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

METAIR INVESTMENTS LIMITED

automotive | industrial | retail

CONDENSED UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

METAIR INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
(“**Metair**” or “**the group**” or “**the company**”)

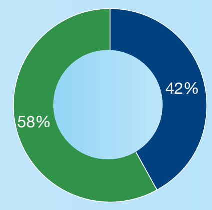
Consolidated group assessed at **B-BBEE Level 1** and South African subsidiaries at Level 4 or better

Non-cash impact of **hyperinflation** accounting (IAS29) for Mutlu Akü in Türkiye significantly impacted results

EBITDA reported of R300 million **(R743 million** on a normalised basis#)

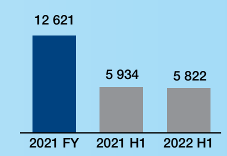
Ford investment for the group approved with 4 400 jobs created

SEGMENTAL CONTRIBUTION REVENUE (%)*

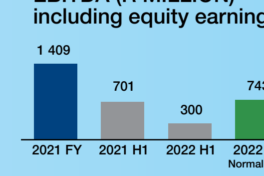


* Includes Hesto

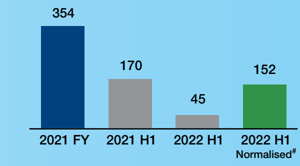
REVENUE (MILLION)



EBITDA (R’MILLION) including equity earnings



HEPS (Cents)



#*Normalised metrics represent management’s view of core earnings, after eliminating once-off items and the non-cash impact of hyperinflation accounting*

CONDENSED CONSOLIDATED INCOME STATEMENT	Six months ended 30 June 2022 R’000 Unaudited	Six months ended 30 June 2021 R’000 Unaudited	Year ended 31 December 2021 R’000 Audited
Revenue	**5 821 975**	5 934 173	12 621 070
Cost of sales	**(5 404 919)**	(4 851 263)	(10 421 551)
Gross profit	**417 056**	1 082 910	2 199 519
Other operating income	**351 120**	74 386	204 463
Distribution, administrative and other operating expenses	**(623 797)**	(612 475)	(1 244 943)
Operating profit	**144 379**	544 821	1 159 039
Interest income	**8 954**	19 472	32 425
Interest expense	**(133 527)**	(83 280)	(177 464)
Net monetary gain arising from hyperinflation in Türkiye	**252 822**		
Share of results of associates	**(27 534)**	3 130	(51 878)
Impairment of associates	**(10 440)**		
Profit before taxation	**234 654**	484 143	962 122
Taxation	**(138 994)**	(139 944)	(269 324)
Profit for the period	**95 660**	344 199	692 798
Attributable to:			
Equity holders of the company	**79 980**	327 227	674 791
Non-controlling interests	**15 680**	16 972	18 007
	95 660	344 199	692 798
Included in operating expenses above are:			
Depreciation and amortisation	**183 534**	153 198	301 996
Rentals on short-term and low value assets	**12 294**	9 856	22 828
Impairment loss on trade receivables	**105**	4 683	23 221
Disaggregation of revenue from contracts with customers			
Primary geographical markets			
South Africa	**3 085 913**	3 707 715	7 022 371
Türkiye and UK	**1 936 352**	1 429 014	3 934 430
Romania	**799 710**	797 444	1 664 269
	5 821 975	5 934 173	12 621 070
Major product and service lines			
Automotive batteries	**3 448 276**	2 987 566	7 019 984
Automotive components and customer tooling	**2 088 408**	2 666 905	5 060 421
Industrial and non-automotive products	**285 291**	279 702	540 665
	5 821 975	5 934 173	12 621 070
Timing of revenue recognition			
Products transferred at a point in time	**3 944 424**	3 362 611	7 757 053
Products and services transferred over time	**1 877 551**	2 571 562	4 864 017
	5 821 975	5 934 173	12 621 070
Earnings per share			
Basic earnings per share (cents)	**41**	170	350
Headline earnings per share (cents)	**45**	170	354
Diluted earnings per share			
Diluted earnings per share (cents)	**41**	169	346
Diluted headline earnings per share (cents)	**44**	169	350
Number of shares in issue (’000)	**198 986**	198 986	198 986
Number of shares in issue excluding treasury shares (’000)	**193 581**	192 717	193 108
Weighted average number of shares in issue (’000)	**193 350**	192 618	192 715
Adjustment for dilutive shares (’000)	**2 761**	1 372	2 174
Number of shares used for diluted earnings calculation (’000)	**196 111**	193 990	194 889
Calculation of headline earnings			
Net profit attributable to ordinary shareholders	**79 980**	327 227	674 791
(Profit)/loss on disposal of property, plant and equipment – net	**(598)**	242	(144)
(Reversal of impairment)/impairment of property, plant and equipment	**(2 786)**		7 850
Impairment of associate	**10 440**		
Headline earnings	**87 036**	327 469	682 497

