CMH GROUP

COMBINED MOTOR HOLDINGS LIMITED FINANCIAL RESULTS

FOR THE YEAR ENDED 28 FEBRUARY 2018

GROUP FINANCIAL HIGHLIGHTS
FOR THE SIX YEARS ENDED 28 FEBRUARY 2018

▲18%
COMPOUND GROWTH IN HEADLINE EARNINGS PER SHARE

▲25%
COMPOUND GROWTH IN DIVIDENDS PER SHARE

INCREASE IN OPERATING MARGIN FROM 2,6% TO 4,2%

GROUP FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED 28 FEBRUARY 2018

▲17%
HEADLINE EARNINGS PER SHARE

▲15%
DIVIDEND PER SHARE

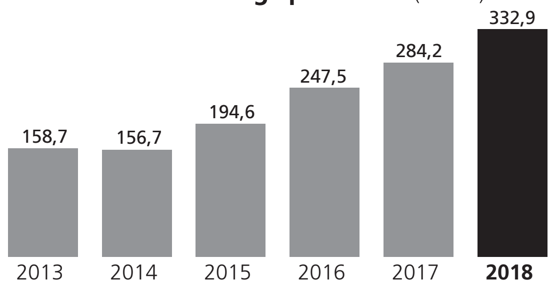
39%
RETURN ON SHAREHOLDERS' FUNDS

▲26%
BASIC EARNINGS PER SHARE

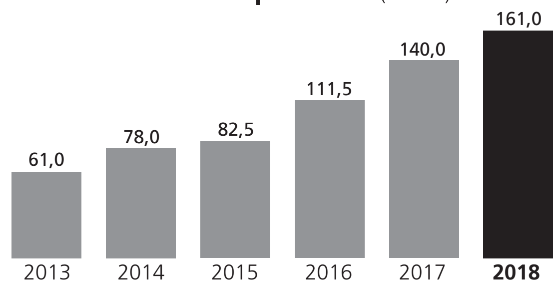
▲16%
OPERATING PROFIT

		28 February 2018	28 February 2017	Change %
Total assets	(R'000)	**2 772 650**	2 786 806	(0,5)
Cash resources	(R'000)	**372 882**	489 218	(23,8)
Net asset value per share	(cents)	**935**	767	21,9
Revenue	(R'000)	**10 572 596**	10 224 900	3,4
Operating profit before goodwill impairment	(R'000)	**440 378**	396 652	11,0
Operating profit	(R'000)	**438 378**	379 652	15,5
Total profit and comprehensive income	(R'000)	**247 460**	197 388	25,4
Return on shareholders' funds	(%)	**38,9**	37,4	4,0
Basic earnings per share	(cents)	**330,7**	263,3	25,6
Headline earnings per share	(cents)	**332,9**	284,2	17,1
Dividends paid per share	(cents)	**161,0**	140,0	15,0
Dividend declared – payable June 2018	(cents)	**115,0**	100,0	15,0

Headline earnings per share (cents)



Dividends per share (cents)



GROUP STATEMENT OF FINANCIAL POSITION as at 28 February 2018

	2018 R'000	2017 R'000
ASSETS		
Non-current assets		
Plant and equipment	**64 967**	74 864
Car hire fleet vehicles	**760 282**	757 085
Goodwill	**8 078**	10 078
Insurance receivable	**45 144**	38 162
Deferred taxation	**43 865**	39 454
	922 336	919 643
Current assets		
Inventories	**1 164 428**	1 118 563
Trade and other receivables	**311 635**	254 843
Taxation paid in advance	**1 369**	4 539
Cash and cash equivalents	**372 882**	489 218
	1 850 314	1 867 163
Total assets	**2 772 650**	2 786 806
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**38 091**	38 091
Share-based payment reserve	**8 873**	6 981
Retained earnings	**651 439**	527 358
Ordinary shareholders' equity	**698 403**	572 430
Non-controlling interest	**1 229**	1 127
Total equity	**699 632**	573 557
Non-current liabilities		
Borrowings	**60 081**	–
Lease liabilities	**49 780**	44 945
	109 861	44 945
Current liabilities		
Trade and other payables	**1 452 888**	1 322 376
Borrowings	**503 600**	841 196
Lease liabilities	**1 292**	1 755
Current tax liabilities	**5 377**	2 977
	1 963 157	2 168 304
Total liabilities	**2 073 018**	2 213 249
Total equity and liabilities	**2 772 650**	2 786 806

