



Howden



Revolving Around You™

Unaudited interim financial statements

FOR THE SIX MONTHS ENDED 30 JUNE 2017

Vision and highlights

Our vision is to be Africa's leading application engineer, providing lifetime solutions in air and gas-handling.

Revenue

R848.0
million

Increased by 20.7% from R702.8 million in 2016

Operating profit

R133.1
million

Increased by 29.9% from R102.4 million in 2016

Earnings per share

184.51
cents

Increased by 31.0% from 140.85 cents in 2016

Howden Africa is a market-driven, customer-orientated company. Its main business activities are the design, manufacture and marketing of specialised air and gas-handling solutions for a wide range of industries. The Group's major industries supplied include power generation, petrochemical, mining, iron and steel, cement and water treatment.

Howden Africa is also a distributor of ESAB welding and cutting equipment and consumables.

Howden Africa is committed to environmental awareness. Accordingly, all product designs and manufacturing are scrutinised for environmental friendliness. Design and drawing activities are computerised and manufacturing is concentrated on producing key components. Manufacturing facilities are located in Booysens (Johannesburg) and Struandale (Port Elizabeth).

OVERVIEW

Howden Africa generated a solid set of results in the first half of 2017, despite the current challenging market conditions. The business generated a year-on-year improvement in results through successful execution of turnkey projects.

RESULTS

Orders received of R868.1 million for the first half of 2017 is 28.8% ahead of the corresponding period in 2016. There has been improved order intake in all three segments during the period. The award of turnkey projects in the Environmental Control and Fans and Heat Exchangers divisions resulted in an increased order intake of 127.4% and 20.4% respectively compared to the prior year, while the Fabrication Technology division received orders of R57.5 million, up on the corresponding period in 2016.

Revenue was R848.0 million for the first half of 2017 and is 20.7% ahead of the equivalent period in 2016 of R702.8 million. The Fans and Heat Exchangers division increased revenue 12.2% to R660.1 million due to the execution of a large international mining project and the continued drive within aftermarket. The increase of 61.2% in the Environmental Control division is driven by the execution of a few significant turnkey projects in the period. The Fabrication Technology division had an improvement in revenue of 70.2% to R59.0 million to the corresponding period, which period was the first period of trade for this segment.

Operating profit of R133.1 million is an increase of 29.9% over the R102.4 million to June 2016; the performance in the Fans and Heat Exchangers division was robust with both the Environmental Control division and the Fabrication Technology division returning to profits from the losses made in the corresponding prior period. Margins are still under pressure in the Environmental Control division, but improvements in profit are expected.

Earnings per share of 184.51 cents is 31.0% up on the corresponding period last year due to improved operating profit achieved by the business and additional investment income.

Cash generated from operations was R236.5 million a significant improvement over the corresponding period (2016: R61.8 million).

Net asset value per share has increased by 21.9% to 2 095.64 cents (June 2016: 1 718.98 cents) mainly due to the increase in cash and cash equivalents to R1.1 billion.

OUTLOOK

Capital project spend within power generation, mining and general industry is expected to remain subdued. The Fans and Heat Exchangers division will continue to focus its strategy on the supply of services and spares to key industries. Pockets in the market within the Environmental Control division have seen recovery and key project awards have been received in the period for execution in the latter part of 2017. The Fabrication Technology division is expected to grow.

DIVIDENDS

The directors have resolved not to declare a dividend (2016: nil).

DIRECTORATE

No changes were made during the period under review.

UNAUDITED INTERIM FINANCIAL RESULTS

The Company's auditors Ernst & Young Inc., have not reviewed or audited the interim financial results for the six months ended 30 June 2017.

For and on behalf of the board of directors

IH Brander
Chairman

W Thomson
Chief Executive Officer

14 September 2017

Condensed consolidated statement of comprehensive income

for the period ended 30 June 2017

	Note	Six months ended 30 June 2017 (Unaudited) R'000	Six months ended 30 June 2016 (Unaudited) R'000	Change %	Twelve months ended 31 December 2016 (Audited) R'000
Revenue		847 976	702 823	20.7	1 604 535
Cost of sales		(628 748)	(511 284)	23.0	(1 176 761)
Gross profit		219 228	191 539	14.5	427 774
Distribution costs		(29 007)	(24 088)	20.4	(58 546)
Administrative expenses		(57 796)	(65 769)	(12.1)	(123 827)
Other income		654	737	(11.3)	2 210
Operating profit	5	133 079	102 419	29.9	247 611
Investment income		35 738	25 861	38.2	55 566
Finance costs		(56)	(61)	(8.2)	(72)
Profit before income tax		168 761	128 219	31.6	303 105
Income tax expense		(47 485)	(35 639)	33.2	(84 684)
Profit for the period		121 276	92 580	31.0	218 421
Other comprehensive income for the period					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Cash flow hedge gain/(loss)		1 254	(1 921)		(1 418)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Pension fund plan loss		-	-		(1 298)
Total other comprehensive income/ (loss) for the period, net tax		1 254	(1 921)		(2 716)
Total comprehensive income for the period		122 530	90 659	35.2	215 705
Earnings per share – basic and diluted (cents)		184.51	140.85	31.0	332.31