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Six months ended 30 June 2022 R’000 Unaudited	Six months ended 30 June 2021 R’000 Unaudited	Year ended 31 December 2021 R’000 Audited
Profit for the period	**95 660**	344 199	692 798
Other comprehensive income/(loss):			
– Actuarial losses recognised – net			(3 810)
– Foreign exchange translation movements including the effect of hyperinflation	**1 233 094**	(399 569)	(897 191)
Net other comprehensive income/(loss)	**1 233 094**	(399 569)	(901 001)
Total comprehensive income/(loss) for the period	**1 328 754**	(55 370)	(208 203)
Attributable to:			
Equity holders of the company	**1 313 338**	(72 017)	(225 992)
Non-controlling interests	**15 416**	16 647	17 789
	1 328 754	(55 370)	(208 203)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Six months ended 30 June 2022 R’000 Unaudited	Six months ended 30 June 2021 R’000 Unaudited	Year ended 31 December 2021 R’000 Audited
Balance at beginning of the period	**3 874 354**	4 214 838	4 214 838
Effect of hyperinflation			
Net profit for the period	**95 660**	344 199	692 798
Other comprehensive income/(loss) for the period	**1 233 094**	(399 569)	(901 001)
Total comprehensive income/(loss) for the period	**1 328 754**	(55 370)	(208 203)
Share option scheme	**13 869**	9 173	24 377
Vesting of share-based payment obligation:			
– Estimated taxation effects of utilisation of treasury shares	**(1 170)**	(187)	(1 298)
Dividend *	**(174 423)**	(155 129)	(155 360)
Balance at end of the period	**5 041 384**	4 013 325	3 874 354

* *An ordinary dividend of R0.90 per share was declared in 2022 in respect of the year ended 31 December 2021 in line with Metair’s dividend policy. No ordinary dividend is being declared for the six months ended 30 June 2022 (30 June 2021: Rnil).*

* *An ordinary dividend of R0.75 per share was declared in 2021 in respect of the year ended 31 December 2020.*

