



COMBINED MOTOR HOLDINGS LIMITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2018

GROUP FINANCIAL HIGHLIGHTS

		Change %	Unaudited 6 months 31 August 2018	Unaudited 6 months 31 August 2017	Audited 12 months 28 February 2018
Total assets	(R'000)	2,2	2 703 709	2 645 210	2 772 650
Cash resources	(R'000)	0,1	385 345	384 787	372 882
Net asset value per share	(cents)	17,5	933	794	935
Revenue	(R'000)	8,8	5 572 638	5 123 421	10 572 596
Operating profit	(R'000)	(4,7)	180 655	189 627	438 378
Total profit and comprehensive income	(R'000)	0,1	96 231	96 113	247 460
Earnings per share	(cents)	–	128,5	128,5	330,7
Headline earnings per share	(cents)	0,2	128,7	128,5	332,9
Dividend paid per share	(cents)				161,0
Dividend declared per share, payable December 2018	(cents)	–	61,0	61,0	
Dividend cover	(times)	–	2,1	2,1	2,1

GROUP STATEMENT OF FINANCIAL POSITION as at 31 August 2018

	Unaudited 31 August 2018 R'000	Unaudited 31 August 2017 R'000	Audited 28 February 2018 R'000
ASSETS			
Non-current assets			
Plant and equipment	61 857	68 710	64 967
Car hire fleet vehicles	587 871	632 299	760 282
Goodwill	8 078	10 078	8 078
Insurance receivable	57 544	46 470	45 144
Deferred taxation	44 536	40 000	43 865
	759 886	797 557	922 336
Current assets			
Inventories	1 197 160	1 136 993	1 164 428
Trade and other receivables	361 318	325 873	311 635
Tax paid in advance	–	–	1 369
Cash and cash equivalents	385 345	384 787	372 882
	1 943 823	1 847 653	1 850 314
Total assets	2 703 709	2 645 210	2 772 650
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	38 091	38 091	38 091
Share-based payment reserve	8 176	6 699	8 873
Retained earnings	650 068	548 175	651 439
Ordinary shareholders' equity	696 335	592 965	698 403
Non-controlling interest	1 339	1 124	1 229
Total equity	697 674	594 089	699 632
Non-current liabilities			
Borrowings	41 186	–	60 081
Lease liabilities	52 802	47 066	49 780
	93 988	47 066	109 861
Current liabilities			
Trade and other payables	1 460 344	1 339 471	1 452 888
Borrowings	446 924	654 300	503 600
Lease liabilities	1 365	1 866	1 292
Current tax liabilities	3 414	8 418	5 377
	1 912 047	2 004 055	1 963 157
Total liabilities	2 006 035	2 051 121	2 073 018
Total equity and liabilities	2 703 709	2 645 210	2 772 650

GROUP STATEMENT OF COMPREHENSIVE INCOME for the six months ended 31 August 2018

	Unaudited 6 months 31 August 2018 R'000	Unaudited 6 months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Revenue	5 572 638	5 123 421	10 572 596
Cost of sales	(4 663 698)	(4 274 179)	(8 806 119)
Gross profit	908 940	849 242	1 766 477
Other income	10 710	10 199	29 659
Impairment of goodwill	–	–	(2 000)
Selling and administration expenses	(738 995)	(669 814)	(1 355 758)
Operating profit	180 655	189 627	438 378
Finance income	10 099	12 270	24 452
Finance costs	(60 574)	(65 575)	(124 871)
Profit before taxation	130 180	136 322	337 959
Tax expense	(33 949)	(40 209)	(90 499)
Total profit and comprehensive income	96 231	96 113	247 460
Attributable to:			
Equity holders of the Company	96 121	96 116	247 358
Non-controlling interest	110	(3)	102
	96 231	96 113	247 460
Reconciliation of headline earnings			
Total profit and comprehensive income attributable to equity holders of the Company	96 121	96 116	247 358
Re-measurement items			
– impairment of goodwill	–	–	2 000
– loss/(profit) on sale of plant and equipment			
– gross	255	(40)	(445)
– impact of income tax	(71)	11	125
Headline earnings attributable to equity holders of the Company	96 305	96 087	249 038
Weighted average number of shares in issue ('000)	74 802	74 802	74 802
Earnings per share			
Basic (cents)	128,5	128,5	330,7
Diluted basic (cents)	127,8	127,8	325,8
Headline (cents)	128,7	128,5	332,9
Diluted headline (cents)	128,0	127,7	328,1
Dividend declared per share, payable – December 2018 (cents)	61,0	61,0	–
Dividend paid per share (cents)	–	–	161,0
Dividend cover (times)	2,1	2,1	2,1

