COMBINED MOTOR HOLDINGS LIMITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2019

GROUP FINANCIAL HIGHLIGHTS

		Change %	**Unaudited 6 months 31 August 2019**	Unaudited Restated 6 months 31 August 2018	Unaudited Restated 12 months 28 February 2019
Total assets	(R'000)	10,9	**3 578 634**	3 226 896	3 591 076
Cash resources	(R'000)	40,0	**539 664**	385 345	675 966
Net asset value per share	(cents)	12,7	**1 014**	900	1 010
Revenue	(R'000)	2,6	**5 717 648**	5 572 638	11 154 757
Operating profit	(R'000)	(0,1)	**200 067**	200 170	449 384
Total profit and comprehensive income	(R'000)	2,1	**90 495**	88 602	213 646
Earnings per share	(cents)	2,4	**121,2**	118,3	285,3
Headline earnings per share	(cents)	2,0	**120,9**	118,5	285,5
Dividend paid per share	(cents)				176,0
Dividend declared per share, payable December 2019	(cents)	–	**61,0**	61,0	
Dividend cover	(times)	2,9	**2,0**	1,9	1,6

GROUP STATEMENT OF FINANCIAL POSITION as at 31 August 2019

	Unaudited 31 August 2019 R'000	Unaudited Restated 31 August 2018 R'000	Unaudited Restated 28 February 2019 R'000
ASSETS			
Non-current assets			
Plant and equipment	**71 397**	61 857	71 431
Right-of-use assets	**477 212**	513 704	468 126
Car hire fleet vehicles	**580 099**	587 871	813 102
Goodwill	**31 828**	8 078	8 078
Insurance receivable	**46 436**	57 544	37 530
Deferred taxation	**53 737**	54 019	50 945
	1 260 709	1 283 073	1 449 212
Current assets			
Inventories	**1 341 318**	1 197 160	1 160 680
Trade and other receivables	**436 495**	361 318	304 770
Tax paid in advance	**448**	–	448
Cash and cash equivalents	**539 664**	385 345	675 966
	2 317 925	1 943 823	2 141 864
Total assets	**3 578 634**	3 226 896	3 591 076
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**38 091**	38 091	38 091
Share-based payment reserve	**10 020**	8 176	10 927
Retained earnings	**708 671**	625 684	704 935
Ordinary shareholders' equity	**756 782**	671 951	753 953
Non-controlling interest	**1 362**	1 339	1 502
Total equity	**758 144**	673 290	755 455
Non-current liabilities			
Borrowings	**72 271**	41 186	287 419
Lease liabilities	**493 837**	518 678	476 420
	566 108	559 864	763 839
Current liabilities			
Trade and other payables	**1 593 838**	1 460 344	1 460 215
Borrowings	**556 490**	446 924	514 194
Lease liabilities	**94 076**	83 060	91 525
Current tax liabilities	**9 978**	3 414	5 848
	2 254 382	1 993 742	2 071 782
Total liabilities	**2 820 490**	2 553 606	2 835 621
Total equity and liabilities	**3 578 634**	3 226 896	3 591 076