GROUP STATEMENT OF COMPREHENSIVE INCOME for the year ended 28 February 2018

		2018 R'000	2017 R'000
Revenue		**10 572 596**	10 224 900
Cost of sales		**(8 806 119)**	(8 539 618)
Gross profit		**1 766 477**	1 685 282
Other income		**29 659**	25 905
Impairment of goodwill		**(2 000)**	(17 000)
Selling and administration expenses		**(1 355 758)**	(1 314 535)
Operating profit		**438 378**	379 652
Finance income		**24 452**	21 498
Finance costs		**(124 871)**	(126 338)
Profit before taxation		**337 959**	274 812
Tax expense		**(90 499)**	(77 424)
Total profit and comprehensive income		**247 460**	197 388
Attributable to:			
Equity holders of the company		**247 358**	196 983
Non-controlling interest		**102**	405
		247 460	197 388
Reconciliation of headline earnings			
Total profit and comprehensive income attributable to equity holders of the company		**247 358**	196 983
Re-measurement items:			
– impairment of goodwill		**2 000**	17 000
– profit on sale of plant and equipment			
– gross		**(445)**	(1 954)
– impact of income tax		**125**	547
Headline earnings attributable to equity holders of the Company		**249 038**	212 576
Earnings per share			
Basic	(cents)	**330,7**	263,3
Diluted basic	(cents)	**325,8**	261,8
Headline	(cents)	**332,9**	284,2
Diluted headline	(cents)	**328,1**	282,6

GROUP STATEMENT OF CHANGES IN EQUITY for the year ended 28 February 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 29 February 2016	38 091	5 987	436 013	480 091	722	480 813
Total profit and comprehensive income			196 983	196 983	405	197 388
Release following exercise of share appreciation rights		(2 567)	2 567			
Cost of shares delivered in terms of share appreciation rights scheme			(3 483)	(3 483)		(3 483)
Share-based payment charge		3 561		3 561		3 561
Dividends paid			(104 722)	(104 722)		(104 722)
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**

GROUP STATEMENT OF CASH FLOWS for the year ended 28 February 2018

	2018 R'000	2017 R'000
Cash flows from operating activities		
Cash generated from operations	223 241	273 354
Taxation paid	(89 340)	(79 754)
Net cash movement from operating activities	133 901	193 600
Cash flows from investing activities		
Purchase of plant and equipment	(20 616)	(36 242)
Proceeds on disposal of plant and equipment	3 406	5 146
Proceeds on disposal of businesses	–	49 890
Insurance receivable	(6 982)	(8 130)
Net cash movement from investing activities	(24 192)	10 664
Cash flows from financing activities		
Repayment of advance from non-controlling shareholder of subsidiary	–	(255)
Cost of shares delivered in terms of share appreciation rights scheme	(5 196)	(3 483)
Finance income received	24 452	21 498
Finance costs paid	(124 871)	(126 338)
Dividends paid	(120 430)	(104 722)
Net cash movement from financing activities	(226 045)	(213 300)
Net movement in cash and cash equivalents	(116 336)	(9 036)
Cash and cash equivalents at beginning of year	489 218	498 254
Cash and cash equivalents at end of year	372 882	489 218

GROUP SEGMENT INFORMATION for the year ended 28 February 2018

	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	–	–	–	–	–	–
2017										
Segment revenue	10 253 982	100	9 627 137	93	483 672	5	68 884	1	74 289	1
Inter-segment revenue	(29 082)	100	–	–	–	–	–	–	(29 082)	100
External revenue	10 224 900	100	9 627 137	94	483 672	5	68 884	1	45 207	–
Operating profit/(loss)	379 652	100	247 430	65	108 747	29	27 619	7	(4 144)	(1)
Finance income	21 498	100	–	–	–	–	5 379	25	16 119	75
Finance costs	(126 338)	100	(68 031)	54	(50 515)	40	–	–	(7 792)	6
Profit before taxation	274 812	100	179 399	65	58 232	21	32 998	12	4 183	2
After charging										
– employee costs	737 241	100	600 915	82	79 593	11	–	–	56 733	7
– depreciation	117 324	100	21 180	18	93 032	79	–	–	3 112	3
– impairment of goodwill	17 000	100	17 000	100	–	–	–	–	–	–
Total assets	2 786 806	100	1 380 717	50	844 769	30	38 162	1	523 158	19
Total liabilities	2 213 249	100	1 255 998	57	906 158	41	–	–	51 093	2
Goodwill at year-end	10 078	100	10 078	100	–	–	–	–	–	–

EXTRACTS FROM THE REPORT OF THE CHIEF EXECUTIVE OFFICER

The Group reported a good set of results for the year ended 28 February 2018, despite the ongoing challenges presented by a difficult economic, trading and political environment. Pleasing is the fact that the improvement has been led by a strong performance by the Group's core retail motor sector. This is an area which is particularly sensitive to depressed consumer confidence, the effects of an economy which grew by only 1,3% and suffered a downgrade by major credit ratings agencies, and a new vehicle sales market which increased a mere 0,4%.

