

COMBINED MOTOR HOLDINGS LIMITED
("the Company" or "the Group")
Registration number: 1965/000270/06
Income tax reference number: 9471/712/71/2
Share code: CMH
ISIN: ZAE00088050

FINANCIAL RESULTS

GROUP FINANCIAL HIGHLIGHTS

		2019	2018	% change
Total assets	R'000	3 110 681	2 772 650	12,2
Cash resources	R'000	675 966	372 882	81,3
Net asset value per share	cents	1 052	935	12,5
Revenue	R'000	11 154 757	10 572 596	5,5
Operating profit	R'000	411 181	438 378	(6,2)
Net profit attributable to ordinary shareholders	R'000	228 166	247 358	(7,8)
Return on shareholders' funds	%	30,8	38,9	(20,8)
Basic earnings per share	cents	305,0	330,7	(7,8)
Headline earnings per share	cents	305,2	332,9	(8,3)
Dividends paid per share	cents	176,0	161,0	9,3
Dividend declared - payable June 2019	cents	115,0	115,0	0,0

GROUP STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2019

	2019	2018
	R'000	R'000
ASSETS		
Non-current assets		
Plant and equipment	71 431	64 967
Car hire fleet vehicles	813 102	760 282
Goodwill	8 078	8 078
Insurance receivable	37 530	45 144
Deferred taxation	38 676	43 865
	968 817	922 336
Current assets		
Inventories	1 160 680	1 164 428
Trade and other receivables	304 770	311 635
Taxation paid in advance	448	1 369
Cash and cash equivalents	675 966	372 882
	2 141 864	1 850 314
Total assets	3 110 681	2 772 650
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	38 091	38 091
Share-based payment reserve	10 927	8 873
Retained earnings	736 483	651 439
Ordinary shareholders' equity	785 501	698 403
Non-controlling interest	1 502	1 229
Total equity	787 003	699 632

Non-current liabilities		
Borrowings	287 419	60 081
Lease liabilities	55 001	49 780
	342 420	109 861
Current liabilities		
Trade and other payables	1 460 215	1 452 888
Borrowings	514 194	503 600
Lease liabilities	1 001	1 292
Current tax liabilities	5 848	5 377
	1 981 258	1 963 157
Total liabilities	2 323 678	2 073 018
Total equity and liabilities	3 110 681	2 772 650

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 2019

	2019 R'000	2018 R'000
Revenue	11 154 757	10 572 596
Cost of sales	(9 329 488)	(8 806 119)
Gross profit	1 825 269	1 766 477
Other income	22 634	29 659
Impairment of goodwill	-	(2 000)
Selling and administration expenses	(1 436 722)	(1 355 758)
Operating profit	411 181	438 378
Finance income	23 769	24 452
Finance costs	(122 971)	(124 871)
Profit before taxation	311 979	337 959
Tax expense	(83 540)	(90 499)
Total profit and comprehensive income	228 439	247 460
Attributable to:		
Equity holders of the company	228 166	247 358
Non-controlling interest	273	102
	228 439	247 460
Reconciliation of headline earnings		
Total profit and comprehensive income attributable to equity holders of the company	228 166	247 358
Re-measurement items:		
- impairment of goodwill	-	2 000
- loss/(profit) on sale of plant and equipment		
- gross	219	(445)
- impact of income tax	(61)	125
Headline earnings attributable to equity holders of the Company	228 324	249 038
Earnings per share		
Basic	(cents) 305,0	330,7
Diluted basic	(cents) 302,4	325,8
Headline	(cents) 305,2	332,9

Diluted headline (cents) 302,6 328,1

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2019

	Share capital R'000	Share-based payment reserve R'000	Retained earnings R'000	Attributable to equity holders of the company R'000	Non-controlling interest R'000	Total equity R'000
Balance at 28 February 2017	38 091	6 981	527 358	572 430	1 127	573 557
Total profit and comprehensive income			247 358	247 358	102	247 460
Release following exercise of share appreciation rights		(2 349)	2 349			
Cost of shares delivered in terms of share appreciation rights scheme			(5 196)	(5 196)		(5 196)
Share-based payment charge		4 241		4 241		4 241
Dividends paid			(120 430)	(120 430)		(120 430)
Balance at 28 February 2018	38 091	8 873	651 439	698 403	1 229	699 632
Total profit and comprehensive income			228 166	228 166	273	228 439
Release following exercise of share appreciation rights		(3 160)	3 160			
Cost of shares delivered in terms of share appreciation rights scheme			(14 631)	(14 631)		(14 631)
Share-based payment charge		5 214		5 214		5 214
Dividends paid			(131 651)	(131 651)		(131 651)
Balance at 28 February 2019	38 091	10 927	736 483	785 501	1 502	787 003