Condensed consolidated statement of financial position

as at 30 June 2017

	30 June 2017 (Unaudited) R'000	31 December 2016 (Audited) R'000
ASSETS		
Non-current assets	177 201	185 931
Property, plant and equipment and intangible assets	132 585	136 708
Pension fund plan surplus	16 463	17 485
Deferred tax assets	17 644	18 132
Trade, construction contracts and other receivables	10 509	13 606
Current assets	1 856 580	1 675 109
Inventories	321 111	332 166
Trade, construction contracts and other receivables	371 624	386 010
Loans receivable	16 050	16 050
Current income tax asset	22 663	31 542
Cash and cash equivalents	1 125 132	909 341
TOTAL ASSETS	2 033 781	1 861 040
EQUITY		
Share capital and reserves		
Share capital and reserves	1 377 442	1 254 912
Total equity	1 377 442	1 254 912
LIABILITIES		
Non-current liabilities	95 920	102 066
Deferred tax liabilities	2 784	3 069
Provisions	8 695	11 642
Payables and construction contracts	84 441	87 355
Current liabilities	560 419	504 062
Provisions	19 679	18 300
Current income tax liabilities	–	13 123
Payables and construction contracts	540 740	472 639
Total liabilities	656 339	606 128
TOTAL EQUITY AND LIABILITIES	2 033 781	1 861 040

Condensed consolidated statement of changes in equity

for the period ended 30 June 2017

	Six months ended 30 June 2017 (Unaudited) R'000	Six months ended 30 June 2016 (Unaudited) R'000	Twelve months ended 31 December 2016 (Audited) R'000
Share capital and reserves at the beginning of the period	1 254 912	1 039 207	1 039 207
Total comprehensive income for the period	122 530	90 659	215 705
Profit for the period	121 276	92 580	218 421
Other comprehensive income/(loss)	1 254	(1 921)	(2 716)
Share capital and reserves at the end of the period	1 377 442	1 129 866	1 254 912

Condensed consolidated statement of cash flows

for the period ended 30 June 2017

	Six months ended 30 June 2017 (Unaudited) R'000	Six months ended 30 June 2016 (Unaudited) R'000
Cash flow from operating activities		
Cash generated from operations	236 480	61 755
Interest paid	(56)	(61)
Income tax paid	(51 729)	(50 713)
Net cash generated from operating activities	184 695	10 981
Cash flow from investing activities		
Interest received	35 132	25 861
Purchases of property, plant and equipment and intangible assets	(4 036)	(2 862)
Proceeds from disposal of property, plant and equipment	–	14
Net cash generated from investing activities	31 096	23 013
Net increase in cash and cash equivalents	215 791	33 994
Cash and cash equivalents at the beginning of the period	909 341	730 190
Cash and cash equivalents at the end of the period	1 125 132	764 184

Notes to the interim financial statements

for the period ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the period ended 30 June 2017 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The report has been so prepared.

2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

There were no new revised standards adopted that have a material impact on the consolidated financial statements.

IFRS 15 update: the standard is not yet effective and the Group has not early adopted. An assessment of the impact has been completed and we have concluded that the standard will have an impact on 2017 opening balances.

The Group financial results were prepared under the supervision of the Chief Financial Officer, Mrs M Vigouroux CA(SA).

3. SEGMENTAL ANALYSIS BY OPERATING DIVISION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Howden Africa executive committee.

	Six months ended 30 June 2017 (Unaudited) R'000	Six months ended 30 June 2016 (Unaudited) R'000	Change %	Twelve months ended 31 December 2016 (Audited) R'000
Orders received				
Fans and Heat Exchangers	713 267	592 339	20.4	1 238 338
Environmental Control	97 326	42 804	127.4	239 949
Fabrication Technology	57 545	38 719	48.6	94 430
	868 138	673 862	28.8	1 572 717
Revenue				
Fans and Heat Exchangers	660 136	588 213	12.2	1 338 783
Environmental Control	128 847	79 952	61.2	178 610
Fabrication Technology	58 993	34 658	70.2	87 142
	847 976	702 823	20.7	1 604 535
Intersegmental sales				
Fans and Heat Exchangers	13 514	11 412	18.4	26 115
Environmental Control	18 203	16 276	11.8	29 690
Fabrication Technology	485	560	(13.4)	2 783
	32 202	28 248	14.0	58 588
Operating profit/(loss)				
Fans and Heat Exchangers	135 061	118 403	14.1	283 942
Environmental Control	987	(3 941)	(125.0)	(12 744)
Fabrication Technology	2 404	(1 781)	(235.0)	1 257
	138 452	112 681	22.9	272 455
Central operations	(5 373)	(10 262)	(47.6)	(24 844)
Total operating profit	133 079	102 419	29.9	247 611
Investment income	35 738	25 861	38.2	55 566
Finance costs	(56)	(61)	(8.2)	(72)
Profit before tax	168 761	128 219	31.6	303 105

