KAP INDUSTRIAL HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1978/000181/06)
JSE alpha code: KAP
("**KAP**" or "**the Company**")

PRE-CLOSED PERIOD OPERATIONAL UPDATE FOR THE JUNE 2020 FINANCIAL YEAR AND TRADING STATEMENT

The Coronavirus Covid-19 pandemic ("Covid") continues to impact various aspects of global society, with serious ramifications for the global economy. The severity of the lockdown restrictions imposed in South Africa had a devastating effect on the South African economy.

FINANCIAL AND LIQUIDITY REVIEW

The board of directors of KAP ("**Board**") is pleased to advise that the Company continued to generate positive operating profit before depreciation, amortisation and capital items ("**EBITDA**") and positive cash flow from operations throughout the various levels of lockdown, despite the significant restrictions imposed on some of the Company's operations and the general reduction in consumer spending during this period. This reflects the resilience of KAP's diversified industrial business model and positions the Company well for a post-Covid recovery.

The Company's financial and cash-flow forecasts continue to indicate that it will remain within its existing banking facilities and will not breach relevant financial covenant ratios. In addition, these forecasts indicate that the Company will have sufficient banking facilities and liquidity to settle the R500 million listed corporate bond, KAP010, on maturity in September 2020.

DIVISIONAL OPERATIONAL REVIEW

The **Integrated Timber division** performed well for the year up to the 27 March 2020 lockdown. Demand for its products remained buoyant and major maintenance and upgrade projects at its Ugie and Piet Retief particleboard plants were completed on budget and both plants were successfully recommissioned. This division recommenced operations on a phased approach during the lockdown, with Southern Cape operations recommencing on 20 April 2020, the Boksburg plant on 1 May 2020, the Ugie plant on 15 May 2020 and finally the Piet Retief plant on 10 June 2020. Although its operations are not yet running at full capacity, market demand is showing steady weekly growth, supported by a new product range which the division successfully launched on a virtual platform during lockdown, which attracted almost 2,000 customers and end-users.

The **Automotive Components division** was severely impacted by Covid due to some international automotive assembly customers suspending operations before the official South African lockdown, which had a significant impact on the division already in March 2020. Year to date performance at 29 February 2020 was ahead of prior year performance in spite of subdued automotive retail sales and lower new assembly volumes. The post-lockdown recommencement of operations has been slow due to a phased start-up by its customers and significantly reduced new automotive assembly volumes. All operating units are now active albeit at materially lower output levels and as a consequence, the division has commenced with restructuring activities in order to right-size its operations for lower anticipated future automotive assembly and retail sales volumes.

The **Integrated Bedding division** performed well for the year up to the 27 March lockdown, remaining in line with prior year profits despite a subdued furniture retail sector. The division was able to operate its non-woven textile production lines throughout lockdown with strong demand from both the medical and agricultural sectors and it produced a small volume of medical grade foam mattresses. Its operations in Namibia were permitted to recommence one month earlier than in South Africa and managed to also supply customers in Botswana, thereby performing well for the year to date. The division's primary operations at its foam, textile and mattress plants all recommenced with effect from 1 June 2020, under lockdown level 3. Although still operating below full capacity, current demand for its bedding products is satisfactory.

The **Polymers division** operated throughout the lockdown period, supplying essential products, primarily into the food packaging sector. Although the division was not able to operate at full capacity, efficiency levels were not unduly affected by the lower operating levels or supply chain disruptions. Demand for its products remained stable throughout the lockdown and has shown steady improvement as restrictions have been eased. Sales and production volumes are reflected as follows:

	PET		HDPE		PP	
	Period FY20	Period FY19	Period FY20	Period FY19	Period FY20	Period FY19
Sales volumes (tonnes)	178 962	185 223	143 276	141 521	102 009	106 227
Production volumes (tonnes)	189 296	193 634	140 754	148 143	104 021	106 611
Average R/USD exchange	15.54	14.15	15.54	14.15	15.54	14.15

PET – Polyethylene terephthalate | HDPE – High density polyethylene | PP – Polypropylene.
Period refers to eleven months from 1 July to 31 May.