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 28 FEBRUARY 2019

	2019 R'000	2018 R'000
Cash flows from operating activities		
Operating profit	411 181	438 378
Adjustments for non-cash items:	139 485	105 760
Sale of car hire fleet vehicles	371 686	399 496
Purchase of car hire fleet vehicles	(525 558)	(471 433)
Working capital changes:		
Inventories	3 748	(45 865)
Trade and other receivables	6 865	(56 792)
Trade and other payables	8 031	131 212
Borrowings	237 932	(277 515)
Cash generated from operations	653 370	223 241
Taxation paid	(76 959)	(89 340)
Net cash movement from operating activities	576 411	133 901
Cash flows from investing activities		
Purchase of plant and equipment	(38 927)	(20 616)
Proceeds on disposal of plant and equipment	3 470	3 406
Insurance receivable	7 614	(6 982)

Net cash movement from investing activities	(27 843)	(24 192)
Cash flows from financing activities		
Cost of shares delivered in terms of share appreciation rights scheme	(14 631)	(5 196)
Finance income received	23 769	24 452
Finance costs paid	(122 971)	(124 871)
Dividends paid	(131 651)	(120 430)
Net cash movement from financing activities	(245 484)	(226 045)
Net movement in cash and cash equivalents	303 084	(116 336)
Cash and cash equivalents at beginning of year	372 882	489 218
Cash and cash equivalents at end of year	675 966	372 882

GROUP SEGMENT INFORMATION
FOR THE YEAR ENDED 28 FEBRUARY 2019

	TOTAL		RETAIL MOTOR		CAR HIRE		FINANCIAL SERVICES		CORPORATE SERVICES/OTHER	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
2019										
Segment revenue	11 196 974	100	10 523 718	93	512 561	5	82 591	1	78 104	1
Inter-segment revenue	(42 217)	100	-	-	-	-	-	-	(42 217)	100
External revenue	11 154 757	100	10 523 718	94	512 561	5	82 591	1	35 887	-
Operating profit	411 181	100	279 932	68	94 570	23	34 824	9	1 855	-
Finance income	23 769	100	-	-	203	1	6 601	28	16 965	71
Finance costs	(122 971)	100	(75 946)	62	(45 695)	37	-	-	(1 330)	1
Profit before taxation	311 979	100	203 986	65	49 078	16	41 425	13	17 490	6
After charging										
- employee costs	789 491	100	643 266	82	89 111	11	-	-	57 114	7
- depreciation	147 490	100	21 314	14	122 111	83	-	-	4 065	3
Total assets	3 110 681	100	1 468 009	47	893 967	29	37 531	1	711 174	23
Total liabilities	2 323 678	100	1 408 794	60	851 735	37	-	-	63 149	3
Goodwill at year-end	8 078	100	8 078	100	-	-	-	-	-	-
	TOTAL		RETAIL MOTOR		CAR HIRE		FINANCIAL SERVICES		CORPORATE SERVICES/OTHER	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
2018										
Segment revenue	10 603 356	100	9 958 756	93	497 415	5	74 585	1	72 600	1
Inter-segment revenue	(30 760)	100	-	-	-	-	-	-	(30 760)	100
External revenue	10 572 596	100	9 958 756	94	497 415	5	74 585	1	41 840	-
Operating profit/(loss)	438 378	100	307 472	70	115 479	26	28 775	7	(13 348)	(3)
Finance income	24 452	100	-	-	-	-	5 379	22	19 073	78

Finance costs	(124 871)	100	(70 838)	57	(51 279)	41	-	-	(2 754)	2
Profit before taxation	337 959	100	236 634	70	64 200	19	34 154	10	2 971	1
After charging										
- employee costs	745 005	100	597 303	80	88 864	12	-	-	58 838	8
- depreciation	139 133	100	20 352	15	115 002	82	-	-	3 779	3
- impairment of goodwill	2 000	100	2 000	100	-	-	-	-	-	-
Total assets										
- per statement of financial position	2 772 650	100	1 449 200	52	875 734	32	45 144	2	402 572	14
- set off of inter-segment balances	205 000	100	-	-	-	-	-	-	205 000	100
	2 977 650	100	1 449 200	49	875 734	29	45 144	2	607 572	20
Total liabilities										
- per statement of financial position	2 073 018	100	1 371 537	66	646 327	31	-	-	55 154	3
- set off of inter-segment balances	205 000	100	-	-	205 000	100	-	-	-	-
	2 278 018	100	1 371 537	60	851 327	37	-	-	55 154	3
Goodwill at year-end	8 078	100	8 078	100	-	-	-	-	-	-

