26 776 996)
Cash flows from financing activities		
Proceeds on share issue	825 647	16 514 952
Proceeds from other financial liabilities	28 237 894	130 000 000
Repayment of other financial liabilities	(52 142 370)	(28 750 000)
Settlement of deferred vendor loan	-	(117 000 000)
Net cash (utilised in)/ from financing activities	(23 078 829)	764 952
Total cash and cash equivalents movement for the year	20 317 166	44 912 998
Cash and cash equivalents at the beginning of the year	70 914 266	26 001 268
Total cash and cash equivalents at the end of the year	91 231 432	70 914 266

Summarised statement of changes in equity

	Stated capital	Revaluation reserve	Equity based share option reserve	Total reserves	Retained income	Total equity
Balance at 31 March 2014	585 573 235	(1 207 663)	18 832 199	17 624 536	144 525 951	747 723 722
Total comprehensive income for the year	-	-	-	-	47 161 371	47 161 371
Issue of shares	45 553 793	-	-	-	-	45 553 793
Employees' share option scheme	-	-	(1 939 145)	(1 939 145)	6 219 958	4 280 813
Balance at 31 March 2015	631 127 028	(1 207 663)	16 893 054	15 685 391	197 907 280	844 719 699
Total comprehensive income for the year	-	-	-	-	60 420 475	60 420 475
Issue of shares	1 823 127	-	-	-	-	1 823 127
Employees' share option scheme	-	-	3 225 380	3 225 380	403 082	3 628 462
Balance at 31 March 2016	632 950 155	(1 207 663)	20 118 434	18 910 771	258 730 837	910 591 763

Notes to the summarised financial statements

Accounting policies

Basis of preparation

The summarised consolidated provisional financial results are prepared in accordance with the requirements of the JSE Limited Listings Requirements ("Listings Requirements") for abridged reports and the requirements of the Companies Act, 2008. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and must also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the abridged consolidated financial statements were derived, are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements.

As a result of the adoption of new and amended standards and interpretations in issue that were effective for the first time in the current reporting period, a number of new policies were introduced. However, the adoption of these new and amended standards and interpretations did not have a material impact on the results for the current period.

The preparation of the annual financial statements has been supervised by NR Crafford-Lazarus, CA (SA).

Segment information

	Ready-mixed concrete R	Head office R	Group totals R
31 March 2016			
Segment revenue – external revenue	874 253 138	-	874 253 138
Segment cost of sales	(523 460 452)	-	(523 460 452)
Segment expenses	(264 553 643)	(17 583 505)	(282 137 148)
Profit from equity-accounted investment	-	18 154 066	18 154 066
Profit on sale of property, plant and equipment	424 602	-	424 602
Segment profit after taxation	58 234 411	2 186 064	60 420 475
Taxation	(22 802 715)	963 497	(21 839 218)
Interest received	7 564 539	562 461	8 127 000
Interest paid	(28 270 283)	(565)	(28 270 848)
Depreciation and amortisation	(30 563 233)	(3 498 681)	(34 061 914)
Segment assets	462 731 242	800 229 778	1 262 961 020
Investment in associate included in the above total segment assets	–	670 467 278	670 467 278
Capital expenditure included in segment assets	23 559 244	13 030 499	36 589 743
Segment liabilities	(349 410 897)	(2 958 360)	(352 369 257)

	Ready-mixed concrete R	Head office R	Group totals R
31 March 2015			
Segment revenue – external revenue	775 425 242	–	775 425 242
Segment cost of sales	(434 430 692)	-	(434 430 692)
Segment expenses	(242 117 993)	(49 587 652)	(291 705 645)
Profit from equity-accounted investment	–	35 924 506	35 924 506
Loss on sale of property, plant and equipment	(5 425)	–	(5 425)
Loss on contingent consideration	-	(28 501 340)	(28 501 340)
Segment profit/(loss) after taxation	64 662 471	(17 501 100)	47 161 371
Taxation	(25 861 683)	963 497	(24 898 186)
Interest received	2 126 072	41 924	2 167 996
Interest paid	(20 478 723)	(4 842 304)	(25 321 027)
Depreciation and amortisation	(30 194 125)	(3 454 043)	(33 648 168)
Segment assets	425 062 048	794 427 168	1 219 489 216
Investment in associate included in the above total segment assets	–	652 313 212	652 313 212
Capital expenditure included in segment assets	29 725 480	712 463	30 437 943
Segment liabilities	(369 976 119)	(4 793 398)	(374 769 517)

The only commodity actively managed by Métier is ready-mixed concrete.

