COMBINED MOTOR HOLDINGS LIMITED

INTERIM RESULTS 2020

FOR THE SIX MONTHS ENDED 31 AUGUST

GROUP OPERATIONS

Retail motor dealerships

Divisions

GROUP FINANCIAL HIGHLIGHTS

		Change %	Unaudited 6 months 31 August 2020	Unaudited 6 months 31 August 2019	Audited 12 months 29 February 2020
Total assets	(R'000)	**(9,0)**	**3 258 088**	3 578 634	3 650 301
Cash resources	(R'000)	**13,0**	**609 646**	539 664	659 622
Net asset value per share	(cents)	**5,9**	**1 074**	1 014	1 090
Revenue	(R'000)	**(38,0)**	**3 546 489**	5 717 648	11 156 167
Operating profit	(R'000)	**(75,7)**	**48 638**	200 067	417 280
Total (loss)/profit and comprehensive income	(R'000)	**(115,8)**	**(14 264)**	90 495	190 375
Earnings per share	(cents)	**(115,7)**	**(19,0)**	121,2	254,7
Headline earnings per share	(cents)	**(111,7)**	**(14,1)**	120,9	254,8
Dividend paid per share	(cents)				176,0
Dividend declared per share, payable December 2020	(cents)	**63,9**	**100,0**	61,0	

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GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2020

	Unaudited 31 August 2020 R'000	Unaudited 31 August 2019 R'000	Audited 29 February 2020 R'000
ASSETS			
Non-current assets			
Plant and equipment	**74 927**	71 397	84 818
Right-of-use assets	**470 968**	477 212	466 094
Car hire fleet vehicles	**553 448**	580 099	713 315
Goodwill	**42 578**	31 828	31 828
Insurance receivable	**43 269**	46 436	43 078
Deferred taxation	**69 628**	53 737	60 068
	1 254 818	1 260 709	1 399 201
Current assets			
Inventories	**1 011 505**	1 341 318	1 323 858
Trade and other receivables	**302 428**	436 495	267 606
Tax paid in advance	**7 691**	448	14
Cash and cash equivalents	**609 646**	539 664	659 622
	1 931 270	2 317 925	2 251 100
Property held for disposal	**72 000**	–	–
Total assets	**3 258 088**	3 578 634	3 650 301
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**38 091**	38 091	38 091
Share-based payment reserve	**9 711**	10 020	12 747
Retained earnings	**753 990**	708 671	762 925
Ordinary shareholders' equity	**801 792**	756 782	813 763
Non-controlling interest	**1 315**	1 362	1 358
Total equity	**803 107**	758 144	815 121
Non-current liabilities			
Borrowings	**95 465**	72 271	95 764
Lease liabilities	**515 984**	493 837	481 750
	611 449	566 108	577 514
Current liabilities			
Trade and other payables	**1 276 221**	1 593 838	1 552 939
Borrowings	**483 134**	556 490	599 302
Lease liabilities	**81 602**	94 076	102 689
Current tax liabilities	**2 575**	9 978	2 736
	1 843 532	2 254 382	2 257 666
Total liabilities	**2 454 981**	2 820 490	2 835 180
Total equity and liabilities	**3 258 088**	3 578 634	3 650 301

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

		Unaudited 6 months 31 August 2020 R'000	Unaudited 6 months 31 August 2019 R'000	Audited 12 months 29 February 2020 R'000
Revenue		**3 546 489**	5 717 648	11 156 167
Cost of sales		**(2 875 199)**	(4 756 528)	(9 291 278)
Gross profit		**671 290**	961 120	1 864 889
Other income		**7 946**	4 363	19 971
Impairment of goodwill		**(6 250)**	–	–
Selling and administration expenses		**(624 348)**	(765 416)	(1 467 580)
Operating profit		**48 638**	200 067	417 280
Finance income		**12 689**	17 803	38 743
Finance costs		**(79 727)**	(96 071)	(193 243)
(Loss)/profit before taxation		**(18 400)**	121 799	262 780
Tax expense		**4 136**	(31 304)	(72 405)
Total (loss)/profit and comprehensive income		**(14 264)**	90 495	190 375
Attributable to:				
Equity holders of the Company		**(14 221)**	90 635	190 519
Non-controlling interest		**(43)**	(140)	(144)
		(14 264)	90 495	190 375
Reconciliation of headline earnings				
Total (loss)/profit and comprehensive income attributable to equity holders of the Company		**(14 221)**	90 635	190 519
Re-measurement items				
– profit on disposal of dealership		**(2 520)**	–	–
– impairment of goodwill		**6 250**	–	–
– (profit)/loss on sale of plant and equipment				
– gross		**(37)**	(266)	82
– impact of income tax		**10**	74	(23)
Headline earnings attributable to equity holders of the Company		**(10 518)**	90 443	190 578
Weighted average number of shares in issue		**74 802**	74 802	74 802
Earnings and dividends per share				
Basic	(cents)	**(19,0)**	121,2	254,7
Diluted basic	(cents)	**(19,0)**	120,5	254,7
Headline	(cents)	**(14,1)**	120,9	254,8
Diluted headline	(cents)	**(14,1)**	120,3	254,8
Dividend payable - December 2020	(cents)	**100,0**	61,0	
Dividend paid per share	(cents)			176,0