EXTRACTS FROM THE REPORT
OF THE CHIEF EXECUTIVE OFFICER

Whilst it is disappointing to interrupt a record of rising headline earnings per share, given the political and economic background I am satisfied with the results achieved.

The head winds which the domestic economy faced during the year under review have been comprehensively documented. Suffice to record that the widespread corruption, mismanagement of SOEs, uncertainty regarding land expropriation threats, and political leadership focused on short-term tactics ahead of the election, have combined to reduce business confidence to near all-time lows.

FINANCIAL OVERVIEW

In the face of the onslaught the Group suffered an 8,3% decline in headline earnings per share.

Revenue grew 5,5%. This resulted from a slight increase in vehicle sales volumes, an increased mix of higher-priced luxury models, and a modest 2-3% average new vehicle price hike. The more competitive industry meant that trading margins were squeezed, and the gross profit margin fell from 16,7% to 16,4%.

The increased gross profit led to an increase in variable costs, which accounted for a proportion of the overall 6,0% increase in total selling and administration expenses, and the resulting operating margin aligns with the top achievers in the retail motor sector.

Excellent cash flow controls kept net finance costs on

a par with last year. Increased interest paid on vehicle floorplan levels, during periods when dealers were forced by manufacturers to hold higher than optimum inventory, was offset by the periodic use of surplus funds to settle car hire borrowings. The tax rate remained constant at 26,8%.

Despite the decrease in headline earnings, continued strong cash flow generation has enabled the directors to recommend that the dividend scheduled for payment in June 2019 be held at last year's level of 115 cents per share.

Looking at the statement of financial position, the only noteworthy movements are in respect of the car hire fleet and its attendant borrowings (both long- and short-term). The net book value of the fleet has increased R52,8 million, whilst the related borrowings level has increased R237,9 million. In previous years the Group has used a portion of its surplus cash to early settle interest-bearing borrowings. Whilst this policy continued during the year under review, at year end a parcel of new fleet vehicles acquired was financed using external finance facilities, and the intra-Group funds were returned and held on call account. At year end, the Group held cash resources of R676 million compared with the previous year's R373 million.

MOTOR RETAIL

This segment represents the majority of the Group's business and is at the leading edge of economic cycles.

During the year under review, national new passenger and light commercial vehicle sales volumes decreased 1,8%. This follows a 0,4% rise last year, and declines in each of the preceding three years. The macro picture for the industry is one of increasing costs, principally salaries and property costs, offsetting a stagnant revenue line.

Against the national sales volume decline, the Group achieved a modest 1,9% improvement. The opportunity for higher volume growth was hampered by supply disruptions at Ford, which manufacturer represents the highest volume contributor to Group sales. Ford's market share fell 18% during the financial year. The hiccup has been resolved, and the launch of exciting new products will provide a boost for next year.

The national luxury model segment continued its downward trend in volume sales. Fortunately the Group is only exposed in respect of its Volvo/Land Rover/Jaguar dealerships, and these, collectively, bucked the trend and recorded volume growth.

The segment's overall decline in profitability is attributable mainly to the difficult conditions in the used car departments. Whilst national sales levels are estimated to have fallen $\pm 10\%$, Group sales volumes were flat. I warned in my half-year report of the challenges facing this area of business. Longer periods over which new vehicles are financed, coupled

with a fall in their residual values, has led to a greater gap between trade-in values and finance settlement values. This forces owners to drive their vehicles for longer periods, until the gap closes. When these vehicles are eventually traded-in, they have high mileage, and are often not in the desired condition to be resold with a warranty by a reputable retailer. The lack of trade-ins has forced dealers to source inventory in the open market where retained margins are lower. Parts and service departments once again provided the essential stability and dependability that underpins successful dealerships.