The financial year began under severe pressure as consumer and international investor confidence was shattered by the irrational and politically-motivated decision to fire a respected finance minister. This created an extremely negative period during which corporates, in particular, suspended capital goods purchases.

State capture allegations, and endemic corruption and mismanagement at state-owned entities dominated the headlines, and it was only towards the end of the year, when a new political dispensation was forecast, that a semblance of positivity returned.

Looking back, the past six years have been challenging yet rewarding. The Group has achieved 18,5% compound growth in headline earnings per share, and a 24,5% growth in dividends. Cash flow generation has enabled two share repurchase transactions, to a combined value of R450 million, and the early settlement of R200 million of car hire fleet financing. This is a record of which I am proud, and which has not been matched by many JSE companies.

The Group strategy of steady profitable growth in each of its business segments has proved rewarding.

FINANCIAL OVERVIEW

Operating profit increased 15,5% to R438,4 million, with a commendable improvement in the operating margin, before goodwill impairment, from 3,9% to 4,2%. Revenue growth was restrained by limited vehicle price increases, as manufacturers fought for market share, and the continuing downward trend of sales within the luxury vehicle segment. The gross margin, however, improved to16,7%. Selling and operating expenses were contained at a 3,1% increase, and net finance costs declined 4,2%. A lower level of non-deductible expenditure, principally goodwill impairment, reduced the tax rate from 28,2% to 26,8%. The net result was a 25,4% increase in total profit and, adjusting for the reduced goodwill impairment this year, a 17,2% improvement in headline earnings.

Dividends paid during the year reflected a 15% rise, and the directors have recommended a June 2018 dividend of 115 cents per share.

Within the statement of financial position, the only noteworthy movement is the reduction in borrowings related to the car hire fleet. The movement reflects the extent to which surplus cash generated by Group operations has been used to settle interest-bearing loans. The finance facilities available to the car hire division remain substantially unchanged from previous years, and can be utilised to a greater extent should the cash be needed for other Group opportunities.

Of concern to me is the disturbing impact which some accounting principles can have on the economic realities of business. The Group accounts for its numerous property leases in terms of an accounting principle which requires that the rental charge to the income statement be equal for each period of a long-term lease. No allowance is made for the fact that actual lease payments are adjusted annually to recognise the impact of inflation and high interest rates on property values and required returns. The degree of distortion is negligible in major western countries where inflation and interest rates are close to zero. However, it can materially distort earnings in local businesses where the rental charge forms a high component of operating expenses. In respect of a 10-year lease with 7% annual escalations, the charge to the income statement in year one will be 138% of the cash rental paid. Arising from this principle alone, the Group suffered an extra R8,8 million rental expense compared with the previous year. This equates to a fall of 8,5 cents per share, almost 3% of total headline earnings. During the latter stages of each lease the distortion is reversed, and earnings are overstated.

With effect from 1 March 2019, the Group will be required to adopt the new principle for property lease accounting, which will lead to an even greater distortion. In terms of this principle, the year one charge to the income statement in respect of the 10-year lease mentioned above, will be 161% of the cash rental paid.

Such a difference may have an adverse impact on the assessment of business projects with a high property component, and distort decision-making.

OPERATIONAL OVERVIEW

The three-year declining trend in national new vehicle sales turned during the year under review, with a 0,4% increase. The rate of new vehicle price increases averaged approximately 3%, with reports indicating that the year-on-year increase dropped to its lowest level since 2013. This, coupled with a hardening of used vehicles prices, following supply shortages, has caused a correction in the trend of past years of consumers moving to the used vehicle market because of affordability.

The announcement by General Motors that it was withdrawing from the country created a major shock and disruption to the industry. Fortunately the Group was able to negotiate, at its two affected dealerships, the continuation of its Opel and Isuzu franchises, and the ongoing parts and servicing requirements of the remaining GM customer base. This will enable the dealerships to be restructured in an orderly fashion to remain profitable.

On the positive side, I believe that Nissan will be the principal beneficiary of the GM departure, and this will benefit the Group, which has seven Nissan outlets.

Particularly pleasing during the current year is that the profit improvement has been contributed to by each of the Group's operating segments and, within motor retail, by each of the new sales, used sales, workshops and parts departments. It makes managing the business so much easier if there is no element which is regressing and offsetting the good results of another.

Motor retail

Against the 0,4% rise in national new vehicle sales, the Group achieved growth of 11,8%. This improvement was driven mainly by the Toyota, Nissan, Honda and Mazda products. The luxury market continued its declining trend. Sales in this sector fell 8,1% during the year, and have declined by a third over the past three years. Fortunately the luxury brands form a relatively low proportion of the Group's model mix. However, the Jaguar, Land Rover and Volvo dealerships experienced a difficult year. The growth in new vehicle sales has not translated into significant revenue growth because the model mix of sales has trended towards lower-priced, more affordable options. The Group was able to achieve the majority of manufacturer sales targets, and the incentives earned helped boost gross margins.

