# COMBINED MOTOR HOLDINGS LIMITED


## FINANCIAL RESULTS | 2019

# 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 R'000 | 2018 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 ±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

**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

**SPONSORS**
PricewaterhouseCoopers Corporate Finance Proprietary Limited
4 Lisbon Lane
Waterfall City
Jukskei View, 2090

**TRANSFER SECRETARIES**
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown 2107

**BUSINESS ADDRESS AND REGISTERED OFFICE**
1 Wilton Crescent
Umhlanga Ridge 4319

**WEBSITE**
www.cmh.co.za