CONDENSED CONSOLIDATED BALANCE SHEET	Six months ended 30 June 2022 R’000 Unaudited	Six months ended 30 June 2021 R’000 Unaudited	Year ended 31 December 2021 R’000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	**3 449 288**	2 582 697	2 636 978
Intangible assets	**979 669**	404 502	283 793
Investment in associates	**510 185**	621 256	613 056
Loan to associate	**188 562**		
Deferred taxation	**17 125**	15 328	5 374
	5 144 829	3 623 783	3 539 201
Current assets			
Inventory	**2 807 619**	1 928 786	1 959 253
Trade and other receivables	**2 131 401**	1 944 053	1 978 447
Contract assets	**525 238**	279 459	511 199
Taxation	**1 069**	23 500	2 552
Derivative financial assets	**15 171**	3 181	6 693
Cash and cash equivalents	**725 819**	1 111 487	1 078 074
	6 206 317	5 290 466	5 536 218
Total assets	**11 351 146**	8 914 249	9 075 419
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	**1 497 931**	1 497 931	1 497 931
Treasury shares	**(110 202)**	(124 320)	(118 153)
Reserves	**(1 218 855)**	(1 841 110)	(2 380 436)
Retained earnings	**4 741 283**	4 365 925	4 759 200
Ordinary shareholders’ equity	**4 910 157**	3 898 426	3 758 542
Non-controlling interests	**131 227**	114 899	115 812
Total equity	**5 041 384**	4 013 325	3 874 354
Non-current liabilities			
Borrowings	**320 187**	560 107	1 849 263
Post-employment benefits	**70 500**	85 696	73 263
Deferred taxation	**413 322**	217 880	173 614
Deferred grant income	**98 657**	117 368	104 681
Provisions for liabilities and charges	**41 035**	41 221	40 808
	943 701	1 022 272	2 241 629
Current liabilities			
Trade and other payables	**2 368 257**	1 895 298	2 155 753
Contract liabilities	**33 109**	105 797	49 952
Borrowings	**2 687 286**	1 693 719	477 642
Taxation	**66 142**	75 661	60 574
Provisions for liabilities and charges	**72 201**	72 252	98 205
Derivative financial liabilities	**1 161**	7 366	1 131
Bank overdrafts	**137 905**	28 559	116 179
	5 366 061	3 878 652	2 959 436
Total liabilities	**6 309 762**	4 900 924	5 201 065
Total equity and liabilities	**11 351 146**	8 914 249	9 075 419
Net asset value per share (cents)	**2 536**	2 023	1 946
Capital expenditure	**249 911**	253 401	574 646
Capital commitments:			
– Contracted	**584 724**	158 632	79 946
– Authorised but not contracted	**152 179**	567 938	590 354

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	Six months ended 30 June 2022 R’000 Unaudited	Six months ended 30 June 2021 R’000 Unaudited	Year ended 31 December 2021 R’000 Audited
Operating activities			
Operating profit	**144 379**	544 821	1 159 039
Depreciation and amortisation	**183 534**	153 198	301 996
Equity earnings, before impairment	**(27 534)**	3 130	(51 878)
Net movement in provisions and similar items	**(31 686)**	(20 875)	(15 997)
Other items	**(69 151)**	51 168	126 790
Working capital changes	**(559 237)**	(458 308)	(871 020)
Cash (utilised)/generated from operations	**(359 695)**	273 134	648 930
Interest paid	**(130 311)**	(85 707)	(183 389)
Taxation paid	**(133 722)**	(133 191)	(251 357)
Dividends paid	**(174 423)**	(155 129)	(155 360)
Dividend income from associates	**58 113**	4 924	6 724
Net cash (outflow)/inflow from operating activities	**(740 038)**	(95 969)	65 548
Investing activities			
Interest received	**8 954**	19 472	32 425
Acquisition of property, plant and equipment	**(227 232)**	(159 864)	(439 685)
Funding advanced to Hesto	**(188 562)**		
Net cash utilised in other investing activities	**4 712**	(1 747)	(8 357)
Net cash outflow from investing activities	**(402 128)**	(142 139)	(415 617)
Financing activities			
Borrowings raised/(repaid) – net	**803 100**	(142 495)	34 075
Net cash utilised in other financing activities	**(1 170)**	(187)	(44 394)
Net cash inflow/(outflow) from financing activities	**801 930**	(142 682)	(10 319)
Net decrease in cash and cash equivalents	**(340 236)**	(380 790)	(360 388)
Cash and cash equivalents at beginning of the period	**961 895**	1 565 123	1 565 123
Exchange loss and hyperinflation impact on cash and cash equivalents	**(33 745)**	(101 405)	(242 840)
Cash and cash equivalents at end of the period	**587 914**	1 082 928	961 895