CAR HIRE

This segment suffered a reversal of its 10-year record of rising earnings. The 24% fall was attributable to the reduced prices at which the retired fleet was able to be sold. I have addressed the difficulties faced by the Group's used car departments, and similar difficulties were experienced on disposal of the car hire fleet. This aside, the fleet size, utilisation rate, and average daily income rate remained stable. The increase in the price of replacement fleet vehicles has been offset, in part, by a reduction in the number of luxury vehicles and the replacement thereof by models in the medium-price range. The sector remains extremely competitive and the drive to reduce operating costs continues.

FINANCIAL SERVICES

This segment comprises insurance cells, relating to products sold in tandem with the sale of vehicles, and joint ventures in respect of the financing and collection of credit facilities granted to purchasers. Both areas recorded increased profitability despite the tough market and adverse consumer credit statistics. Particularly pleasing is the 11% growth in premium income, an indication of improved penetration in a flat market. This annuity-type income will provide steady growth in the years ahead.

PROSPECTS

It is not easy to be optimistic about the short-term future of the domestic market. The brief euphoric spell, which prevailed during the first months following the election of our new president early last year, soon evaporated in the face of daily revelations of large-scale corruption, further job losses, higher indirect taxes, and a power struggle ahead of the May elections between the ANC and the labour unions, and within the party itself. The Eskom debacle has been, and continues to be, highly disruptive and costly.

Predictions of national motor sales growth for calendar 2019 vary from -1% to +2%, which will mean the lowest level in almost a decade. On the positive side, interest rates appear to be stable, and, in real terms, new vehicle affordability continues to improve. NAAMSA has recently reported that the rate of new vehicle price increases has been well below the CPI for the last 15 months. Competitive pressures facing motor manufacturers are likely to ensure that attractive sales

incentives continue.

The Group is in a sound financial position. Its financial statements record a solid and stable asset base, backed by strong cash flow generation. Costs have been reduced to a minimum, and the management team is experienced, hardworking and enthusiastic. The missing ingredient is a boost to the revenue line.

DIVIDEND DECLARATION

A dividend (dividend number 62) of 115 cents per share will be paid on Tuesday, 18 June 2019 to members reflected in the share register of the Company at the close of business on the record date, Friday, 14 June 2019. Last day to trade cum dividend is Tuesday, 11 June 2019. First day to trade ex dividend is Wednesday, 12 June 2019. Share certificates may not be dematerialised or rematerialised from Wednesday, 12 June 2019 to Friday, 14 June 2019, both days inclusive.

The number of ordinary shares in issue at the date of the declaration is 74 801 998. Consequently, the gross dividend payable is R86 022 298 and will be distributed from income reserves. The dividend will be subject to dividend withholding tax at a rate of 20%, which will result in a net dividend of 92 cents to those shareholders who are not exempt in terms of section 64F of the Income Tax Act.

CHANGES IN DIRECTORATE

There has been no change to directors since the release of the interim results in October 2018.

BASIS OF PREPARATION

The summary consolidated financial statements for the year ended 28 February 2019 have been prepared under the supervision of SK Jackson CA (SA), financial director, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the South African Companies Act, No 71 of 2008, (the "Act"), applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34: Interim Financial Reporting. The accounting policies applied are in terms of IFRS and are consistent with those applied in the preparation of the previous consolidated financial statements, except for the adoption of new standards. The Group adopted IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers from 1 March 2018. Both standards were adopted retrospectively. The implementation of the standards has not had a material impact on amounts reported in prior years and accordingly management has not restated any comparative figures.

These results are extracted from audited information, but are not themselves audited. The consolidated financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited consolidated financial statements and the auditor's report thereon are available for inspection at the Company's registered office.

The directors take full responsibility for the preparation of these results and confirm that the financial information has been correctly extracted from the underlying consolidated financial statements.

CORPORATE GOVERNANCE

During the year the Group applied the principles and the appropriate best business practices as recorded in the King IV Report on Corporate Governance. The Board recognises that the Report seeks to instil a greater level of transparency and integrated thinking in its deliberations, and to consider not just financial gain, but the larger triple context, including social and environmental considerations.

A report on the Group's corporate governance is recorded in the Integrated Annual Report 2019.

ANNUAL GENERAL MEETING

Details of the annual general meeting are expected to be released on 2 May 2019.

By order of the board of directors

K Fonseca CA (SA)
Company Secretary

23 April 2019

CORPORATE INFORMATION

DIRECTORS

JS Dixon (chairman)
JD McIntosh (CEO)
BWJ Barritt
LCZ Cele
SK Jackson
ME Jones
JA Mabena
MR Nkadameng

TRANSFER SECRETARIES

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