The industry does not have reliable statistics for the level of national used vehicle sales. However, business levels at the major vehicle finance banks indicate a decline of ±3%. In comparison, Group unit sales rose 6,3% from its continuing operations.

The Group's back-end departments, workshop and parts, recorded pleasing steady growth, with very few individual departments recording an operating loss. These departments produce the stable and dependable base on which all successful dealerships are founded, and their ongoing contribution is reassuring.

Of the four under-performing dealerships at the beginning of the year, one has been relocated to more suitable premises with a lower infrastructure cost. In respect of the remaining three, smaller franchises have been added to the product offering, generating additional gross profit with low incremental costs. Smaller franchises have also been added to three other outlets, which will enhance their profitability.

Car Hire

First Car Rental has completed a decade of profit growth since its rebranding in 2008. In that first year the division's operating profit was R18,6 million, 6% of the Group total. In the year under review this has risen to R64,2 million, a 19% contribution. The division faced severe head winds during midyear, when the traditionally slow winter months were exacerbated by a period of political turmoil, and lower inbound tourist numbers following the passport and visa requirements fiasco. During the summer months, from November onwards, the division substantially increased both its fleet utilisation rate and rental income per day, and focused on driving down costs. The used car market remained buoyant, enabling the division to obtain favourable prices for retired fleet vehicles.

It was reported last year that the operations of this business were being restructured to facilitate the introduction of a black empowerment partner. This process is now complete, and the company's car hire fleet and attendant borrowings have been transferred to a fellow subsidiary. A 43% stake in the significantly reduced operations division has been sold on credit terms to Azepha Proprietary Limited, a company owned by Group director Zee Cele and her family. As the risks and rewards of ownership in the equity stake have not yet passed to the purchaser, as required by the relevant accounting standards, the issue of shares has not been recorded in the Group's financial statements.

Financial Services

After a spike in claims caused a fall in 2017 results when compared with 2016, the Group's insurance cells were back on track, with a 4% rise in profit. Particularly pleasing is that, despite the three-year trend of declining vehicle sales, the division has managed to grow its premium income by 23% since 2015. As the underwritten policies are for periods of three to five years, annuity income is assured over the long term. The finance joint ventures with major finance houses generated a 21% improvement in profit, giving an overall increase for the segment of 4%. This represents 10% of total Group profit.

PROSPECTS

Economic growth in the year ahead is expected to be an improvement on the past three years, provided the global backdrop remains as supportive as it was last year. It seems likely that political uncertainty will moderate, and a few interventions to restore confidence will serve to ease some of the constraints on both investment and consumption. The country's new president has spoken of a number of practical proposals which will boost growth and address endemic corruption, but whether he will deliver on these remains to be seen. The reality check will come over the next few months when he begins to deal with public sector wage negotiations, prosecution of corrupt present and past government officials, land redistribution pressure, and the state of disarray at the state-owned enterprises. I believe that economic stability and growth will be ensured by a vision which honestly recognises past failures, accepts fairly that both the public and private sectors are accountable, and acknowledges the available resources with which we can work.

The recent hikes, in respect of value-added tax, *ad valorem* duty and taxes on carbon emissions, all necessitated by government mismanagement of finances, will negatively affect the motor industry. However, I am optimistic that a new dawn has broken and that modest economic recovery lies ahead. Together with the possibility of a further marginal interest rate cut, it will provide welcome respite for those many consumers who are drowning in debt.

The Group is well positioned for continued growth. It has remedied its loss-making businesses, pared operating costs, and is keenly focused on marketing and customer service. It has a strong balance sheet, healthy cash resources, and an experienced and committed senior management team. Economists are predicting a 3% to 5% rise in new vehicle sales, and this will provide a welcome stimulus for the industry.

DIVIDEND DECLARATION

A dividend (dividend number 60) of 115 cents per share will be paid on Monday, 18 June 2018 to members reflected in the share register of the Company at the close of business on the record date, Friday, 15 June 2018. Last day to trade *cum* dividend is Tuesday, 12 June 2018. First day to trade *ex* dividend is Wednesday, 13 June 2018. Share certificates may not be dematerialised or rematerialised from Wednesday, 13 June 2018 to Friday, 15 June 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 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 2017.

BASIS OF PREPARATION

The summary consolidated financial statements for the year ended 28 February 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 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. 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 adopted and 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 2018.

ANNUAL GENERAL MEETING

Details of the annual general meeting are expected to be released on 3 May 2018.

By order of the board of directors

K Fonseca CA (SA)
Company Secretary

17 April 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

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