METAIR INVESTMENTS LIMITED

METAIR INVESTMENTS LIMITED

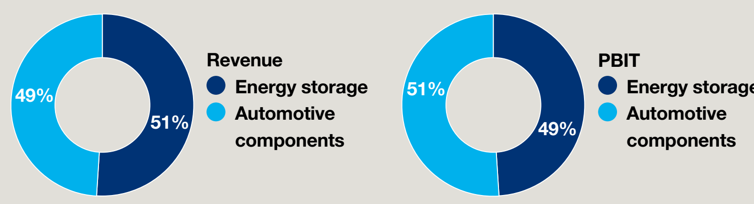
automotive | industrial | retail

(Incorporated in the Republic of South Africa) ("Metair" or "the group" or "the company")

Condensed unaudited consolidated interim results for the six months ended 30 June 2019

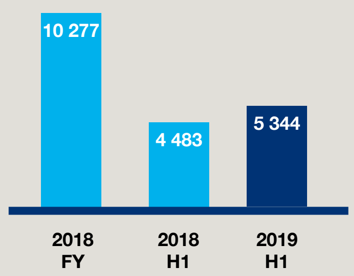
(Reg No. 1948/031013/06) • Share code: MTA • ISIN code: ZAE 000090692

Business vertical contribution 2019*

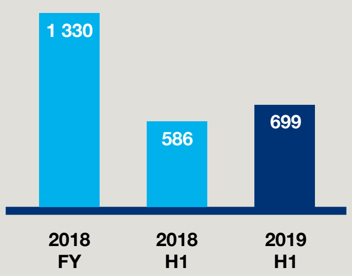


* Includes Hesto

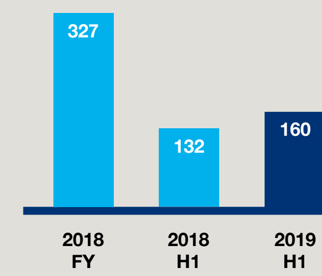
Revenue (million)



EBITDA (million)



HEPS (cents)



Headline earnings per share **increased 21%** to 160 cents per share

Automotive Components Vertical **ROIC up to 34.3%**

Energy Storage Vertical **ROIC up to 19.2%**

Investor Roadshow (site visits) 14-16 August 2019

CONDENSED CONSOLIDATED INCOME STATEMENT#

	Six months ended 30 June 2019 R'000 Unaudited	Six months ended 30 June 2018 R'000 Unaudited	Year ended 31 December 2018 R'000 Audited
Revenue	**5 344 472**	4 483 478	10 276 966
Cost of sales	**(4 344 817)**	(3 646 619)	(8 377 612)
Gross profit	**999 655**	836 859	1 899 354
Other operating income	**50 094**	100 018	211 965
Distribution, administrative and other operating expenses	**(551 096)**	(523 991)	(1 102 649)
Operating profit	**498 653**	412 886	1 008 670
Interest income	**11 347**	8 569	24 208
Interest expense	**(113 696)**	(89 902)	(210 056)
Share of results of associates	**52 385**	47 415	76 507
Profit before taxation	**448 689**	378 968	899 329
Taxation	**(118 391)**	(97 301)	(200 049)
Profit for the period	**330 298**	281 667	699 280
Attributable to:			
Equity holders of the company	**308 806**	261 691	667 377
Non-controlling interests	**21 492**	19 976	31 903
	330 298	281 667	699 280
Depreciation and amortisation included in the above expenses	**148 398**	125 360	244 500
Disaggregation of revenue from contracts with customers			
Primary geographical markets			
South Africa	**3 372 685**	2 763 169	5 925 214
Turkey and UK	**1 375 467**	1 135 622	3 022 186
Romania	**596 320**	584 687	1 329 566
	5 344 472	4 483 478	10 276 966
Major product and service lines			
Automotive batteries	**2 726 412**	2 285 975	5 691 155
Automotive components and parts	**2 248 992**	1 790 839	3 818 339
Automotive customer tooling and related services	**34 358**	17 477	44 944
Industrial and non-automotive products	**334 710**	389 187	722 528
	5 344 472	4 483 478	10 276 966
Timing of revenue recognition			
Products transferred at a point in time	**3 486 776**	2 797 297	6 748 672
Products and services transferred over time	**1 857 696**	1 686 181	3 528 294
	5 344 472	4 483 478	10 276 966
Earnings per share			
Basic earnings per share (cents)	**161**	132	338
Headline earnings per share (cents)	**160**	132	327
Diluted earnings per share			
Diluted earnings per share (cents)	**160**	131	336
Diluted headline earnings per share (cents)	**160**	132	325
Number of shares in issue ('000)	**198 986**	198 986	198 986
Number of shares in issue excluding treasury shares ('000)	**191 573**	198 003	192 283
Weighted average number of shares in issue ('000)	**192 250**	198 003	197 284
Adjustment for dilutive shares ('000)	**641**	1 099	1 246
Number of shares used for diluted earnings calculation ('000)	**192 891**	199 102	198 530
Calculation of headline earnings (R'000)			
Net profit attributable to ordinary shareholders	**308 806**	261 691	667 377
Gain on insurance recovery on fire – net			(23 066)
(Profit)/loss on disposal of property, plant and equipment – net	**(832)**	(65)	534
Impairment of property, plant and equipment		300	800
Headline earnings	**307 974**	261 926	645 645