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	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 2019	38 091	10 927	704 935	753 953	1 502	755 455
Total profit and comprehensive income	–	–	90 635	90 635	(140)	90 495
Release following exercise of share appreciation rights	–	(3 653)	3 653	–	–	–
Cost of shares delivered in terms of share appreciation rights scheme	–	–	(4 531)	(4 531)	–	(4 531)
Share-based payment charge	–	2 746	–	2 746	–	2 746
Dividends paid	–	–	(86 021)	(86 021)	–	(86 021)
Balance at 31 August 2019	38 091	10 020	708 671	756 782	1 362	758 144
Total profit and comprehensive income	–	–	99 884	99 884	(4)	99 880
Share-based payment charge	–	2 727	–	2 727	–	2 727
Dividends paid	–	–	(45 630)	(45 630)	–	(45 630)
Balance at 29 February 2020	**38 091**	**12 747**	**762 925**	**813 763**	**1 358**	**815 121**
Total loss and comprehensive income	**–**	**–**	**(14 221)**	**(14 221)**	**(43)**	**(14 264)**
Release following forfeiture of share appreciation rights	**–**	**(5 286)**	**5 286**	**–**	**–**	**–**
Share-based payment charge	**–**	**2 250**	**–**	**2 250**	**–**	**2 250**
Balance at 31 August 2020	**38 091**	**9 711**	**753 990**	**801 792**	**1 315**	**803 107**

GROUP STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 AUGUST 2020

	Unaudited 6 months 31 August 2020 R'000	Restated unaudited 6 months 31 August 2019 R'000	Adjustment 6 months 31 August 2019 R'000	Previously reported unaudited 6 months 31 August 2019 R'000	Audited 12 months 29 February 2020 R'000
Cash flows from operating activities					
Operating profit	**48 638**	200 067		200 067	417 280
Adjustments for non-cash items	**86 189**	100 508	(16 666)	117 174	229 341
Sale of car hire fleet vehicles	**168 675**	225 321		225 321	397 889
Purchase of car hire fleet vehicles	**(38 922)**	(35 626)		(35 626)	(388 503)
Working capital changes	**(111 389)**	(328 339)		(328 339)	(115 888)
Cash generated from operations	**153 191**	161 931	(16 666)	178 597	540 119
Taxation paid	**(7 831)**	(24 389)	5 577	(29 966)	(78 818)
Net cash movement from operating activities	**145 360**	137 542	(11 089)	148 631	461 301
Cash flows from investing activities					
Purchase of plant and equipment	**(3 326)**	(15 591)		(15 591)	(50 115)
Purchase of property	**(72 000)**	–		–	–
Acquisition of business	**(24 630)**	(47 615)		(47 615)	(47 615)
Proceeds on disposal of plant and equipment	**190**	456		456	3 377
Proceeds on disposal of dealership	**5 164**	–		–	–
Insurance receivable	**–**	–	8 906	(8 906)	–
Investment in special purpose entities conducting insurance underwriting activities	**(1 250)**	–		–	(3 500)
Dividend received from special purpose entities conducting insurance underwriting activities	**15 000**	5 435	5 435	–	11 371
Net cash movement from investing activities	**(80 852)**	(57 315)	14 341	(71 656)	(86 482)
Cash flows from financing activities					
Cost of shares delivered in terms of share appreciation rights scheme	**–**	(4 531)		(4 531)	(4 531)
Finance income received	**9 862**	14 551	(3 252)	17 803	32 155
Finance costs paid	**(79 727)**	(96 071)		(96 071)	(193 243)
Principal element of lease liability repayments	**(44 619)**	(44 457)		(44 457)	(93 893)
Dividends paid	**–**	(86 021)		(86 021)	(131 651)
Net cash movement from financing activities	**(114 484)**	(216 529)	(3 252)	(213 277)	(391 163)
Net movement in cash and cash equivalents	**(49 976)**	(136 302)		(136 302)	(16 344)
Cash and cash equivalents at beginning of period	**659 622**	675 966		675 966	675 966
Cash and cash equivalents at end of period	**609 646**	539 664	–	539 664	659 622