The group does not rely on any single external customer or group of entities under common control for 10% or more of the group's revenue as disclosed in the annual financial statements.

No segment report has been presented for Cement (the commodity) as the amounts attributable to Cement (the commodity) have been included in the "head office" segment.

Investment in associate

The directors would like to draw attention to the fact that the profit from the equity accounted investment of R35 924 506 included in the statement of comprehensive income for 2015, mostly relates to a movement on the associate's deferred taxation asset balance.

Summary of the group's interest in Cement:

	Year ended 31 December 2015	Year ended 31 December 2014
Non-current assets	3 695 986 483	3 844 530 357
Current assets	860 280 952	434 023 077
Total assets	4 556 267 435	4 278 553 434
Total equity	1 223 178 592	1 173 212 824

Non-current liabilities	(2 487 715 316)	(2 712 586 543)
Current liabilities	(845 371 808)	(392 754 067)
Total liabilities	(3 333 087 124)	(3 105 340 610)
Revenue for the period	2 298 566 531	918 978 411
Cost of sales	(1 784 417 193)	(730 273 759)
Gross profit	514 149 338	188 704 652
Operating profit	336 959 243	59 533 480
Investment income	7 424 285	4 929 293
Finance costs	(265 533 881)	(112 903 760)
Profit/(loss) before taxation	78 849 647	(48 440 987)
Taxation (expense)/income (income in 2015 due to deferred tax asset)	(28 421 686)	148 231 283
Profit after taxation for the year	50 427 961	99 790 296
Total comprehensive income for the year	50 427 961	99 790 296

Stated capital

311 952 (2015: 6 707 333) SepHold shares were issued during the year for a cash amount of R825 647 (2015: R16 514 952) relating to share options that were exercised by employees and directors.

372 194 (2015: 215 000) SepHold shares were issued at a value of R2,68 (2015: R2,50) for no cash consideration, in terms of the provisions of the Sephaku share incentive scheme, as a float to administer the share incentive scheme on behalf of identified SepHold employees.
4 429 196 shares were issued during the 2015 reporting period, in terms of a specific authority to the seller of Métier at a 60-day VWAP of 643,488 cents as final settlement of the Métier acquisition.

Statement on going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Events after the annual reporting period

The directors are not aware of any material fact or circumstance arising between the end of the financial year and the date of this report that would require adjustments to or disclosure in the financial results.

Changes to the board

There have been no changes to the board of directors during the current financial period or up to the date of issue of this report.

Company secretary

Jennifer Bennette resigned as company secretary on 31 August 2015 and Acorim Proprietary Limited was appointed in her stead on 1 September 2015.

Auditors' report

The summarised financial information included in this announcement is extracted from audited information but is not itself audited.

The directors take full responsibility for the preparation of the summarised financial information and that it has been correctly extracted from the underlying annual financial statements.

The underlying financial statements have been audited by the group's external auditors, Grant Thornton. A copy of their unqualified report, as well as the annual financial statements, are available for inspection at the company's registered office.

Any reference to operational or future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

The auditors' report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' work, they should obtain a copy of that report together with the accompanying financial information from the registered office of the company.

Investor presentation webcast

A year-end presentation will be hosted at the Johannesburg Stock Exchange simultaneously with an audio webcast for analysts and investors on Thursday, 30 June 2016 at 1030hs CAT. The results presentation can also be downloaded from the Company website www.sephakuholdings.com.
The link to access the webcast is: http://themediaframe.eu/links/sephold160630.html

By order of the board

Chief Executive Officer	Financial Director
Dr. Lelau Mohuba	Neil Crafford - Lazarus

29 June 2016

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Sponsor to Sephaku Holdings: Questco (Pty) Ltd

About Sephaku Holdings Limited

Sephaku Holdings Limited is a building and construction materials company with a portfolio of investments in the cement sector in South Africa. The company's core investments are a 36% stake in Dangote Cement South Africa (Pty) Ltd and 100% in Métier Mixed Concrete (Pty) Ltd. SepHold's strategy is to generate income and realise value for shareholders through the production of cement and ready mixed concrete in Southern Africa.

www.sephakuholdings.com