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME#

	Six months ended 30 June 2019 R'000 Unaudited	Six months ended 30 June 2018 R'000 Unaudited	Year ended 31 December 2018 R'000 Audited
Profit for the period	**330 298**	281 667	699 280
Other comprehensive loss:			
- Actuarial losses recognised - net			(4 316)
- Foreign exchange translation movements	**(285 433)**	(215 690)	(313 341)
Net other comprehensive loss	**(285 433)**	(215 690)	(317 657)
Total comprehensive income for the period	**44 865**	65 977	381 623
Attributable to:			
Equity holders of the company	**23 553**	45 722	349 066
Non-controlling interests	**21 312**	20 255	32 557
	44 865	65 977	381 623

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY#

	Six months ended 30 June 2019 R'000 Unaudited	Six months ended 30 June 2018 R'000 Unaudited	Year ended 31 December 2018 R'000 Audited
Balance at beginning of the period	**4 287 721**	4 195 537	4 195 537
Adjustment on initial application of IFRS 9 and 15 (net of tax)		(3 963)	(3 963)
Net profit for the period	**330 298**	281 667	699 280
Other comprehensive loss for the period	**(285 433)**	(215 690)	(317 657)
Total comprehensive income for the period	**44 865**	65 977	381 623
Share option scheme	**12 581**	2 167	9 859
Vesting of share-based payment obligation:			
– Estimated taxation effects of utilisation of treasury shares	**(2 979)**		(526)
Dividend *	**(224 639)**	(189 908)	(189 936)
Treasury shares acquired	**(44 984)**		(104 873)
Balance at end of the period	**4 072 565**	4 069 810	4 287 721

An ordinary dividend of R1 per share was declared in 2019 in respect of the year ended 31 December 2018. An ordinary dividend of 80 cents per share was declared in 2018 in respect of the year ended 31 December 2017.

CONDENSED CONSOLIDATED BALANCE SHEET#

	Six months ended 30 June 2019 R'000 Unaudited	Six months ended 30 June 2018 R'000 Unaudited	Year ended 31 December 2018 R'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	**2 633 706**	2 522 820	2 538 145
Intangible assets	**625 212**	740 561	707 481
Investment in associates	**713 356**	647 454	674 296
Deferred taxation	**20 887**	1 211	8 825
	3 993 161	3 912 046	3 928 747
Current assets			
Inventory	**1 995 650**	1 796 102	1 849 091
Trade and other receivables	**1 753 076**	1 580 372	1 667 541
Contract assets	**305 355**	231 338	288 770
Taxation	**2 276**	30 909	8 955
Derivative financial assets	**2 004**	27 799	6 944
Cash and cash equivalents	**741 423**	466 473	671 952
	4 799 784	4 132 993	4 493 253
Total assets	**8 792 945**	8 045 039	8 422 000
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	**1 497 931**	1 497 931	1 497 931
Treasury shares	**(141 400)**	(10 152)	(112 510)
Reserves	**(1 166 161)**	(854 310)	(918 246)
Retained earnings	**3 770 935**	3 327 500	3 699 197
Ordinary shareholders' equity	**3 961 305**	3 960 969	4 166 372
Non-controlling interests	**111 260**	108 841	121 349
Total equity	**4 072 565**	4 069 810	4 287 721
Non-current liabilities			
Borrowings	**1 195 947**	1 161 690	983 762
Post-employment benefits	**73 712**	75 942	76 943
Deferred taxation	**277 450**	283 158	281 456
Deferred grant income	**183 773**	198 990	187 507
Provisions for liabilities and charges	**57 471**	54 001	57 785
	1 788 353	1 773 781	1 587 453
Current liabilities			
Trade and other payables	**1 293 771**	1 274 548	1 444 018
Contract liabilities	**98 313**	6 052	846
Borrowings	**1 073 953**	733 559	858 032
Taxation	**31 219**	4 762	42 214
Provisions for liabilities and charges	**78 171**	119 418	106 203
Derivative financial liabilities	**4 495**	49	3 171
Bank overdrafts	**352 105**	63 060	92 342
	2 932 027	2 201 448	2 546 826
Total liabilities	**4 720 380**	3 975 229	4 134 279
Total equity and liabilities	**8 792 945**	8 045 039	8 422 000
Net asset value per share (cents)	**2 068**	2 000	2 167
Capital expenditure	**268 724**	125 503	305 435
Capital commitments:			
– Contracted	**158 684**	38 532	53 458
– Authorised but not contracted	**172 447**	170 688	427 462