SEGMENT INFORMATION

FOR THE SIX MONTHS ENDED 31 AUGUST

	Total R'000	Retail motor R'000	Car hire R'000	Financial services R'000	Corporate services/ other R'000
2020					
Segment revenue	3 556 441	3 389 590	99 463	49 685	17 703
Inter-segment revenue	(9 952)	–	–	–	(9 952)
External revenue	3 546 489	3 389 590	99 463	49 685	7 751
Operating profit/(loss)	48 638	50 662	(936)	10 445	(11 533)
Finance income	12 689	–	–	2 827	9 862
Finance costs	(79 727)	(54 808)	(24 919)	–	–
Loss/(profit) before taxation	(18 400)	(4 145)	(25 856)	13 272	(1 671)
After charging					
– employee costs	279 886	228 488	24 926	–	26 472
– depreciation					
– plant and equipment	13 784	10 666	1 220	–	1 898
– right-of-use assets	56 346	52 788	2 557	–	1 001
– car hire fleet vehicles	30 114	–	30 114	–	–
Total assets	3 258 088	1 874 288	617 917	43 269	722 614
Total liabilities	2 454 981	1 774 654	627 721	–	52 606
Goodwill at period-end	42 578	42 578	–	–	–

	Total R'000	Retail motor R'000	Car hire R'000	Financial services R'000	Corporate services/ other R'000
2019					
Segment revenue	5 736 618	5 392 747	264 965	48 983	29 923
Inter-segment revenue	(18 970)	–	–	–	(18 970)
External revenue	5 717 648	5 392 747	264 965	48 983	10 953
Operating profit/(loss)	200 067	142 592	54 585	16 698	(13 808)
Finance income	17 803	–	–	3 252	14 551
Finance costs	(96 071)	(64 142)	(30 035)	–	(1 894)
Profit/(loss) before taxation	121 799	78 450	24 550	19 950	(1 151)
After charging					
– employee costs	370 356	296 349	43 261	–	30 746
– depreciation					
– plant and equipment	16 048	12 588	1 329	–	2 131
– right-of-use assets	55 338	51 348	2 989	–	1 001
– car hire fleet vehicles	43 308	–	43 308	–	–
Total assets	3 578 634	2 285 819	670 030	46 436	576 349
Total liabilities	2 820 490	2 082 747	677 025	–	60 718
Goodwill at period-end	31 828	31 828	–	–	–

COMMENTARY

COMMENTARY ON RESULTS

The directors have mixed emotions regarding the results for the period. Disappointment at the impact of the pandemic, which has placed a massive financial strain on both the economy and the Group, and pride and satisfaction with the manner in which the Group has responded to these unprecedented times. The full period of Covid-19, from announcement to alert level 2, fell squarely within the reporting period. The Group's activities were not classified as emergency services. Consequently, the businesses were effectively closed from 27 March until the phased opening of 30%, mainly in the parts and service departments, on 12 May, and graduating to full trading from 8 June 2020.

As a result the Group suffered substantial trading losses during the first three months, followed by positive returns during June, July and August. The board is, however, satisfied that every practicable effort has been made to maximise the limited opportunities on offer.

Statement of financial position

Going into lockdown, the Group was soundly placed in terms of equity reserves and cash resources. During lockdown the Group honoured its commitment to the purchase of a property to the value of R72 million, and a replacement parts business for R24 million. Despite these significant outflows, continued focus on cash management enabled the Group to end the period with R609 million cash resources, and no additional borrowings.

Goodwill has been increased by R17 million paid on the replacement parts business acquired, and reduced by an impairment charge of R6 million against an under-performing dealership. The car hire fleet has been liquidated to the extent of a net R160 million, and the corresponding borrowings settled. The property purchased has been classified as "held for disposal". It is in the process of being sold, at cost, to a black economic empowerment partner. Inventory levels have been rebalanced in line with new trading conditions, trade receivables at year-end have been collected without abnormal write-offs, and trade payables have been settled in accordance with their due dates.