CONDENSED CONSOLIDATED SEGMENT REVIEW	Revenue: Six months ended 30 June 2022 R’000 Unaudited	Revenue: Six months ended 30 June 2021 R’000 Unaudited	Revenue: Year ended 31 December 2021 R’000 Audited	Profit before interest and taxation: Six months ended 30 June 2022 R’000 Unaudited	Profit before interest and taxation: Six months ended 30 June 2021 R’000 Unaudited	Profit before interest and taxation: Year ended 31 December 2021 R’000 Audited
Energy storage						
Automotive						
Local	**2 230 735**	2 047 589	4 701 913	**(62 220)**	209 148	593 487
Direct export	**1 217 541**	939 976	2 318 071	**33 383**	121 335	339 871
	3 448 276	2 987 565	7 019 984	**(28 837)**	330 483	933 358
Industrial						
Local	**276 807**	264 137	511 021	**(15 521)**	(2 348)	(44 150)
Direct export	**3 385**	8 352	19 382	**312**	(274)	(2 145)
	280 192	272 489	530 403	**(15 209)**	(2 622)	(46 295)
Total energy storage	**3 728 468**	3 260 054	7 550 387	**(44 046)**	327 861	887 063
Automotive components						
Local						
Original equipment	**2 384 502**	3 224 726	6 174 325	**140 257**	218 977	183 971
Aftermarket	**255 010**	227 135	470 610	**37 686**	30 621	66 284
Non-auto	**5 099**	7 213	10 263	**(749)**	80	(358)
	2 644 611	3 459 074	6 655 198	**177 194**	249 678	249 897
Direct exports						
Original Equipment	**2 054**	1 491	3 203	**1 180**	591	1 133
Aftermarket	**21 251**	30 007	54 009	**4 742**	3 598	6 367
	23 305	31 498	57 212	**5 922**	4 189	7 500
Total automotive components	**2 667 916**	3 490 572	6 712 410	**183 116**	253 867	257 397
Total segment results	**6 396 384**	6 750 626	14 262 797	**139 070**	581 728	1 144 460
Reconciling items:						
– Share of results of associates				**(27 534)**	3 131	(51 878)
– Impairment of associate				**(10 440)**		
– Managed associates*	**(574 409)**	(816 453)	(1 641 727)	**60 649**	150	95 277
Amortisation of intangible assets arising from business acquisitions				**(17 416)**	(9 104)	(17 084)
Other reconciling items**				**(37 924)**	(27 954)	(63 614)
Total	**5 821 975**	5 934 173	12 621 070	**106 405**	547 951	1 107 161
Net interest expense				**(124 573)**	(63 808)	(145 039)
Net monetary gain arising from hyperinflation in Türkiye				**252 822**		
Profit before taxation				**234 654**	484 143	962 122

* *Although the results of Hesto Harnesses Proprietary Limited (“Hesto”) do 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The condensed unaudited consolidated interim results for the six months ended 30 June 2022 have been prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The interim results do not include all the notes of the type normally included in an annual financial report prepared in accordance with International Financial Reporting Standards (“IFRS”). Accordingly, this report is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with IFRS and comply with the JSE Limited Listings Requirements, the requirements of the Companies Act, 71 of 2008 and any public announcements made by Metair Investments Limited during the interim reporting period.

Accounting policies

The accounting policies applied are in terms of IFRS and consistent with the accounting policies used in the preparation of the 31 December 2021 consolidated annual financial statements except for first-time application of IAS 29 ‘financial reporting in hyperinflationary economies’. Türkiye is a hyperinflationary economy in terms of IAS 29 and the financial statements of entities whose functional currency is that of a hyperinflationary economy are required to be stated in terms of the measuring unit (purchase power) current at the end of the reporting period. Therefore, Mutlu Akü’s results and balance sheet position have been restated to reporting date purchasing power before being included in the group’s consolidated financial statements. Comparative amounts are not restated as they were previously presented in Metair’s presentation currency (i.e. ZAR), which is a stable currency in terms of IAS 29. The group has elected to present the initial and subsequent impact of the application of IAS 29 as a combined effect that encompasses the restatement in accordance with IAS 29 and translation in accordance with IAS 21 as a net change through the foreign currency translation reserve presented under other comprehensive income in the condensed consolidated statement of comprehensive income.
The interim results have not been reviewed or audited by the group’s auditors.

Contingencies

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

Borrowings

During the period the group repaid borrowings of R510.4 million (2021H1: R354.8 million) and raised borrowings of R1 332.8 million (2021H1: R234.4 million).

Post-balance sheet events

There has been no material change since period-end.

Changes to the board of directors and committees of Metair.