Margins on PET remained under severe pressure due to global supply and demand factors, exacerbated by the recent collapse in the oil price. The division was, however, provided with increased protection against imports with the International Trade Administration Commission (ITAC) increasing the general import tariff on PET from 10% to 15% with effect from 30 March 2020, while the previously provisional anti-dumping duties against certain Chinese firms were gazetted by the Department of Trade and Industry (DTI) on 19 May 2020. Downward pressure on HDPE margins continued to intensify due to global manufacturing capacity expansions and subdued demand. Although a sustained lower oil price will have a positive effect on ethylene raw material pricing and the division's HDPE margins going forward, management continues to engage with its primary supplier in order to secure more favourable ethylene supply terms. PP margins remained at acceptable levels compared to the prior period.

The raw material margin changes on the various polymers are reflected as follows:

	Margin variance Period FY20 vs Period FY19#	Margin variance Period FY20 vs 1H20*
PET	(39%)	3%
HDPE	(34%)	(38%)
PP	5%	(11%)

- Eleven months ended 31 May 2020 compared to the eleven months ended 31 May 2019.
* - Five months ended 31 May 2020 compared to the six months ended 31 December 2019.

The **Contractual Logistics** – **South Africa division** performed well for the year up until the 27 March lockdown, continuing to show significant efficiency improvements and gains in market share as a result of securing meaningful new contracts. Financial performance of the division at this stage was well above the prior period. A significant portion of this division was able to operate throughout lockdown, providing logistics services in the food, packaging, fuel and chemical industries operating in the essential services value chains. Its mining, cement and general freight operations could only recommence operations on a phased basis from lockdown level 4. With the exception of food distribution, general logistics activity reduced substantially during lockdown level 5, but has subsequently shown steady improvement.
The **Contractual Logistics – Africa division** found trading conditions challenging for the year but was successful in renewing a number of significant contracts and securing substantial new business. The division operates primarily in fuel distribution and agriculture and as such was able to continue with all of its operations throughout the lockdown period. Both cross border

and in-country fuel distribution volumes did however reduce during lockdown. The seasonal start-up of agriculture operations was better than expected, enabling the division to ramp up to full capacity in spite of Covid related restrictions. The implementation of new contracts secured and contract renewals is progressing ahead of expectations, thereby providing good growth opportunities for the division.

The **Passenger Transport division** continued its stable performance for the year up to the 27 March lockdown, with the restructuring of certain underperforming contracts showing good improvement. A sustained lower diesel price also provided relief to the division and will continue to do so at current levels. The division was able to continue with limited operations in South Africa during lockdown level 5 and received standing kilometre compensation on certain contracts where it was unable to operate. The division's commuter and personnel operations have seen a steady increase in activity through level 4 and into level 3, while tourism and intercity travel operations remain suspended. Its operations in Mozambique continued to grow and have been unaffected by Covid.

TRADING STATEMENT

In terms of the Listings Requirements of the JSE Limited, the Company reported on 26 March 2020 that it was satisfied that a reasonable degree of certainty existed that the Company's earnings would be more than 20% lower than in the previous reporting period due mainly to depressed global polymer margins and the impact of Covid, together with the resultant potential impairment of assets in terms of the Company's annual impairment testing.

While the Company's annual impairment testing is not yet complete, a reasonable degree of certainty exists that EBITDA from continuing operations for the twelve months to 30 June 2020 will be between 19% and 28% lower than in the prior year and operating profit before capital items from continuing operations will be between 35% and 48% lower than in the prior year. Similarly, headline earnings per share ("**HEPS**") and earnings per share ("**EPS**") is expected to be at least 45% lower than the prior year before the effect of any potential impairments.

A further trading statement will be issued in terms of the Listings Requirements of the JSE Limited as soon as there is a reasonable degree of certainty as to the likely range of the expected decrease in HEPS and EPS, taking into account any potential impairments.

OUTLOOK

Although the current situation is unprecedented, uncertain and constantly evolving, the Board is confident that management is focussing on the right issues and that the Company is being well managed through this crisis. Covid has highlighted certain areas for improvement in the Company and revealed some new opportunities for growth, which management is pursuing. The Board remains of the view that there will be a slow, but steady recovery in economic conditions for which the Company is well positioned.

Covid infection rates in the Company remain extremely low and management continues to focus on ensuring a safe working environment for its employees during this challenging time.

The financial information on which this announcement is based, has not yet been reviewed or reported on by the Company's auditors.

By order of the Board
KAP Secretarial Services Proprietary Limited

Stellenbosch
26 June 2020

Debt Sponsor
Nedbank Corporate and Investment Banking