GROUP STATEMENT OF COMPREHENSIVE INCOME for the six months ended 31 August 2019

		Unaudited 6 months 31 August 2019 R'000	Unaudited Restated 6 months 31 August 2018 R'000	Unaudited Restated 12 months 28 February 2019 R'000
Revenue		**5 717 648**	5 572 638	11 154 757
Cost of sales		**(4 756 528)**	(4 663 698)	(9 329 488)
Gross profit		**961 120**	908 940	1 825 269
Other income		**4 363**	10 710	22 634
Selling and administration expenses		**(765 416)**	(719 480)	(1 398 519)
Operating profit		**200 067**	200 170	449 384
Finance income		**17 803**	10 099	23 769
Finance costs		**(96 071)**	(90 684)	(181 720)
Profit before taxation		**121 799**	119 585	291 433
Tax expense		**(31 304)**	(30 983)	(77 787)
Total profit and comprehensive income		**90 495**	88 602	213 646
Attributable to:				
Equity holders of the Company		**90 635**	88 492	213 373
Non-controlling interest		**(140)**	110	273
		90 495	88 602	213 646
Reconciliation of headline earnings				
Total profit and comprehensive income attributable to equity holders of the Company		**90 635**	88 492	213 373
Re-measurement items				
– (profit)/loss on sale of plant and equipment				
– gross		**(266)**	255	219
– impact of income tax		**74**	(71)	(61)
Headline earnings attributable to equity holders of the Company		**90 443**	88 676	213 531
Weighted average number of shares in issue	('000)	**74 802**	74 802	74 802
Earnings per share				
Basic	(cents)	**121,2**	118,3	285,3
Diluted basic	(cents)	**120,5**	117,6	282,8
Headline	(cents)	**120,9**	118,5	285,5
Diluted headline	(cents)	**120,3**	117,9	283,0
Dividend payable - December 2019	(cents)	**61,0**	61,0	
Dividend paid per share				176,0
Dividend cover		**2,0**	1,9	1,6

GROUP STATEMENT OF CASH FLOWS for the six months ended 31 August 2019

	Unaudited 6 months 31 August 2019 R'000	Unaudited Restated 6 months 31 August 2018 R'000	Unaudited Restated 12 months 28 February 2019 R'000
Cash flows from operating activities			
Operating profit	**200 067**	200 170	449 384
Adjustments for non-cash items	**117 174**	119 738	234 734
Sale of car hire fleet vehicles	**225 321**	194 546	371 686
Purchase of car hire fleet vehicles	**(35 626)**	(75 225)	(525 558)
Working capital changes	**(328 339)**	(150 530)	256 576
Cash generated from operations	**178 597**	288 699	786 822
Taxation paid	**(29 966)**	(35 214)	(76 959)
Net cash movement from operating activities	**148 631**	253 485	709 863
Cash flows from investing activities			
Purchase of plant and equipment	**(15 591)**	(10 756)	(38 927)
Acquisition of businesses	**(47 615)**	–	–
Proceeds on disposal of plant and equipment	**456**	252	3 470
Insurance receivable	**(8 906)**	(12 400)	7 614
Net cash movement from investing activities	**(71 656)**	(22 904)	(27 843)
Cash flows from financing activities			
Cost of shares delivered in terms of share appreciation rights scheme	**(4 531)**	(14 631)	(14 631)
Finance income received	**17 803**	10 099	23 769
Finance costs paid	**(96 071)**	(90 684)	(181 720)
Payment of lease liabilities	**(44 457)**	(36 881)	(74 703)
Dividends paid	**(86 021)**	(86 021)	(131 651)
Net cash movement from financing activities	**(213 277)**	(218 118)	(378 936)
Net movement in cash and cash equivalents	**(136 302)**	12 463	303 084
Cash and cash equivalents at beginning of period	**675 966**	372 882	372 882
Cash and cash equivalents at end of period	**539 664**	385 345	675 966

GROUP STATEMENT OF CHANGES IN EQUITY for the six months ended 31 August 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 2018, as previously reported	38 091	8 873	651 439	698 403	1 229	699 632
Impact of change in accounting policy			(16 755)	(16 755)		(16 755)
Balance at 28 February 2018 (restated)	38 091	8 873	634 684	681 648	1 229	682 877
Total profit and comprehensive income (restated)			88 492	88 492	110	88 602
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 (restated)	38 091	8 176	625 684	671 951	1 339	673 290
Total profit and comprehensive income (restated)			124 881	124 881	163	125 044
Share-based payment charge		2 751		2 751		2 751
Dividends paid			(45 630)	(45 630)		(45 630)
Balance at 28 February 2019 (restated)	**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**

GROUP SEGMENT INFORMATION for the six months ended 31 August 2019

	Total R'000	Retail motor R'000	Car hire R'000	Financial services R'000	Corporate services/ Other R'000
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 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
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**			