Statement of comprehensive income

The statement of comprehensive income bears little resemblance to the comparable reporting period. Although the gross profit margin is slightly improved, the lack of sales has negatively impacted the operating profit margin. Needless to say, all expenses relating to the restructuring of the Group in terms of right-sizing the staff complement, and the cost of compliance with Covid-19 protocols, have been fully expensed. The Group did enjoy certain concessions from trading partners, particularly landlords, and these savings have been recognised. The decreased net finance charges reflects both the reduced inventory and car hire fleet levels, and the reduction in the prime rate. The income tax rate aligns with that of last year, and the final result is that earnings per share fell from a profit of 121,2 cents to a loss of 19,0 cents per share.

Retail motor

The rebound following the re-opening of business has seen parts and service trading levels at 80% to 90% of the corresponding months last year. Vehicle sales were hampered during the early days of trade, because the testing stations and licencing offices opened only on 9 June 2020. New vehicles are currently around 70% to 75% of prior year levels, and used vehicles at around 95%. Dealers are experiencing shortages of popular new vehicle models and this will inhibit growth in the short-term. Despite the reduced interest rate, and consequent lower monthly repayments, customer finance approval rates have improved only marginally over the last two months, and are still well below the pre-Covid-19 levels.

Car hire

This division was the most severely affected and will take the longest to return to previous levels. The business has been right-sized in terms of staff complement and various overhead expenses. The balancing of the fleet to new activity levels has taken longer than expected because of the inability to trade during the lockdown period, the delayed opening of vehicle testing stations, and the flood of vehicles retired by other car hire operators. This process will be completed by the end of October.

In the meantime, the growth in hire days has been slow but steady, off a zero base, with new highs being reached each week. The bulk of business emanates from airports, which were closed for the majority of the period under review. A limited number of domestic business flights was introduced from late July, and domestic leisure flights from August. The welcome developments in international travel, auger well for the imminent Christmas period. The division has been awarded a tender in respect of the insurance replacement vehicle market, and has gained market share from a number of competitors which have not re-opened. The cut in interest rates will reduce the fleet holding costs, and the steady return of both business and leisure customers heightens the expectation of a return to profit during the second half.

Financial services

The Group's insurance cells were generally unaffected by the short hiatus. Although no new policies were written, the claims levels were lower, and the annuity income from prior year policies continued. The finance joint ventures were impacted by payment deferrals granted to customers, and the consequent more severe bad debt provisioning required. Time will tell whether the provisions are necessary and sufficient, or whether a future release will be indicated.

Management and staff

The outbreak of the global pandemic has brought about considerable challenges calling for painful decisions to ensure the sustainability of the Group and its ability to survive, and even thrive, in these uncertain times. It has been heartening to see the outstanding response of the executive team, and positive attitude displayed by all staff. Decisions taken were communicated quickly, and the necessary actions executed. This helped to keep staff motivated during the periods of uncertainty.

COMMENTARY CONTINUED

The decreased level of activity has unfortunately necessitated a reduction in head count. Over the six months, the total staff complement has reduced by 24%, primarily as the result of retrenchments, resignations, non-renewal of fixed-term contracts, and the sale of a retail motor dealership. All retrenchments have been made following due process after numerous meetings with trade union officials and other employee representatives.

A salary sacrifice programme was introduced from 1 April, and intended to endure for the balance of the financial year. In terms of this, basic salaries were reduced on a scale ranging from 7,5% for those earning R7 000 per month, to 20% in respect of the executive directors. In addition, the retainer fees of non-executive directors were reduced by 20%. Following a review of the Group's results for the past three months, the Remuneration Committee has proposed that the amounts sacrificed be reduced to nil in respect of the lowest level, and by 50% in respect of the other levels. The balance of the sacrifice will be removed from 1 March 2021. Approximately R39,7 million was applied for, received, and paid to staff in terms of the Temporary Employer-Employee Relief Scheme (Covid-19 TERS). Further applications are awaiting payment.

Suppliers

The Group is grateful for the financial assistance received from various suppliers during the lockdown period. Principal amongst these were the rental holidays and payment deferrals granted by many landlords, and interest and capital repayment concessions from some of the manufacturer banks in respect of floorplan accounts.

Safety

Of paramount importance since business re-opened has been the safety of the Group's staff and customers. Safety protocols have been strictly enforced in accordance with regulations from health authorities and, where possible, employees have been encouraged to work from home. Despite best efforts, two staff members succumbed to the disease. Management has expressed its condolences to their next of kin. A further 93 employees have tested positive. The majority have fully recovered, whilst the remainder are in varying stages of recovery.