The following changes to the board of directors of Metair and the company’s remuneration committee and nomination committee took place with effect from 2 August 2022. Mr S. Sithole resigned as an independent non-executive director of the company and consequently stepped down as a member of the remuneration committee and nominations committee and was appointed as an alternate director to Ms N. M. Mkhondo, an independent non-executive director of the company. Mr B. Mawasha, an independent non-executive director of the company, has stepped down as a member of the nominations committee. Ms Mkhondo was appointed as a member of the remuneration committee. Mr P.H. Giliam and Ms B. Mathews, independent non-executive directors of the company, were appointed as members of the nominations committee.

The interim results presentation will be available on the company’s website (www.metair.co.za)
Live webcast: A live webcast of the presentation will be available at 11:00 (SAST) on Thursday, 15 September 2022 at https://www.corpcam.com/Metair15092022

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 14 September 2022

CMD Flemming – Chairman

R Haffejee – Chief Executive Officer

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

EXECUTIVE DIRECTORS: R Haffejee (CEO); S Douwenga (CFO)
INDEPENDENT NON-EXECUTIVE DIRECTORS: CMD Flemming (Chairman); TN Mgoduso (Lead Independent); P Giliam; B Mathews; B Mawasha; N Mkhondo; MH Muell (German); A Sithebe; S Sithole (Alternate director to N Mkhondo)
COMPANY SECRETARY: SM Vermaak

Interim Results Commentary

Introduction

Metair successfully mitigated a very challenging first six months in a number of areas. Locally and globally, volatility, uncertainty and complexity in regions and economies remained high. This combined with higher energy costs, hyperinflation and climate change related events required active management to stabilise the company.

The most significant disruption from a South African perspective was the flooding in Kwa-Zulu Natal (“KZN”) in April. This caused significant damage and disruption to the group’s major customer, Toyota South Africa Manufacturing (“Toyota”), forcing it to halt vehicle production at its Prospecton plant for several months to restore its facilities. Although the Metair group companies were largely unaffected by flood damage, most of the Metair Automotive Component companies were severely impacted by the loss of sales to this major customer. A business interruption insurance claim has been instituted for the loss of turnover and is ongoing. From the onset of the floods, Metair focused on supporting employees, customers, and other stakeholders as best as possible during the challenging time while the group worked with its customer to support its recovery while managing ongoing cash flow and liquidity needs across the group. While managing through this period, Metair ensured return to production readiness including availability of materials to support the reopening of the Toyota plant. After several months of lost manufacturing, production recommenced in the third quarter with vehicle production based on a responsible ramp up plan. Although there have been minor challenges, vehicle production levels have climbed steadily and a return to normal production volumes is anticipated within the fourth quarter of the year.

Metair subsidiaries in South Africa have been preparing for new model launches and continue to invest in capital expenditure, working capital and incur project costs ahead of the new major Ford model launch in the fourth quarter. All projects have progressed well, and the subsidiaries are currently in a pre-production and prototype manufacturing phase.

Original Equipment Manufacturer (“OEM”) production volumes were impacted by raw material shortages (including semi-conductor chips), supply chain delays and the loss of production due to the KZN flooding, all of which had a short-term negative impact on OEM volumes in South Africa.

Interventions to curb the impact of short-term operational instability within the Automotive Components business are a major focus for management and the ongoing investments are expected to deliver returns in line with Metair’s targets over the life of the contracts.

Internationally, inflation rates have increased across all territories in which the group operates, mainly due to higher energy cost driven by the conflict in Ukraine. Inflation in Türkiye rose dramatically during the first half and cumulative inflation rates over a three-year period exceeded 100% during the second quarter. Based on the criteria set out in International Financial Reporting Standards including IAS 29 ‘Financial Reporting in Hyperinflationary Economies’, Türkiye meets the requirements to be designated as a hyperinflationary economy. Consequently, Mutlu Akü’s first half results now include the requirements and consequences of adopting IAS 29 for the first time. Operations remain unchanged and the business continues to experience healthy levels of local and global demand, there is no restricted access to hard currency or limitations on the remittance of dividends to shareholders. In addition, a substantial portion of commodity input costs and sales are hard currency denominated and not directly subject to Turkish inflation. Mutlu Akü remains a significant operation within the Energy Storage Vertical and management has put in place a strategy to determine and respond to the longer-term impact of hyperinflation. Market demand for lead-acid batteries remained resilient in all sales channels. A ten-day labour wage strike during June 2022 was successfully resolved and operations returned to normal at Mutlu Akü in Türkiye. The strike did however adversely impact operations in terms of preparation ahead of the strike, as well as disruptions to manufacturing and sales efforts during the strike.