GROUP SEGMENT INFORMATION for the six months ended 31 August 2018

	Restated Total R'000	Restated Retail motor R'000	Restated Car hire R'000	Restated Financial services R'000	Restated Corporate services/ Other 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/(loss)	200 170	142 039	52 620	12 122	(6 611)
Finance income	10 099			3 247	6 852
Finance costs	(90 684)	(65 060)	(23 739)		(1 885)
Profit before taxation	119 585	76 979	28 881	15 369	(1 644)
After charging					
– employee costs	377 722	307 781	40 655		29 286
– depreciation					
– plant and equipment	13 359	10 077	1 317		1 965
– right-of-use assets	50 571	46 663	2 907		1 001
Total assets					
– per statement of financial position	3 226 896	2 065 103	674 148	57 544	430 101
– set off of inter-segment balances	101 200				101 200
	3 328 096	2 065 103	674 148	57 544	531 301
Total liabilities					
– per statement of financial position	2 553 606	1 940 582	566 600		46 424
– set off of inter-segment balances	101 200		101 200		
	2 654 806	1 940 582	667 800		46 424
Goodwill at period-end	8 078	8 078			

COMMENTARY ON RESULTS

Given the prevailing economic climate, with low growth in gross domestic product and a disappointing consumer confidence level, the directors are satisfied with the marginal growth in headline earnings. The results compare favourably with the Group's peers and many of the large companies within the retail sector. The adoption of the new accounting standard for leases has resulted in substantial changes to the financial statements. The statement of financial position now records a substantial new asset, reflecting the Group's right of use of its leased properties, and a related liability in respect of the discounted value of future lease rentals. The income statement records depreciation of the new asset on a straight-line basis over the lease period, and interest on the related liability, replacing the traditional rental expense. Prior period values have been restated to enable comparison. Off the new earnings base, on a like-for-like basis, headline earnings increased 2,0%. The new accounting standard has no impact on net cash flows, and the dividend has been maintained at 61 cents per share.

Weak growth in the embattled economy resulted in national sales of new passenger and light commercial vehicles falling 3,5%, with a continued trend towards lower-priced models. Only the proliferation of sales incentive schemes and subsidised finance rates has kept this level from further decline. The used car market fared no better, with an estimated 4% to 5% drop in sales over the period.

The Group's trading results reflect little change from the restated comparative period. Revenue increased 2,6%, of which 1,5% is attributable to the acquisition of two new dealerships. The gross margin improved from 16,3% to 16,8%. In an industry with such thin operating margins, the containment of costs is vital. It is pleasing to record that, if the added costs resulting from the acquisitions are stripped out, the like-for-like increase in selling and operating costs is only 3,2%. On the same basis, the net interest charge fell 2,9%, reflecting good cash flow management, and enabled the utilisation of surplus funds to accelerate the repayment of interest-bearing debt. Once-off legal and other operating costs were incurred in respect of the acquired dealerships, but these have been expensed, and the operations are expected to be cash- and profit-generating during the second half.

Similarly, there are few noteworthy differences in the statement of financial position, between the current values and the restated values at the prior period-end. The increase in goodwill is attributable to the acquisitions, and is expected to be supported by positive future profit and cash flow generation.

OPERATING REVIEW

Overall, the retail motor division recorded a 1,9% rise in pre-tax profit. However, the contributions from the new vehicle sales departments and the used vehicle sales departments reflected mixed fortunes. The decline in new vehicle sales volumes was only 2,0%, compared with the national decline of 3,5%. Trading margins remained under pressure as dealers competed for market share, and the pressure from manufacturers to hold more inventory was unrelenting. The Group has opened a number of new showrooms which share overhead expenses with an existing dealership. The costs of refurbishing and signage, required to bring the premises to manufacturer standards, have been fully absorbed. In contrast, the renewed focus on the used vehicle departments has been well rewarded. Sales volume growth of 1,8% was complemented by improved margins, resulting in pleasing profit growth in a depressed and competitive market. Both departments were supported by the Group's digital marketing platform which provides a source of potential customers, and a means to measure the quality of customer follow-up.

