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

Provisional financial results for the year ended 31 March 2017

CEMENT sales volumes increase by 4% year-on-year and Métier starts production at its 12th plant in Gauteng.

Sephaku Holdings Limited ("SepHold" or "the company") is pleased to present the group's provisional financial results for the year ended 31 March 2017. SepHold, Métier Mixed Concrete (Pty) Ltd ("Métier" or "the subsidiary") and Dangote Cement SA (Pty) Ltd ("CEMENT" or "the associate") are collectively referred to as the group.

Salient points

Group

- Operating profit increased from R84,2 million to R84,7 million
- Net earnings increased from R60,4 million to R68,1 million
- Basic earnings per share increased from 30,00 cents to 33,63 cents
- Headline earnings per share increased from 29,84 cents to 33,37 cents

Métier

- Revenue decreased by 3,9% from R874,3 million to R839,9 million
- Earnings before interest, taxation, depreciation and amortisation "EBITDA" margin decreased from 16% (R136,8 million) to 15% (R127,0 million)
- Operating profit margin increased slightly to 12.9% (R108,3 million) from 12.7% (R106,3 million)
- Net earnings increased from R62,8 million to R67,4 million

CEMENT[1]

- Sales revenue comparatively flat year-on-year at R2,3 billion
- EBITDA margin increased from 22% (R505,5 million) to 23% (R527,3 million)
- Operating profit margin increased from 15% (R336,9 million) to 16% (R358,4 million)
- Net earnings of R68,9 million compared to R50,4 million in the comparable period

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

Commentary

Commenting on the results, Chief Executive Officer, Dr Lelau Mohuba said, *“We are pleased with Métier’s performance in a highly contested market despite a slight decrease in revenue. This success was due to the ability of management to secure orders as a result of their renowned technical skills, establish strong customer relationships and contain costs under difficult circumstances. The additional twelfth mixed concrete plant in Gauteng that commenced production in March 2017 will enhance our access to new markets whilst alleviating pressure from some of the growth nodes in the province.*

CEMENT defended its position as one of the major cement producers in South Africa, by increasing its annual sales volumes by 4% in a fiercely competitive market. The application of differentiated pricing for the various provincial markets enabled CEMENT to optimise its product mix offering and reduce the downward pressure on margins.

The competence and deep industry knowledge of our management teams has enabled the group to navigate the competitive landscape.”

Group

The group profit after tax increased by 12.8% from R60,4 million to R68,1 million year-on-year despite revenue decreasing from R874,3 million to R839,9 million due to lower prices and reduced demand in the mixed concrete market.

Métier

Métier’s net profit increased by 7.3% from R62,8 million to R67,4 million in trading conditions where revenue declined by 3.9%. The mixed concrete sector experienced intense price competition for supply contracts resulting in downward pressure on prices. The competition was driven by the continued contraction in large scale construction projects and new entrants into key markets. The primary cause of the increase in the number of independent mixed concrete manufacturers was the lower pricing for bulk cement. The most aggressive competitors were the vertically integrated companies that provide a captive market for the related cement and aggregates manufacturers. Métier’s understanding of the market and ability to secure profitable concrete supply deals were instrumental in the subsidiary maintaining its share of the market.

Furthermore, the geographical diversification of Métier’s plants and manufacture of specialised concretes enabled the subsidiary to maintain operating margin levels of 12.9% (2016: 12.7%). The subsidiary’s performance further demonstrated management’s mantle through the reduction in the cost of sales by 5.2% to R483,7 million and operational expenses by 3.7% to R250,4 million to support margins. Following positive results for the last two years, Métier was able to submit a R50 million dividend to SepHold and reduce its overall bank debt obligations by R87m to R215,9 million.

The additional twelfth plant located in the south of Gauteng commenced production in March 2017. This new plant is well – aligned to the subsidiary’s overall strategy and will enable Métier to increase its footprint to reduce over-reliance on the current growth nodes by diversifying the customer base.

CEMENT[1]

CEMENT's revenue was comparatively flat year-on-year at R2,28 billion (2015: R2,29 billion). The associate achieved an increase of 4% in sales volumes but the average price per tonne decreased by 4.6% year-on-year for the period ended December 2016. The EBITDA margin increased to 23.1% (2015: 21.9 %) and net profit increased to R68,9 million (2015: R50,4 million) of which R24,8m was equity accounted for by SepHold. The net profit included once – off income from the closure agreement with Sinoma on the final handover of the plants and reflects the increases in cost of sales, operating expenses and finance costs.