Group Performance

Group revenue for the period decreased by 2% to R5.8 billion (H1’21: R5.9 billion), reflecting the overall loss of turnover in the Automotive Components Vertical. Group operating profit (“EBIT”) decreased by R401 million to R144 million (H1’21: R545million) at an operating margin of 2.5% (H1’21: 9.2%). Group earnings before interest, tax, depreciation and amortisation (“EBITDA”)) (including equity earnings but excluding impairments) declined to R300 million (H1’21: R701 million) and the EBITDA margin declined to 5.2% (H1’21: 11.8%). The decrease in both EBIT and EBITDA was mainly due to lower OEM production volumes in South Africa, the impact of project costs incurred ahead of new project launches (particularly Ford-related), the short-term impact of the strike at Mutlu Akü, the non-cash impact of hyperinflation accounting adopted by Mutlu Akü and a lag in the recovery of energy costs in Europe.

The group (including Hesto) is in the process of finalising an intensive capital expansion phase, with R454 million in capital expenditure already spent in 2022, and R887 million planned for the remainder of the year. As such, the group continues to focus on liquidity management, especially considering the short-term instability recently experienced. Group net debt increased to R2.4 billion (FY’21: R1.3 billion) and net finance expenses increased to R125 million (H1’21: R64 million) due to higher interest rates in all geographies, combined with higher debt levels. Headline earnings per share decreased by 125 cents per share or 74% to 45 cents per share (H1’21: 170 cents per share). Group unadjusted return on invested capital (ROIC) was 11.7% (H1’21: 16.3%) on a last twelve-month basis.

Segmental review

Automotive Components Vertical

The Automotive Components Vertical is directly dependent on South African OEM production, which continued to be impacted by global supply chain shortages, with some of Metair’s key customers significantly affected by production instability, variability and premium logistics costs, especially during the first quarter of the year. Despite the supply chain disruptions and loss of major customer revenue due to the KZN flooding in the second quarter, the Automotive Components Vertical contributed R2.7 billion (H1’21 R3.5 billion) in revenue, with OEM production volumes recording a decline of 10% (23% for Metair’s main customers) for the period. Margins were diluted by manufacturing inefficiencies, premium logistics costs as well as planned project costs of R115 million associated with new model launches. This was however mitigated by business interruption claim of R360 million accrued (before tax and minority share) and represents substantially lost earnings from the group’s major customer, Toyota. The operating profit margin therefore declined to 6.9% (H1’22:7.3%) and operating profit was R183 million (H1’21: R254 million).

Energy Storage Vertical

Overall, automotive volumes sold were c. 4 million units, supported by strong volumes from Türkiye as Mutlu Akü export volumes increased by c.14% in the period compared to H1’21. Volumes from Rombat were c.14% lower, mainly due to dampened consumer confidence arising from the ongoing conflict in Ukraine and extremely strong demand experienced in the prior period following restrictions due to Covid-19. In South Africa, First National Battery’s (“FNB”) volumes were marginally down on H1’21, but efforts to improve competitiveness and market share continue to progress according to plan.