The parts and service departments increased their profit contributions.

First Car Rental maintained its revenue level despite a decline in both the national business and tourism sectors. Trading margins remained squeezed between rising fleet holding costs and competitive forces which constrained hire charges. The fleet utilisation rate has been maintained, and the operating expense increase limited to 3,3%. The most damaging effect on operating profit was the reduced margin on disposal of the retired fleet.

The financial services division recorded a substantial 30% improvement in profit. This was brought about by a combination of increased premium income and a reduction in claims. The division is in the process of being restructured to reduce operating costs, and the full benefit will be felt over the next 18 months.

PROSPECTS

Pressure on discretionary income and low business levels are expected to continue throughout the financial year. The 25 basis points decrease in the prime lending rate, and the potential of more to follow, will be offset by a substantial increase in the cost of fuel. The unemployment rate remains high, and general strike action more prevalent, although this appears to have been averted in the motor sector. Business confidence remains low and exacerbated by government's indecision and lack of remedial implementation in key economic areas.

From the Group's perspective, improvement will hinge on the bedding down of the new acquisitions, disposal of loss-making operations, and a small up-tick in new vehicle sales volumes.

CHANGES IN DIRECTORATE

There has been no change in directors since the release, in April 2019, of the results for the year ended 28 February 2019.

DIVIDEND DECLARATION

A dividend (dividend number 63) of 61 cents per share will be paid on Tuesday, 17 December 2019 to members reflected in the share register of the Company at the close of business on the record date, Friday, 13 December 2019. Last day to trade cum dividend is Tuesday, 10 December 2019. First day to trade ex dividend is Wednesday, 11 December 2019. Share certificates may not be dematerialised or rematerialised from Wednesday, 11 December 2019 to Friday, 13 December 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 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 condensed consolidated financial statements for the six months ended 31 August 2019 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. These results have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim financial statements, and the requirements of 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 accounting policies applied are in terms of IFRS and are consistent with those applied in the preparation of the consolidated annual financial statements as at 28 February 2019, and the prior interim reporting period, except as described below.

CHANGE IN ACCOUNTING POLICY ARISING FROM ADOPTION OF IFRS 16: LEASES

The adoption of IFRS 16: Leases, with effect from 1 March 2019, has necessitated a change in accounting policy in respect of operating lease contracts. The Group has transitioned to IFRS 16 using the retrospective approach with the practical expedient not to reassess the definition of a lease on transition to IFRS 16. The Group has applied the statement retrospectively to each prior reporting period presented.

Prior to the adoption of IFRS 16, the Group classified those leases where substantially all the risks and rewards of ownership are retained by the lessor, as operating leases, and accounted for them in line with IAS17: Leases. The leased assets were not recorded as assets in the Group's statement of financial position. The difference between actual lease payments and the amount expensed was recorded as a "Lease Liability" in the statement of financial position, and a deferred tax asset raised thereon.

From 1 March 2019, the Group recognises right-of-use assets and lease liabilities for each of these leases.

The lease liability is initially measured at the present value of the contractual lease payments, discounted using the rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate as at the lease commencement date. The lease liability is subsequently increased by the interest charge on the lease liability and decreased by repayments made, such that the remaining liability at the end of each reporting period is the present value of the remaining lease payments.

The right-of-use asset is initially measured at cost, comprising the amount of the initial measurement of the lease liability adjusted for any initial direct costs. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment. Depreciation is provided using the straight-line method over the shorter of the asset's useful life and the lease term.

The Group has applied the recognition exemption to short-term and low-value leases of property, plant and equipment. The Group leases certain properties indefinitely, subject to 12 months' notice of termination by either the lessee or the lessor. These leases are considered short-term leases in terms of IFRS 16. The lease payments associated with these leases is recognised as an expense as paid.

Comparative figures have been reclassified or restated to conform with the change in accounting policy. The effect in the financial statements is summarised on the following page.