GROUP STATEMENT OF CHANGES IN EQUITY for the six months ended 31 August 2018

	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			96 116	96 116	(3)	96 113
Release following exercise of share appreciation rights		(2 349)	2 349			
Cost of shares delivered in terms of share appreciation rights scheme			(2 846)	(2 846)		(2 846)
Share-based payment charge		2 067		2 067		2 067
Dividends paid			(74 802)	(74 802)		(74 802)
Balance at 31 August 2017	38 091	6 699	548 175	592 965	1 124	594 089
Total profit and comprehensive income			151 242	151 242	105	151 347
Cost of shares delivered in terms of share appreciation rights scheme			(2 350)	(2 350)		(2 350)
Share-based payment charge		2 174		2 174		2 174
Dividends paid			(45 628)	(45 628)		(45 628)
Balance at 28 February 2018	38 091	8 873	651 439	698 403	1 229	699 632
Total profit and comprehensive income			96 121	96 121	110	96 231
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		2 463		2 463		2 463
Dividends paid			(86 021)	(86 021)		(86 021)
Balance at 31 August 2018	38 091	8 176	650 068	696 335	1 339	697 674

GROUP STATEMENT OF CASH FLOWS for the six months ended 31 August 2018

	Unaudited 6 months 31 August 2018 R'000	Unaudited 6 months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Cash flows from operating activities			
Cash generated from operations	221 708	73 153	223 241
Taxation paid	(35 214)	(30 775)	(89 340)
Net cash movement from operating activities	186 494	42 378	133 901
Cash flows from investing activities			
Purchase of plant and equipment	(10 756)	(8 285)	(20 616)
Proceeds on disposal of plant and equipment	252	737	3 406
Insurance receivable	(12 400)	(8 308)	(6 982)
Net cash movement from investing activities	(22 904)	(15 856)	(24 192)
Cash flows from financing activities			
Cost of shares delivered in terms of share appreciation rights scheme	(14 631)	(2 846)	(5 196)
Finance income received	10 099	12 270	24 452
Finance costs paid	(60 574)	(65 575)	(124 871)
Dividends paid	(86 021)	(74 802)	(120 430)
Net cash movement from financing activities	(151 127)	(130 953)	(226 045)
Net movement in cash and cash equivalents	12 463	(104 431)	(116 336)
Cash and cash equivalents at beginning of period	372 882	489 218	489 218
Cash and cash equivalents at end of period	385 345	384 787	372 882

GROUP SEGMENT INFORMATION for the six months ended 31 August 2018

	Total 2018 R'000	Retail motor 2018 R'000	Car hire 2018 R'000	Financial services 2018 R'000	Corporate services/ Other 2018 R'000
Segment revenue	5 590 126	5 251 353	263 023	44 023	31 727
Inter-segment revenue	(17 488)	–	–	–	(17 488)
External revenue	5 572 638	5 251 353	263 023	44 023	14 239
Operating profit	180 655	123 063	51 309	12 122	(5 839)
Finance income	10 099	–	–	3 247	6 852
Finance costs	(60 574)	(36 754)	(22 907)	–	(913)
Profit before taxation	130 180	86 309	28 402	15 369	100
After charging					
– employee costs	377 722	307 781	40 655	–	29 286
– depreciation charge					
– included in cost of sales	53 090	–	53 090	–	–
– included in selling and administration expenses	13 359	10 077	1 317	–	1 965
Total assets					
– per statement of financial position	2 703 709	1 582 513	652 788	57 544	410 864
– set off of inter-segment balances	101 200	–	–	–	101 200
	2 804 909	1 582 513	652 788	57 544	512 064
Total liabilities					
– per statement of financial position	2 006 035	1 437 560	541 840	–	26 635
– set off of inter-segment balances	101 200	–	101 200	–	–
	2 107 235	1 437 560	643 040	–	26 635
Goodwill at period-end	8 078	8 078	–	–	–

	Total 2017 R'000	Retail motor 2017 R'000	Car hire 2017 R'000	Financial services 2017 R'000	Corporate services/ Other 2017 R'000
Segment revenue	5 139 281	4 814 256	251 219	42 070	31 736
Inter-segment revenue	(15 860)	–	–	–	(15 860)
External revenue	5 123 421	4 814 256	251 219	42 070	15 876
Operating profit	189 627	115 829	65 039	14 349	(5 590)
Finance income	12 270	–	–	2 920	9 350
Finance costs	(65 575)	(27 073)	(34 932)	–	(3 570)
Profit before taxation	136 322	88 756	30 107	17 269	190
After charging					
– employee costs	352 708	279 903	41 084	–	31 721
– depreciation					
– included in cost of sales	32 447	–	32 447	–	–
– included in selling and administration expenses	13 354	11 213	1 317	–	824
Total assets	2 645 210	1 485 256	707 027	46 470	406 457
Total liabilities	2 051 121	1 324 930	691 866	–	34 325
Goodwill at period-end	10 078	10 078	–	–	–

COMMENTARY ON RESULTS

Given the particularly difficult economic circumstances which prevailed during the period under review, the directors are satisfied with the marginal increase in headline earnings per share achieved. 2018 has been challenging for corporate South Africa. The economy has suffered the after-effects of years of corruption and mismanagement and the ANC's recent pronouncement that it intends to amend the constitution to allow land redistribution without compensation. Investor confidence, both local and international, has been dented, causing the economy to enter a technical recession, and currency exchange rates to fall. The domestic economic growth outlook for the remainder of 2018 is weaker than earlier expected.