The cement market remained highly fragmented with all manufacturers using price competition to defend their sales volumes. The Econometrix estimate of a 5.6% contraction in total sales volume demanded illustrates why intense price competition characterised the market. Import volumes decreased further by 53% to 389,000 tonnes (2015:820,000 tonnes) for the year ended December 2016. Although bagged cement pricing started stabilizing at the end of the 2016 calendar year, the contestation continued in the bulk cement market due to the limited number of new significant construction projects. The market was constituted mainly of bagged cement at between 70% – 80% of the sales volumes because of the limited activity in the bulk use market. CEMENT focussed on achieving the optimal product mix in all its markets to maintain its sales volumes.

The application of a price differentiation model for the various provincial markets enabled CEMENT to reduce the downward pressure on margins. In the same vein, efforts to lower operational costs by improving efficiencies continued through the optimisation programme. Although the continued decrease in prices limited the positive impact on the EBITDA margin, the associate had achieved 50% of the targeted R115 million cost saving by end of December 2016. Management is targeting to complete the programme by the end of December 2017.

The highly competitive market and downward pressure on pricing resulted in CEMENT's loan covenants, namely the debt service cover ratio, being increasingly under pressure. The associate is in negotiations with the lenders to review the capital repayment profile without changing the original payment period so as to reduce pressure on the ratio going forward.

Following the Dangote Cement PLC results announcement on 28 April 2017 for their 2017 financial year first quarter period ended 31 March 2017, CEMENT revenue decreased to R501 million (Q1 2016:R519 million).The sales volumes were 3.6% lower for the first quarter year-on-year mainly due to the high rainfall and competitive forces. The associate implemented price increases in February 2017 that have been sustained in most markets. By the end of March 2017 the prices indexed from January 2017 were 4% and 5% higher for the bagged and bulk cement, respectively. These CEMENT quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2017.

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

Provisional financial results

Summarised statement of comprehensive income

	GROUP	
	Year ended 31 March 2017 audited R	Year ended 31 March 2016 audited R
Revenue	839 984 931	874 253 138
Cost of sales	(483 668 229)	(510 218 084)
Gross profit	356 316 702	364 035 054
Other income	2 429 156	2 351 569
Operating expenses	(273 996 024)	(282 137 148)
Operating profit	84 749 834	84 249 475
Investment income	7 172 130	8 127 000
Profit from equity-accounted investment	24 803 788	18 154 066
Finance costs	(26 695 077)	(28 270 848)
Profit before taxation	90 030 675	82 259 693
Taxation	(21 892 284)	(21 839 218)
Profit for the year	68 138 391	60 420 475
Total comprehensive income attributable to:		
Equity holders of the parent	68 138 391	60 420 475
Basic earnings per share (cents)	33,63	30,00
Diluted earnings per share (cents)	33,36	28,97

Summarised statement of financial position

	GROUP	
	Year ended 31 March 2017 audited R	Year ended 31 March 2016 audited R
Assets		
Non-current assets		
Property, plant and equipment	142 797 829	134 180 789
Goodwill	223 421 981	223 421 981
Intangible asset	5 161 591	7 455 631

Investment in associate	743 842 941	670 467 278
Other financial assets	10 638 527	-
Long-term loans	2 000 000	-
	1 127 862 869	1 035 525 679
Current assets		
Inventories	16 972 080	12 244 871
Other financial assets	-	12 987 551
Current tax receivable	-	-
Trade and other receivables	121 613 883	110 971 487
Cash and cash equivalents	44 756 833	91 231 432
	183 342 796	227 435 341
Total assets	1 311 205 665	1 262 961 020
Equity and liabilities		
Equity		
Stated capital	635 403 188	632 950 155
Reserves	19 262 087	18 910 771
Retained income	329 214 333	258 730 837
	983 879 608	910 591 763
Liabilities		
Non-current liabilities		
Other financial liabilities	180 132 807	231 309 499
Deferred income	2 233 359	1 866 813
Deferred taxation	19 696 446	15 978 858
	202 062 612	249 155 170
Current liabilities		
Other financial liabilities	35 803 432	18 208 333
Current taxation payable	408 615	1 283 129

Operating lease liability	4 101 068	2 756 653
Trade and other payables	84 272 472	80 452 834
Deferred income	677 858	513 138
	125 263 445	103 214 087
Total liabilities	327 326 057	352 369 257
Total equity and liabilities	1 311 205 665	1 262 961 020
Net asset value per share (cents)	484,74	450,99
Tangible net asset value per share (cents)	372,83	337,68
Ordinary shares in issue	202 969 487	201 908 654