PROSPECTS

Results during the months from June have allayed fears of a doomsday scenario. Confidence has improved as each reduction in alert levels has permitted increased activity and a gradual return to normality. Increased traffic flow on both urban roads and highways is a sure sign of positivity. Interest rates have fallen to record lows, and this will help embattled consumers. The board is pleased that the Group's reserves and cash resources have remained intact and primed for a return to business as usual. Nevertheless, the country is in its worst-ever financial position, and will be hard-pressed to recover in the medium-term future. It is expected that, largely because of the actions taken, the results for the second half will record a substantial improvement, although not yet at historic levels.

DIVIDEND DECLARATION

During the lockdown, when the results for the year ended February 2020 were being finalised, there was considerable uncertainty regarding the length and severity of the pandemic, and its impact on the sustainability of the Group. As a consequence, the directors felt it wise and prudent to conserve reserves and cash resources, and to defer proposal of a dividend in respect of that year. Developments since then have seen a return to some form of normality and predictability, and have given the board the confidence to propose a dividend payment relating to the earnings during the year ended February 2020. In the absence of a setback regarding the economic effects of the pandemic, the board intends to return to the payment of dividends in line with headline earnings.

As a consequence, a dividend (dividend number 64) of 100 cents per share will be paid on Tuesday, 15 December 2020 to members reflected in the share register of the Company at the close of business on the record date, Friday, 11 December 2020. Last day to trade *cum* dividend is Tuesday, 8 December 2020. First day to trade *ex* dividend is Wednesday, 9 December 2020. Share certificates may not be dematerialised or rematerialised from Wednesday, 9 December 2020 to Friday, 11 December 2020, 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 R74 801 998 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 80,00 cents per share 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 in directors since the release, in June 2020, of the results for the year ended 29 February 2020.

BASIS OF PREPARATION

The unaudited interim financial results for the six months ended 31 August 2020 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements and the South African Companies Act, No 71 of 2008, applicable to interim financial statements. 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"), 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 condensed consolidated financial statements for the six months ended 31 August 2020 have been prepared under the supervision of SK Jackson CA(SA), financial director. The results have not been reviewed nor audited by the Group's external auditors, PricewaterhouseCoopers Inc.

COMMENTARY CONTINUED

The accounting policies applied in the preparation of the unaudited interim financial results are in terms of IFRS and are consistent with those applied in the annual financial statements for the year ended 29 February 2020. The policies are also consistent with the prior interim reporting period, except as described below.

CHANGES IN COMPARATIVE FIGURES

At the end of the previous financial year management reclassified certain figures in the statement of cash flows. This has led to a restatement of certain figures previously reported in the statement of cash flows in respect of the six months ended 31 August 2019.

Prior to the restatement, the movement in the "Insurance Receivable" reflected on the statement of financial position was classified in the statement of cash flows as a cash flow from investing activities. At the financial year-end, management reconsidered the guidance in IAS 7: Statement of Cash Flows and concluded that the components making up the movement in the "Insurance Receivable" should be separated between cash and non-cash movements and thereafter classified in that section of the statement of cash flows that is most relevant having regard for the guidance in IAS 7. On this basis, the components have been reclassified in the statement of cash flows as follows:

- the value of net profit after tax accumulated in the special purpose entities ("SPEs"), as non-cash item adjusted to the relevant line items within operating and financing activities; and
- dividends paid by the SPEs to the Group, as investing activities.

The changes had no impact on "Net movement in cash and cash equivalents".

CORPORATE GOVERNANCE

The Group is committed to maintaining the high standards of governance as embodied in the King IV Report on Corporate Governance ("the Report") and applies the principles and the appropriate best business practices as recorded in the Report. The Group also complies with the corporate governance requirements set out in the JSE Limited Listings Requirements.

By order of the board of directors.

K Fonseca CA(SA)
Company Secretary

19 October 2020

CORPORATE INFORMATION

COMBINED MOTOR HOLDINGS LIMITED

Registration number: 1965/000270/06
Income tax reference number: 9471/712/71/2
Share code: CMH
ISIN: ZAE000088050

DIRECTORS

JS Dixon *(chairman)**
JD McIntosh *(chief executive officer)*
BWJ Barritt
LCZ Cele*
SK Jackson
ME Jones*
JA Mabena*
MR Nkadimeng*
**Independent non-executive*

COMPANY SECRETARY

K Fonseca

AUDITOR

PricewaterhouseCoopers Inc.

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