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS##

	Six months ended 30 June 2019 R'000 Unaudited	Six months ended 30 June 2018 R'000 Unaudited	Year ended 31 December 2018 R'000 Audited
Operating activities			
Operating profit	**498 653**	412 886	1 008 670
Depreciation and amortisation	**148 398**	125 360	244 500
Equity earnings	**52 385**	47 415	76 507
Insurance claim receivable			(29 582)
Other items	**(27 010)**	(108 787)	(81 932)
Working capital changes	**(497 610)**	(253 715)	(330 415)
Cash generated from operations	**174 816**	223 159	887 748
Interest paid	**(113 467)**	(90 146)	(210 140)
Taxation paid	**(119 436)**	(105 848)	(148 295)
Dividends paid	**(224 639)**	(189 908)	(189 936)
Dividend income from associates	**27 628**	3 102	6 550
Net cash (outflow)/inflow from operating activities	**(255 098)**	(159 641)	345 927
Investing activities			
Interest received	**11 347**	8 569	24 208
Acquisition of property, plant and equipment	**(241 580)**	(107 068)	(269 498)
Acquisition of associate – net	**(7 987)**	(16 061)	(16 061)
Net cash generated/(utilised) in other investing activities	**13 304**	(15 164)	(31 765)
Net cash outflow from investing activities	**(224 916)**	(129 724)	(293 116)
Financing activities			
Share buy back (treasury shares acquired)	**(44 984)**		(104 873)
Borrowings raised – net	**357 579**	127 292	93 051
Net cash utilised in other financing activities	**(2 979)**		(13 588)
Net cash inflow/(outflow) from financing activities	**309 616**	127 292	(25 410)
Net (decrease)/increase in cash and cash equivalents	**(170 398)**	(162 073)	27 401
Cash and cash equivalents at beginning of the period	**579 610**	597 305	597 305
Exchange losses on cash and cash equivalents	**(19 894)**	(31 819)	(45 096)
Cash and cash equivalents at end of the period	**389 318**	403 413	579 610

The condensed statement of cash flows has been expanded for better presentation. Prior period comparative has also been adjusted for consistency. Total cash flows from operating, investing and financing activities have not changed.

CONDENSED CONSOLIDATED SEGMENT REVIEW#

	Revenue: Six months ended 30 June 2019 R'000 Unaudited	Revenue: Six months ended 30 June 2018 R'000 Unaudited	Revenue: Year ended 31 December 2018 R'000 Audited	Profit before interest and taxation: Six months ended 30 June 2019 R'000 Unaudited	Profit before interest and taxation: Six months ended 30 June 2018 R'000 Unaudited	Profit before interest and taxation: Year ended 31 December 2018 R'000 Audited
Energy storage						
Automotive						
Local	**1 846 768**	1 602 337	3 848 580	**163 051**	113 885	377 703
Direct export	**879 644**	683 638	1 842 575	**92 871**	69 176	232 461
	2 726 412	2 285 975	5 691 155	**255 922**	183 061	610 164
Industrial						
Local	**309 955**	363 949	660 958	**33 078**	64 710	77 455
Direct export	**7 850**	11 152	31 744	**477**	1 809	4 090
	317 805	375 101	692 702	**33 555**	66 519	81 545
Total energy storage	**3 044 217**	2 661 076	6 383 857	**289 477**	249 580	691 709
Automotive components						
Local						
Original equipment	**2 662 269**	2 125 546	4 516 489	**257 755**	219 971	420 440
Aftermarket	**273 757**	243 504	482 016	**36 670**	36 600	76 535
Non-auto	**16 905**	14 086	29 826	**760**	325	191
	2 952 931	2 383 136	5 028 331	**295 185**	256 896	497 166
Direct exports						
Original Equipment	**2 026**		2 681	**819**		1 245
Aftermarket	**24 843**	19 250	41 607	**6 123**	4 168	10 331
	26 869	19 250	44 288	**6 942**	4 168	11 576
Total automotive components	**2 979 800**	2 402 386	5 072 619	**302 127**	261 064	508 742
Total segment results	**6 024 017**	5 063 462	11 456 476	**591 604**	510 644	1 200 451
Reconciling items:						
– Share of results of associates				**52 385**	47 415	76 507
– Managed associates *	**(679 545)**	(579 984)	(1 179 510)	**(54 339)**	(56 666)	(107 488)
Amortisation of intangible assets arising from business acquisitions				**(11 428)**	(13 042)	(24 661)
Other reconciling items **				**(27 184)**	(28 050)	(59 632)
Total	**5 344 472**	4 483 478	10 276 966	**551 038**	460 301	1 085 177
Net interest expense				**(102 349)**	(81 333)	(185 848)
Profit before taxation				**448 689**	378 968	899 329