Summarised statement of cash flows

	GROUP	
	Year ended 31 March 2017 audited R	Year ended 31 March 2016 audited R
Cash flows from operating activities		
Cash generated from operations	96 978 796	117 037 155
Interest income	7 172 130	8 127 000
Finance costs	(24 320 458)	(28 270 848)
Taxation paid	(19 049 210)	(18 421 887)
Net cash from operating activities	60 781 258	78 471 420
Cash flows from investing activities		
Purchase of property, plant and equipment	(28 535 101)	(36 589 744)
Sale of property, plant and equipment	1 852 035	999 999
Loans repaid	349 023	514 320
Investment increase in associate	(48 571 875)	-
Government grant received	1 153 240	-
Net cash from investing activities	(73 752 678)	(35 075 425)
Cash flows from financing activities		
Proceeds on share issue	2 453 033	825 647
Proceeds from other financial liabilities	-	28 237 894
Repayment of other financial liabilities	(35 195 345)	(52 142 370)
Facility raising fee paid	(760 867)	-
Net cash (utilised in)/ from financing activities	(33 503 179)	(23 078 829)

Total cash and cash equivalents movement for the year	(46 474 599)	20 317 166
Cash and cash equivalents at the beginning of the year	91 231 432	70 914 266
Total cash and cash equivalents at the end of the year	44 756 833	91 231 432

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 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
Total comprehensive income for the year	-	-	-	-	68 138 391	68 138 391
Issue of shares	2 453 033	-	-	-	-	2 453 033
Employees' share option scheme	-	-	351 316	351 316	2 345 105	2 696 421
Balance at 31 March 2017	635 403 188	(1 207 663)	20 469 750	19 262 087	329 214 333	983 879 608

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 summarised reports and the requirements of the Companies Act of South Africa No 71 of 2008. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board ("IASB"), 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 summarised 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).

Net asset value per share and earnings per share

	GROUP	
	Year ended 31 March 2017 audited R	Year ended 31 March 2016 audited R
Net asset value and tangible net asset value per share		
Total assets	1 311 205 665	1 262 961 020
Total liabilities	(327 326 057)	(352 369 257)
Net asset value attributable to equity holders of parent	983 879 608	910 591 763
Goodwill	(223 421 981)	(223 421 981)
Intangible assets	(5 161 591)	(7 455 631)
Deferred tax raised on intangible assets	1 445 246	2 087 577
Tangible net asset value	756 741 281	681 801 728
Shares in issue	202 969 487	201 908 654
Net asset value per share (cents)	484,74	450,99
Tangible net asset value per shares (cents)	372,83	337,68
Reconciliation of basic earnings to diluted earnings and headline earnings:		
Basic profit and diluted profit attributable to equity holders of the parent	68 138 391	60 420 475
(Profit)/loss on sale of non-current assets	(743 181)	(430 852)
Total taxation effect of adjustments	208 090	120 639
Headline earnings and diluted headline earnings attributable to equity holders of parent	67 603 300	60 110 262
Reconciliation of weighted average number of shares:		
Basic weighted average number of shares	202 609 094	201 426 940
Dilutive effect of share options	1 641 560	7 139 452
Diluted weighted average number of shares	204 250 654	208 566 392
Basic earnings per share (cents)	33,63	30,00
Diluted earnings per share (cents)	33,36	28,97
Headline earnings per share (cents)	33,37	29,84
Diluted headline earnings per share (cents)	33,10	28,82

Segment information

	Ready-mixed concrete R	Head office R	Group totals R
31 March 2017			
Segment revenue – external revenue	839 984 931	-	839 984 931
Segment cost of sales	(483 668 229)	-	(483 668 229)
Segment expenses	(250 388 987)	(23 607 037)	(273 996 024)
Profit from equity-accounted investment	-	24 803 788	24 803 788
Profit on sale of property, plant and equipment	749 292	(6 111)	743 181
Segment profit after taxation	67 385 969	752 422	68 138 391
Taxation	(22 534 615)	642 331	(21 892 284)
Interest received	7 113 680	58 450	7 172 130
Interest paid	(26 694 874)	(203)	(26 695 077)
Depreciation and amortisation	(18 740 477)	(2 362 767)	(21 103 244)
Segment assets	445 845 703	865 359 962	1 311 205 665
Investment in associate included in the above total segment assets	–	743 842 941	743 842 941
Capital expenditure included in segment assets	27 604 211	930 890	28 535 101
Segment liabilities	(325 083 711)	(2 242 346)	(327 326 057)