Given the background, it is not surprising that the national new vehicle market has perpetuated the sideways cycle that has been in place for the past 2-3 years. Sales levels have been sustained by a negative movement in real new car prices and robust sales incentives. A consequence of negative new vehicle pricing over the past 2-3 years has been a sharp downward adjustment in the value of used vehicles, particularly in the luxury segment. This has created pressure for customers who wish to trade-in and recycle their vehicles every 3-4 years.

Group operating results were characterised by increased revenue at a lower trading margin. The 8,8% revenue improvement was recorded at a gross margin of 16,3%, compared with the 16,6% achieved last year. The net interest cost decreased 5,3%, leaving profit before taxation 4,5% down. This decline was offset by a lower effective tax rate, leading to a 0,2% improvement in headline earnings. The values on the statement of financial position are substantially unchanged from 2017. The reduction in borrowings reflects the further settlement of car hire fleet liabilities using Group cash resources. Cash flow generation from operating activities remained strong, and has enabled the directors to recommend a dividend of 61 cents per share, equal to last year.

OPERATING REVIEW

Against the backdrop of flat national new vehicle sales, the Group achieved a 5,6% increase. Particularly pleasing was the Group's increase in luxury model sales, a segment which has suffered declining trends over the past three years.

Offsetting to an extent the improved new car profitability, used car unit sales declined 1,7%. Longer periods over which vehicles are financed, coupled with the fall in their residual values, has led to a greater gap between the resale values and the finance settlement values. Adjustments have been made to ensure that Group inventory is realistically valued, and the past two months have produced positive outcomes. The parts and service departments have recorded steady collective improvement.

The car hire market, in general, has been forced to retain its vehicles for longer periods, and rent them out at a lower daily rate, because the fall in used vehicle values has rendered the retired fleet less saleable. The result of the pricing competition and lower recoveries on the disposal of the retired fleet on the Group's First Car Rental division is that, although revenue increased 4,7%, profit before taxation has declined 5,7%. The directors are confident that the fleet is conservatively valued, and anticipate improved performance during the summer months ahead.

A once-off increase of R3,2 million to the doubtful debts provision in the records of the Group's joint venture partner, following the introduction of IFRS 9, has meant a 10,1% decline in operating profit of the Group's financial services division. This charge pre-empted the provision that would otherwise have been incurred over the life of the debtors' credit agreements. It is pleasing that the premium income level continues to rise, despite the flat vehicle market, and this augurs well for future annuity-type income.

PROSPECTS

The financial outlook for the short-term future remains fragile. The economy contracted by 0,7% during the second quarter of 2018, and is expected to grow by less than 1,0% for the full year. Consumers have been hit by the VAT rate increase, and face further fuel price rises. Unemployment levels remain at record highs. On the positive side, interest rates have remained stable, and the stimulus package, announced as part of the Government's economic recovery plan, will provide some boost to business confidence. It is important that this injection is aligned with consistent policy and implementation aimed at attracting local and foreign investment, with the ultimate objective of promoting faster economic growth and job creation.

The directors believe that the Group will have performed well if it is able to maintain headline earnings growth for the full year to February 2019.

CHANGES IN DIRECTORATE

There has been no change in directors since the release, in April 2018, of the results for the year ended 28 February 2018.

DIVIDEND DECLARATION

A dividend (dividend number 61) of 61 cents per share will be paid on Tuesday, 18 December 2018 to members reflected in the share register of the Company at the close of business on the record date, Friday, 14 December 2018. Last day to trade cum dividend is Tuesday, 11 December 2018. First day to trade ex dividend is Wednesday, 12 December 2018. Share certificates may not be dematerialised or rematerialised from Wednesday, 12 December 2018 to Friday, 14 December 2018, 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 R45 629 219 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 48,8 cents per share to those shareholders who are not exempt in terms of section 64F of the Income Tax Act.

BASIS OF PREPARATION

The summary consolidated financial statements for the six months ended 31 August 2018 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 interim reports, and the requirements of the South African Companies Act, No 71 of 2008, applicable to summary 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 accounting policies applied are in terms of IFRS and are consistent with those applied in the financial statements as at 28 February 2018. The results have not been reviewed nor audited by PricewaterhouseCoopers Inc., the Group's external auditors.

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

17 October 2018



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: ZAE000088050

DIRECTORS

JS Dixon (chairman)

JD McIntosh (CEO)

BWJ Barritt

LCZ Cele

SK Jackson

ME Jones

JA Mabena

MR Nkadimeng

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