The Energy Storage Vertical experienced resilient local aftermarket, OEM and export demand in all regions, mainly due to improved export demand from Mutlu Akü in Türkiye. Overall automotive sales units increased by 1% to 3.99 million units (H1’21: 3.96 million units). Turnover increased by 14% to R3.73 billion (H1’21: R3.26 billion), mainly because of improved volumes, the impact of hyperinflation and higher average lead prices. Operating margins for the Energy Storage Vertical decreased from 10.1% to -1.2% due to hyperinflation accounting and in particular restating and inflating cost of goods sold by Mutlu Akü by a greater extent when compared to sales. Operating profit margins would have been 7.7% before applying hyperinflation accounting. Although volumes remained resilient, a wage related strike at Mutlu Akü in June significantly impacted manufacturing and sales for the month with pre-strike preparation costs also incurred. The Energy Storage Vertical delivered an operating loss of R44 million (R273 million operating profit on a pre-hyperinflation basis) (H1’22: R328 million). On a pre-hyperinflation basis, Mutlu Akü’s EBIT in local currency, was approximately 56% higher than in H1’21, at an EBIT margin of 9.1% (H1’21: 11.4%). The further devaluation of the Turkish Lira against the Rand during H1’21 (an average decline of 44% period on period) finally resulted in a ZAR EBIT of R156 million pre-hyperinflation (H1’21: R160 million). FNB’s margins declined to 9.5% (H1’21: 9.9%) and its operating profit decreased to R94 million from R103 million in H1’21. Rombat’s operating profit decreased by 68% to R20 million at an operating margin of 2.5% (H1’21: 7.7%), which was mainly due to the lag in energy cost recovery from customers.

Sales of industrial batteries increased to R280 million (H1’21: R272 million), as FNB’s industrial trade business migration slowly took shape.

Financial position

Group net asset value per share increased to 2 536 cents (FY’21: 1 946 cents). Much of this increase is related to the impact of hyperinflation on Mutlu Akü’s balance sheet, with the strong non-monetary asset base protecting against inflation and resulting in a positive gain from a net asset point of view. Net working capital increased by R820 million to R3.06 billion (FY’21: R2.24 billion) due to the impact of the group’s major customer halting production as well as the strike at Mutlu Akü and lead times for imported components resulting in a build-up of stock. Both these positions are expected to be temporary in nature. Cash utilised in operations amounted to R360 million (H1’21: generated R273 million), with a significant portion of cash generation reclassified to net monetary gains as a result of the impact of hyperinflation accounting. Cash and cash equivalents decreased to R588 million from R962 million in 2021, while net debt (borrowings less cash and cash equivalents) increased to R2.4 billion (FY’21: R1.3 billion). The group’s net debt to equity ratio increased to 49% (FY’21: 35%), and net debt to EBITDA increased to 2.4 times (FY’21: 0.9 times). The group’s gearing increased significantly due to the operational challenges described above as well as funding taken up for new projections, additional funding of R188 million advanced to Hesto Harnesses, increased working capital investments and the impact of hyperinflation on Mutlu Akü’s results. On a pre-hyperinflation basis, group net debt to EBITDA amounted to 1.8 times.

Going concern, cash and debt covenants

On a covenant testing basis, calculated on a trailing 12 months adjusted EBITDA, priority debt cover amounted to 1.5 times (required to be not more than 1 times group EBITDA) and gearing was 3 times cover (required to be not more than 2.5 times group EBITDA), resulting in covenants being breached at balance sheet date. The group’s preference share and revolving credit facility (RCF) funding have therefore been reclassified as current debt. Discussions with the group’s funders regarding the debt position have been positive and a waver is imminent.

Unutilised and available funding facilities were R919 million (H1’21: R758 million) in South Africa, R796 million (H1’21: R1 122 million) combined equivalent at Rombat and Mutlu Akü, with R280 million (H1’21: R540 million) still available through the RCF 2 South African facility. Management continues to closely monitor the group’s financial position and remains focused on effective cash management, especially in the areas of working capital, cost control and capital expenditures, considering customer requirements, planned investments in new or upcoming customer models and facelifts, as well as the conclusion of business interruption claims. Considering the future cash requirements of the business, management has determined that there is no material uncertainty or significant doubt upon the group’s ability to continue as a going concern.

Capital expenditure

Total capital expenditure, including Hesto and intangible assets was R454 million assets for the first half of 2022, reflecting the capital expansion phase ahead of new project launches. R67 million has been allocated to maintenance, R375 million to expansion capex and R12 million to health and safety, improving the group’s competitive position and efficiency. Majority of the capital expenditure for the period was focused on capacity expansion for the Automotive Components Vertical to invest in facilities, tooling and machinery required to support planned new model launches and facelifts.

New model and facelift launches are expected to drive meaningful growth over the medium to long term, most notably the ongoing contract to support Ford’s investment into the South African automotive industry.