	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	(510 218 084)	-	(510 218 084)
Segment expenses	(260 028 324)	(22 108 824)	(282 137 148)
Profit from equity-accounted investment	-	18 154 066	18 154 066
Loss on sale of property, plant and equipment	424 602	-	424 602
Segment profit/(loss) after taxation	62 759 730	(2 339 255)	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	–	670 467 278	670 467 278

segment assets			
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)

During 2017 the group streamlined the allocation of segment expenses between the different business segments.

The effects of the reclassification on the comparative figures for 2016 are as follows:

	Segment expenses R	**Segment profit/(loss) after taxation R**
Decrease in Ready-mixed concrete segment	4 525 319	4 525 319
Increase in Head office segment	(4 525 319)	(4 525 319)

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.

Cost of sales

Discounts received from suppliers have been reclassified to cost of sales to allow for more accurate reporting. The effect of the reclassification on the comparative figures for 2016 are as follows:

Profit or Loss	GROUP	
	Year ended 31 March 2017 audited R	Year ended 31 March 2016 audited R
Decrease in cost of sales	-	13 242 368
Decrease in other income	-	(13 242 368)

Investment in associate

The directors would like to draw attention to the fact that during the financial year equity funding of R134 921 875 was required by CEMENT to relieve pressure on the debt covenants. SepHold contributed R48 571 875 of the equity funding.

Summary of the group's interest in CEMENT:

	Year ended 31 December 2016 R	Year ended 31 December 2015 (Restated *) R
Non-current assets *	3 463 892 648	3 590 677 187
Current assets	749 053 952	860 280 952
Total assets	4 212 946 600	4 450 958 139
Total equity *	1 341 970 774	1 139 994 928
Non-current liabilities *	(2 152 594 106)	(2 465 591 403)
Current liabilities	(718 381 720)	(845 371 808)
Total liabilities	(2 870 975 826)	(3 310 963 211)
Revenue for the period	2 281 395 559	2 298 566 531
Cost of sales	(1 855 433 510)	(1 784 417 193)
Gross profit	425 962 049	514 149 338
Operating profit	358 435 454	336 959 243
Investment income	16 274 555	7 424 285
Finance costs	(291 349 372)	(265 533 881)
Profit/(loss) before taxation	83 360 637	78 849 647
Taxation (expense)/income	(14 461 227)	(28 421 686)
Profit after taxation for the year	68 899 410	50 427 961
Total comprehensive income for the year	68 899 410	50 427 961

Restatement

*****The financial statements of CEMENT have been prepared on the historical cost basis including measurement of land (this is a change in accounting policy of CEMENT from fair value to cost to align with its holding company, Dangote Cement PLC's policies). SepHold group's accounting policy for land is to carry land at fair value. The group has made adjustments to the financial statements of CEMENT for this difference in policy. The current fair value is not materially different to the fair value previously reported in CEMENT and no change in value was recognised.

Stated capital

1 060 833 (2016: 311 952) SepHold shares were issued during the year for a cash amount of R2 453 033 (2016: R825 647) relating to share options that were exercised by employees and directors.

During the prior year 372 194 SepHold shares were issued at a value of R2,68 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. A cash amount of R942 470 was received during the year for 351 668 of these shares.

The unissued ordinary shares are under the control of the directors.

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

Mr. Modilati Gustav Mahlare retired in accordance with SepHold's memorandum of incorporation on 22 September 2016. Mr. Mahlare was replaced by Ms. Martie Janse van Rensburg who was appointed to the board on the same day as an independent, non-executive director. Ms. Van Rensburg chairs the audit and risk committee and is a member of the remuneration and nominations committee. Ms. Basani Maluleke was appointed to the board as an independent, non-executive director on 9 November 2016. Ms. Maluleke is a member of the audit and risk committee as well as the social and ethics committee.

Company secretary

There were no changes to the Company Secretary during the financial year.

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.

Results presentation

A results presentation will be hosted at the Johannesburg Stock Exchange and simultaneously webcast on Friday, 30 June 2017 at 1030hs. The results presentation can be downloaded from the Company website www.sephakuholdings.com.

The link to access the webcast is: http://themediaframe.eu/links/sephold170630.html

By order of the board

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

30 June 2017

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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 and mixed concrete sectors 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