** Although the results of Hesto Harnesses Proprietary Limited ("Hesto") does not qualify for consolidation, the full results of Hesto have been included in the segmental review. 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.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The group has initially applied IFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information has not been restated. The reclassification and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

Basis of preparation

The condensed consolidated interim results for the six months ended 30 June 2019 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. These condensed consolidated results should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, 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 applicable to summary financial statements.

Accounting policies

The accounting policies applied in the preparation of the condensed consolidated interim results are in terms of IFRS and except for the first time application of IFRS 16, are consistent with the accounting policies applied in the preparation of the 31 December 2018 consolidated annual financial statements. The interim results have not been reviewed or audited by the group's auditors.

New accounting standard: IFRS 16 – Leases

As of 1 January 2019, the group has changed its accounting policy for lease contracts. As a lessee under IAS 17, the group previously classified leases as operating or finance leases based on its assessment of whether the leases transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the group. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases, including operating leases. In other words most leases are 'on-balance sheet'. The group did apply available recognition exemptions to short term leases such as administrative and IT equipment as well as those leases meeting the threshold for 'low value' items and R8.3 million was directly expensed.

IFRS 16 was applied using the modified retrospective approach and there was no impact on retained earnings as the right of use assets were measured at an amount equal to the remaining lease liabilities. At transition, the new operating lease liabilities were measured at the present value of the remaining lease payments, discounted at relevant incremental borrowing rates at 1 January 2019. For leases that were previously classified as finance leases under IAS 17, the carrying amount for the right of use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

The group recognised additional right of use assets and increased lease liabilities by R85 million. Right of use assets are included within property, plant and equipment and lease liabilities are included within non-current and current borrowings. Right of use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation increased by R14.3 million because of IFRS 16.When measuring the lease liabilities at present value, a weighted average incremental borrowing rate of 9.7% was applied. The new rules did not have a material impact on operating profit, however interest expense increased by R4.5 million, mainly as a result of ATE's property lease.

Contingencies

There has been no material change in the group's contingent liabilities since period-end.

Borrowings (excluding leases)

During the period the group repaid borrowings of R104.5 million (2018: R20.5 million) and raised borrowings of R478 million (2018: R147.8 million).

Post-balance sheet events

There has been no material change since period-end.

Changes to the board of directors and committees of Metair

Mr MH Muell was appointed as an independent non-executive director (NED) and as a member of the social and ethics committee, with effect from 3 May 2019. Mr TP Moeketsi, an independent NED, resigned from the board of directors of Metair ("Board") and as a member of the investment committee with effect from 26 June 2019. Ms NL Mkhondo was appointed as an independent NED and as a member of the investment committee with effect from 28 June 2019.

The interim results presentation will be available on the company's website (www.metair.co.za) and an investor and analyst audio webcast of the presentation will be broadcast on Wednesday, 14 August 2019 at 10h00 (SAST). The audio webcast can be accessed through https://www.corpcam.com/Metair14082019. Alternatively a telephone conference call facility will be available at 10h00 (SAST) on Wednesday, 14 August 2019 in South Africa on 011 535 3600/010 201 6616 or internationally on +27 11 535 3600/+27 10 201 6616. At the Investor Roadshow, Metair will be hosting site visits during which presentations will be made regarding the company's various operations. The presentations are available on the company's website (http://www.metair.co.za/investors/presentations/).