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

22 October 2019

IMPACT OF ADOPTION OF IFRS 16: LEASES

	As previously reported R'000	Adjustment R'000	Restated R'000	As previously reported R'000	Adjustment R'000	Restated R'000
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As at 31 August 2018			As at 28 February 2019		
Right-of-use assets	–	513 704	513 704	–	468 126	468 126
Deferred taxation	44 536	9 483	54 019	38 676	12 269	50 945
Other non-current assets	715 350	–	715 350	930 141	–	930 141
Non-current assets	759 886	523 187	1 283 073	968 817	480 395	1 449 212
Current assets	1 943 823	–	1 943 823	2 141 864	–	2 141 864
Total assets	2 703 709	523 187	3 226 896	3 110 681	480 395	3 591 076
Share capital and share-based payment reserve	46 267	–	46 267	49 018	–	49 018
Retained earnings	650 068	(24 384)	625 684	736 483	(31 548)	704 935
Ordinary shareholders' equity	696 335	(24 384)	671 951	785 501	(31 548)	753 953
Non-controlling interest	1 339	–	1 339	1 502	–	1 502
Total equity	697 674	(24 384)	673 290	787 003	(31 548)	755 455
Non-current liabilities						–
Borrowings	41 186	–	41 186	287 419	–	287 419
Lease liabilities	52 802	465 876	518 678	55 001	421 419	476 420
	93 988	465 876	559 864	342 420	421 419	763 839
Current liabilities						
Borrowings	446 924	–	446 924	514 194		514 194
Lease liabilities	1 365	81 695	83 060	1 001	90 524	91 525
Other current liabilities	1 463 758	–	1 463 758	1 466 063	–	1 466 063
	1 912 047	81 695	1 993 742	1 981 258	90 524	2 071 782
Total liabilities	2 006 035	547 571	2 553 606	2 323 678	511 943	2 835 621
Total equity and liabilities	2 703 709	523 187	3 226 896	3 110 681	480 395	3 591 076
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	For the six months ended 31 August 2018			For the year ended 28 February 2019		
Gross profit	908 940	–	908 940	1 825 269	–	1 825 269
Other income	10 710	–	10 710	22 634	–	22 634
Selling and administration expenses	(738 995)	19 515	(719 480)	(1 436 722)	38 203	(1 398 519)
Operating profit	180 655	19 515	200 170	411 181	38 203	449 384
Finance income	10 099	–	10 099	23 769	–	23 769
Finance costs	(60 574)	(30 110)	(90 684)	(122 971)	(58 749)	(181 720)
Profit before taxation	130 180	(10 595)	119 585	311 979	(20 546)	291 433
Tax expense	(33 949)	2 966	(30 983)	(83 540)	5 753	(77 787)
Total profit and comprehensive income	96 231	(7 629)	88 602	228 439	(14 793)	213 646
CONSOLIDATED STATEMENT OF CASH FLOWS	For the six months ended 31 August 2018			For the year ended 28 February 2019		
Cash flows from operating activities						
Cash generated from operations	221 708	66 991	288 699	653 370	133 452	786 822
Taxation paid	(35 214)	–	(35 214)	(76 959)	–	(76 959)
Net cash movement from operating activities	186 494	66 991	253 485	576 411	133 452	709 863
Cash flows from investing activities						
Net cash movement from investing activities	(22 904)	–	(22 904)	(27 843)	–	(27 843)
Cash flows from financing activities						
Finance costs paid	(60 574)	(30 110)	(90 684)	(122 971)	(58 749)	(181 720)
Payment of lease liabilities	–	(36 881)	(36 881)	–	(74 703)	(74 703)
Other financing activities	(90 553)	–	(90 553)	(122 513)	–	(122 513)
Net cash movement from financing activities	(151 127)	(66 991)	(218 118)	(245 484)	(133 452)	(378 936)
Net movement in cash and cash equivalents	12 463	–	12 463	303 084	–	303 084
Cash and cash equivalents at beginning of period	372 882	–	372 882	372 882	–	372 882
Cash and cash equivalents at end of period	385 345	–	385 345	675 966	–	675 966

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

ince