KAP LIMITED
(former name KAP Industrial Holdings Limited)
(Incorporated in the Republic of South Africa)
(Registration number: 1978/000181/06)
Share code: KAP
ISIN: ZAE000171963
LEI code: 3789001F51BC0045FD42
('**KAP**' or '**the company**' or '**the group**')

OPERATIONAL UPDATE AND TRADING STATEMENT

The following operational update provides guidance in respect of the company's operational performance for the first five months of the 2024 financial year up to 30 November 2023 ('the period'). For further details on the capital projects and restructuring initiatives mentioned in this update, reference should be made to the group's annual results for the financial year ended 30 June 2023, released on 30 August 2023.

OVERVIEW

The operating environment remained challenging during the period, with high inflation, elevated interest rates and subdued economic growth contributing to lower consumer spending. This resulted in lower domestic demand for most of the group's products and services. Electricity loadshedding continued, albeit at a more manageable level for the group and its customers. While port congestion in Durban resulted in delays in raw material imports and export sales, the effect thereof was not material during the period. Continued weakening in global polymer margins materially impacted the group's performance.

The group continued its execution of certain material initiatives during the period, including the completion of major capital projects, the largest being PG Bison's R1.9 billion medium-density fibreboard ('MDF') expansion project in Mkhondo, and the consolidation and restructuring of Unitrans. Both initiatives are progressing well.

The group remained within its debt covenants and raised a R3 billion revolving credit facility, which significantly reduces future refinancing and covenant risks.

DIVISIONAL OPERATIONAL PERFORMANCE

PG Bison delivered a good performance for the period. While domestic sales were lower, exports were pursued to fill production capacity. The value-add ratio showed an improvement to that of the prior period. Although the division implemented a price increase during the period to offset the impact of cost escalations, the operating profit margin contracted slightly due to increased exports, which were at lower margins compared to domestic sales. The division has a strong order book through to the end of December 2023.

Safripol delivered a disappointing performance. The global polymer sector is in a cyclical low, with continued pressure on raw material margins. Polyethylene terephthalate ('PET') demand was weak during the period, which necessitated a five-week commercial shut of the Durban plant to balance inventory levels. Raw material margins were at very low levels. Polypropylene ('PP') demand was relatively stable but raw material margins were lower than the prior period. High-density polyethylene ('HDPE') demand was good and margins remained at healthy levels, supported by a raw material supply contract that moderates an element of cyclicality in margins. Collectively, sales volumes for the division were in line with the prior period, however the operating profit margin was well below our through-the-cycle guidance range of 7% to 9%. The division is still in the process of finalising an insurance claim related to business interruption in FY23.

Unitrans experienced a decline in performance in the context of a generally subdued operating environment, with lower demand and elevated inventory levels observed across various industries. Good progress was made with the restructuring of the division, which includes significant cost reductions, the cessation of low-margin activities, and the disposal of underutilised assets. The benefits of the restructuring are expected to start materialising in the second half of the financial year and into FY25. The operating profit margin was slightly below the prior period due to currency losses in non-South African territories.

Feltex had a pleasing performance, supported by a continued recovery in new vehicle assembly volumes and price adjustments to recover raw material cost escalations and contractual volume shortfalls. The division has a steady order book through to the end of December 2023. The operating profit margin was materially better than the prior period, which was negatively impacted by lower vehicle build volumes and the KwaZulu-Natal floods.

Restonic had a pleasing performance with volume and revenue growth, despite subdued demand in the furniture retail sector. Demand increased during the period and the division has a healthy order book through to mid-February 2024. The operating profit margin improved meaningfully and reflects the division's focus on product improvements, sales and marketing, production efficiencies and procurement.

Optix delivered satisfactory growth in subscriber numbers and the division's order book and sales pipeline remain positive. Performance was however lower than the prior period primarily due to costs associated with product development and scaling of the business in line with our strategic objectives.

TRADING STATEMENT

In terms of the JSE Limited ('JSE') Listings Requirements, a listed company is required to publish a trading statement once it is satisfied that a reasonable degree of certainty exists that the financial results for the next period to be reported on will differ by at least 20% from the financial results for the prior corresponding period.

While one month remains of the company's half year ending 31 December 2023, following the period covered by this operational update and trading statement, a reasonable degree of certainty exists that, if current trading conditions persist, the company's headline earnings and earnings from continuing operations will decrease by at least 20% compared to the prior corresponding half year. This is mainly due to continued weakness in global polymer demand and margins.

Headline earnings per share ('HEPS') from continuing operations is expected to decrease by at least 6.2 cents to not more than 24.8 cents (1H23: 31.0 cents) and earnings per share ('EPS') from continuing operations is expected to decrease by at least 6.2 cents to not more than 24.9 cents (1H23: 31.1 cents) for the half year.

A further trading statement will be issued in terms of the JSE Listings Requirements when a reasonable degree of certainty exists about the likely range of the expected decrease in EPS and HEPS compared to the prior corresponding period.

Shareholders are advised that the financial information in this announcement and on which this trading statement is based has not been audited, reviewed or otherwise reported on by the company's external auditors.

1H24 INTERIM RESULTS

The half-year results for the six month period ending 31 December 2023, are expected to be released on or about 28 February 2024.

Stellenbosch
14 December 2023

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