REGISTRARS
Computershare Investor Services (Pty) Limited
Rosebank Towers, 15 Biermann Avenue,
Rosebank, 2196

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Signed on behalf of the Board in Johannesburg on 13 August 2019.

SG Pretorius – Chairman

CT Loock – Managing Director

The condensed consolidated interim results were produced under the supervision of Mr S Douwenga (Finance Director) BCom (Hons), CA(SA).

EXECUTIVE DIRECTORS: CT Loock (Managing); S Douwenga (Finance)
INDEPENDENT NON-EXECUTIVE DIRECTORS: SG Pretorius (Chairman); TN Mgoduso; PPJ Derby; HG Motau; B Mawasha; CMD Flemming; S Sithole; MH Muell; NL Mkhondo
COMPANY SECRETARY: SM Vermaak

INTERIM RESULTS COMMENTARY – JUNE 2019

Metair is pleased to announce good results in challenging trading conditions to the market with an increase in headline earnings of 21% to 160 cents per share from 132 cents per share in the comparative period.

Revenue grew by 19% from R4.483 billion to R5.344 billion. The energy storage vertical turnover grew by 14% contributing 51% to the group's revenue and the automotive components vertical turnover grew by 24% contributing 49% of the group's revenue.

At operating profit level, both business verticals increased by 16% with the energy storage vertical contributing R289 million and the automotive components vertical contributing R302 million to the group's total operating profit of R499 million after taking into account reconciling items.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) grew 19% to R699 million in the period.

Energy storage vertical

All businesses in diverse geographies performed very well with improved performance from First National Battery in South Africa and Mutlu Akü in Turkey.

The focussed and improved export volumes in Turkey from Mutlu Akü managed to offset the 16% devaluation in the Turkish local currency (Turkish Lira) as exports grew 85% in the first half of the year.

Rombat in Romania managed to sustain its performance in a challenging European trading environment.

Margins in the energy storage vertical grew to 9.4% from 8.9% contributing to the improved return on invested capital ROIC) of 19.2% from 16.7%.

Automotive components vertical

Despite a challenging January start-up by customers in South Africa, followed by market and production volume level stabilisation issues, the automotive components vertical performed well and benefited from an increased volume output trend.

Some of the increased volume output in the first half of the year related to the automotive industry's contingency plans for the renewal of wage agreements planned for the second half of 2019.

Margins declined slightly from 10.9% to 10.2% in support of customer required volume and flexible production pattern demand requirements.

OUTLOOK

As we enter a sensitive and delicate phase in the labour environment, which is critical in providing a stable and sustained manufacturing base it is difficult to formulate the outlook for the second half of the year.

Metair operates best in a stable and high-volume production environment. Structurally, the volume and production outlook environment should continue its upward volume trend.

In the short term, the trend is subject to the timeous and responsible resolution and renewal of the wage agreements by customers and automotive component manufacturers in South Africa.

Energy storage vertical

Although the geopolitical position in Turkey has improved slightly and the macro-economic indicators such as inflation and interest rates improved towards the end of the first half of 2019, the devaluation of the Turkish Lira persisted.

Metair would prefer to see a stabilisation in the exchange rate environment rather than the persistent challenge of beating the currency devaluation.

Historically the energy storage vertical is a business that performs better in the second half of a financial year, as we enter the European and other export markets winter demand cycle for batteries. We expect this trend to continue and aim to build on our growth opportunities in the export markets.

Automotive components vertical

Local OEM customers plan to offset the softer vehicle demand trend in South Africa by potential growth in their export markets and model production expansion opportunity.

Structural support and commitment in the industry to grow the manufacturing base remains high in the medium to long term.

In the short-term, production stability is dependent on the successful conclusion of the wage agreement renewal cycle.

STRATEGIC REVIEW PROCESS

Metair is progressing well in the review of our strategy aimed at securing, enhancing and growing shareholder and stakeholder value in Metair.

The outcome of the review process is dependent on the medium to long term business outlook as influenced by industry trends, technology shifts, model launches and final volume allocations in our markets. Metair plans to consult on and communicate the strategic review outcome by year-end.

APPRECIATION

We would like to thank our shareholders, the board, management, employees, customers and all other stakeholders for their continued support. A special welcome to our newly appointed independent non-executive directors Messrs Michael Flemming, Sam Sithole, Manfred Muell and Ms Nono Mkhondo and thanks to Mr Paul Moeketsi for his service and participation on the board.