4. FINANCIAL INSTRUMENTS

The Group has not disclosed the fair values of financial instruments measured at amortised cost as their carrying amounts closely approximate their fair values. Financial instruments measured at fair value comprise forward exchange contracts and are determined using forward exchange rates as at 30 June 2017 (level 2 instruments). These are included as other receivables and payables on the condensed consolidated statement of financial position.

5. OPERATING PROFIT INCLUDES

	Six months ended 30 June 2017 (Unaudited) R'000	Six months ended 30 June 2016 (Unaudited) R'000	Twelve months ended 31 December 2016 (Audited) R'000
– Depreciation and amortisation	8 074	7 971	16 086
6. HEADLINE EARNINGS PER SHARE			
Headline earnings per share (cents)	184.64	140.83	332.36
Number of shares in issue (000)	65 729	65 729	65 729
Reconciliation of headline earnings			
Profit for the period	121 276	92 580	218 421
Loss/(profit) on disposal of property, plant and equipment and intangible assets	85	(12)	–
Write off of intangible assets	–	–	35
Headline earnings	121 361	92 568	218 456
7. CAPITAL COMMITMENTS			
– Authorised and contracted	851	335	774
8. RELATED PARTY TRANSACTIONS			
The Group has a related party relationship with subsidiaries of the ultimate holding company, Colfax Corporation. The Group, in the ordinary course of business, enter into various sale, purchase and service transactions with Colfax Corporation subsidiaries.			
Significant transactions during the period			
Sales to related parties			
Howden Australia	52 563	–	50 484
	52 563	–	50 484
Purchases from related parties			
ESAB Middle East	34 707	92 067	121 727
Howden Mexico	–	17 194	20 590
Howden Group UK – management and ERP licence fee	11 590	16 405	23 119
	46 297	125 666	165 436

8. RELATED PARTY TRANSACTIONS continued

	30 June 2017 (Unaudited) R'000	30 June 2016 (Unaudited) R'000	31 December 2016 (Audited) R'000
Significant movement in balances			
Amounts receivable from related parties			
Howden Australia	30	–	45 994
	30	–	45 994
Amounts payable to related parties			
ESAB Middle East	49 934	64 479	63 064
Howden Mexico	–	7 919	20 590
Howden Group UK	11 931*	15 836	306
	61 865	88 234	83 960

*Amount is an accrual that is due and payable in December 2017 subject to exchange rate movement denominated in Great British Pound (GBP).

9. EVENTS AFTER THE REPORTING DATE

There were no events identified after reporting date that require disclosure or an adjustment to the interim financial statements.

10. OTHER SALIENT FEATURES

	30 June 2017 (Unaudited) R'000	30 June 2016 (Unaudited) R'000	Change %	31 December 2016 (Audited) R'000
Net asset value	2 095.64	1 718.98	21.9	1 909.22
Capital expenditure	4 036	2 862	41.0	10 650
Operating profit to revenue	15.7	14.6	1.1	15.4



**HOWDEN AFRICA HOLDINGS LIMITED
(HAHL)**

(Incorporated in the Republic of South Africa)
(Registration number 1996/002982/06)
JSE code: HWN
ISIN: ZAE000010583
("Howden", "the Company" or "the Group")

REGISTERED OFFICE

1A Booysens Road
Booyens
South Africa
2091

Postal address

PO Box 2239
Johannesburg, 2000

DIRECTORS

IH Brander (Chairman)^{***}
W Thomson (Chief Executive Officer)[#]
J Brown^{***}, M Malebye^{**}
M Vigouroux (Chief Financial Officer)
H Mathe^{**}, M Pate^{**}
([#]British ^{**}Non-executive)

COMPANY SECRETARY

CR Masson

TRANSFER SECRETARIES

Computershare Investor Services
Proprietary Limited
Rosebank Towers, 15 Biermann Avenue
Rosebank, Johannesburg, 2196

SPONSOR

PricewaterhouseCoopers Corporate
Finance Proprietary Limited

WEBSITE

www.howden.co.za



Howden Africa

1a Booyens Road

Booyens 2091

PO Box 2239

Johannesburg 2000

South Africa

Tel: +27 11 240 4000

Fax: +27 11 493 0545

Email: enquiries@howden.co.za

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