Insurance claims

As a result of the KZN flooding and the consequential loss of a major customer’s volumes, Metair initiated an insurance claim for loss of profits due to business interruption. The business interruption insurance claim has progressed satisfactorily to date and based on management’s estimates, a claim for R360 million (before tax and minorities) has been accrued for the period and an interim cash payment of R150 million has been received to date. The second claim is currently under review by the insurers and the total claim is expected to be finalised during the second half of the year.

Hyperinflation in Türkiye

As previously reported, inflation in Türkiye rose dramatically during the first half of the year and cumulative inflation rates over a three-year period exceeded 100% during the second quarter of the financial year. Based on the criteria set out in IAS 29 ‘Financial Reporting in Hyperinflationary Economies’, Türkiye meets the requirements to be designated as a hyperinflationary economy. The group, based on the directives issued by the International Monetary Fund and global accounting firms, applied hyperinflationary accounting, as specified in IAS 29, for results reported by Mutlu Akü in Türkiye for the period commencing 1 January 2022.

Under IAS 29, Turkish Lira results and non-monetary asset and liability balances (including undistributed profits) are restated to present value equivalent local currency results (adjusted based on an inflation index) before translation to ZAR at 30 June 2022 (reporting-date exchange rate). Although operations remain unchanged, as a substantial portion of commodity input costs and sales being hard currency denominated and not directly subject to Turkish inflation, the accounting impact of implementing IAS 29 is significant. Mutlu Akü’s strong non-monetary asset base protects against inflation and results in a positive gain from a net asset point of view, but the impact on profit and loss is negative since IAS 29 requires the restatement of Mutlu Akü’s retained income at 31 December 2021 and 30 June 2022 within current year earnings. Current period trading remains unaffected as reclassification restatements have no impact on net profit, however the indexing effect results in reclassification of operating profit as a ‘net monetary gain’, mainly because cost of sales is adjusted from date of cost incurred and not the date of actual sale of a battery. In summary, the impact of IAS 29 on Mutlu Akü’s pre-hyperinflationary results and consequently on Metair’s consolidated results is as follows:

- Operating profit decline of c. R328 million
- Profit after tax decline of c. R95 million, arising from the restatement of net non-monetary assets of R185 million and retained income of R280 million through profit and loss
- A net monetary gain amounting to c. R253 million (financial gain) through profit and loss
- Uplift in assets of R1.7 billion and R1.4 billion uplift in equity relating to foreign currency translation gains within other comprehensive income

Outlook and prospects

Metair’s priority is to support the successful launches of new models and facelifts during the fourth quarter while successfully recovering from the disruptions faced in the first six months of the year. In the period ahead, effective project management, improved operating efficiencies and working capital cost control will be focus areas as OEM production volumes grow. The Automotive Components Vertical business will finalise the preparation and implementation of new projects with some subsidiaries entering the pre-production and prototype manufacturing phase, which will result in further planned project costs ahead of model launches. Production at Toyota has resumed and is increasing steadily. The outlook for production is that a return to pre-flood levels can be achieved in the short to medium term, depending on the stability of global supply chains. The outlook for the year is therefore dependant on the successful launch of new projects, production normalisation of continuing models and the successful conclusion of the wage negotiations across the sector. The investment in future growth of the Automotive Components Vertical could bring about a short-term decline in margins for this vertical, but should migrate towards the Metair market guidance of EBIT between 7% and 9%, once production stabilises and new models are successfully launched.

The Energy Storage Vertical will continue to focus on improving volumes in hard currency export markets and expanding its trading industrial portfolio in South Africa. A major focus for Rombat will be managing the current trend in energy cost in the European region, and recovery of these costs associated with the energy crisis. Inflationary pressures and cost of living pressure across Europe are expected to potentially impact consumer demand. FNB in South Africa will continue with efforts to improve competitiveness and market share, which are progressing according to plan. Although no final decision has been taken at this point, the strong operational performance in the Energy Storage Vertical business has provided Metair with the opportunity to consider strategic options for this vertical. A conclusion to this is expected in the fourth quarter.