



COMBINED MOTOR HOLDINGS LIMITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2017

GROUP FINANCIAL HIGHLIGHTS

		Change %	Unaudited 6 months 31 August 2017	Unaudited 6 months 31 August 2016	Audited 12 months 28 February 2017
Total assets	(R'000)	7	2 645 210	2 478 509	2 786 806
Cash resources	(R'000)	32	384 787	292 147	489 218
Net asset value per share	(cents)	22	794	651	767
Revenue	(R'000)	(3)	5 123 421	5 262 311	10 224 900
Operating profit before goodwill impairment	(R'000)	5	189 627	181 150	396 652
Operating profit	(R'000)	16	189 627	164 150	379 652
Total profit and comprehensive income	(R'000)	34	96 113	71 965	197 388
Earnings per share	(cents)	34	128,5	96,0	263,3
Headline earnings per share	(cents)	10	128,5	116,6	284,2
Dividend paid	(cents)				140,0
Dividend declared payable - December 2017	(cents)	11	61,0	55,0	
Dividend cover	(times)	-	2,1	2,1	2,0

GROUP STATEMENT OF FINANCIAL POSITION as at 31 August 2017

	Unaudited 31 August 2017 R'000	Unaudited 31 August 2016 R'000	Audited 28 February 2017 R'000
ASSETS			
Non-current assets			
Plant and equipment	68 710	66 920	74 864
Car hire fleet vehicles	632 299	–	757 085
Goodwill	10 078	10 078	10 078
Insurance receivable	46 470	40 703	38 162
Deferred taxation	40 000	39 128	39 454
	797 557	156 829	919 643
Current assets			
Car hire fleet vehicles	–	603 331	–
Inventories	1 136 993	1 106 462	1 118 563
Trade and other receivables	325 873	319 740	254 843
Tax paid in advance	–	–	4 539
Cash and cash equivalents	384 787	292 147	489 218
	1 847 653	2 321 680	1 867 163
Total assets	2 645 210	2 478 509	2 786 806
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	38 091	38 091	38 091
Share-based payment reserve	6 699	5 029	6 981
Retained earnings	548 175	443 316	527 358
Ordinary shareholders' equity	592 965	486 436	572 430
Non-controlling interest	1 124	887	1 127
Total equity	594 089	487 323	573 557
Non-current liabilities			
Lease liabilities	47 066	42 972	44 945
Current liabilities			
Advance from non-controlling shareholders of subsidiaries	–	255	–
Trade and other payables	1 339 471	1 286 243	1 322 376
Borrowings	654 300	653 277	841 196
Lease liabilities	1 866	6 266	1 755
Current tax liabilities	8 418	2 173	2 977
	2 004 055	1 948 214	2 168 304
Total liabilities	2 051 121	1 991 186	2 213 249
Total equity and liabilities	2 645 210	2 478 509	2 786 806

GROUP STATEMENT OF COMPREHENSIVE INCOME for the six months ended 31 August 2017

	Unaudited 6 months 31 August 2017 R'000	Unaudited 6 months 31 August 2016 R'000	Audited 12 months 28 February 2017 R'000
Revenue	5 123 421	5 262 311	10 224 900
Cost of sales	(4 274 179)	(4 415 618)	(8 539 618)
Gross profit	849 242	846 693	1 685 282
Other income	10 199	13 753	25 905
Impairment of goodwill	–	(17 000)	(17 000)
Selling and administration expenses	(669 814)	(679 296)	(1 314 535)
Operating profit	189 627	164 150	379 652
Finance income	12 270	9 643	21 498
Finance costs	(65 575)	(64 817)	(126 338)
Profit before taxation	136 322	108 976	274 812
Tax expense	(40 209)	(37 011)	(77 424)
Total profit and comprehensive income	96 113	71 965	197 388
Attributable to:			
Equity holders of the Company	96 116	71 800	196 983
Non-controlling interest	(3)	165	405
	96 113	71 965	197 388
Reconciliation of headline earnings			
Total profit and comprehensive income attributable to equity holders of the Company	96 116	71 800	196 983
Non-trading items:			
– impairment of goodwill	–	17 000	17 000
– profit on sale of plant and equipment			
– gross	(40)	(2 230)	(1 954)
– impact of income tax	11	624	547
Headline earnings attributable to equity holders of the Company	96 087	87 194	212 576
Weighted average number of shares in issue ('000)	74 802	74 802	74 802
Earnings per share			
Basic (cents)	128,5	96,0	263,3
Diluted basic (cents)	127,8	96,0	261,8
Headline (cents)	128,5	116,6	284,2
Diluted headline (cents)	127,7	116,6	282,6
Dividend payable – December 2017 (cents)	61,0	55,0	
Dividend paid (cents)			140,0
Dividend cover (times)	2,1	2,1	2,0

GROUP STATEMENT OF CHANGES IN EQUITY for the six months ended 31 August 2017

	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			71 800	71 800	165	71 965
Release following exercise of share appreciation rights		(2 567)	2 567	–		–
Share-based payment charge		1 609		1 609		1 609
Cost of shares delivered in terms of share appreciation rights scheme			(3 483)	(3 483)		(3 483)
Dividends paid			(63 581)	(63 581)		(63 581)
Balance at 31 August 2016	38 091	5 029	443 316	486 436	887	487 323
Total profit and comprehensive income			125 183	125 183	240	125 423
Share-based payment charge		1 952		1 952		1 952
Dividends paid			(41 141)	(41 141)		(41 141)
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	–		–
Share-based payment charge		2 067		2 067		2 067
Cost of shares delivered in terms of share appreciation rights scheme			(2 846)	(2 846)		(2 846)
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

GROUP STATEMENT OF CASH FLOWS for the six months ended 31 August 2017

	Unaudited 6 months 31 August 2017 R'000	Unaudited 6 months 31 August 2016 R'000	Audited 12 months 28 February 2017 R'000
Cash flows from operating activities			
Cash generated from operations	73 153	(79 177)	273 354
Taxation paid	(30 775)	(35 280)	(79 754)
Net cash movement from operating activities	42 378	(114 457)	193 600
Cash flows from investing activities			
Purchase of plant and equipment	(8 285)	(9 085)	(36 242)
Proceeds on disposal of plant and equipment	737	390	5 146
Proceeds on disposal of business	–	49 954	49 890
Insurance receivable	(8 308)	(10 671)	(8 130)
Net cash movement from investing activities	(15 856)	30 588	10 664
Cash flows from financing activities			
Advance from non-controlling shareholder of subsidiary	–	–	(255)
Cost of shares delivered in terms of share appreciation rights scheme	(2 846)	(3 483)	(3 483)
Finance income received	12 270	9 643	21 498
Finance costs paid	(65 575)	(64 817)	(126 338)
Dividends paid	(74 802)	(63 581)	(104 722)
Net cash movement from financing activities	(130 953)	(122 238)	(213 300)
Net movement in cash and cash equivalents	(104 431)	(206 107)	(9 036)
Cash and cash equivalents at beginning of period	489 218	498 254	498 254
Cash and cash equivalents at end of period	384 787	292 147	489 218

GROUP SEGMENT INFORMATION for the six months ended 31 August 2017

	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 charge	45 801	11 213	33 764	–	824
– impairment of goodwill	–	–	–	–	–
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	–	–	–

	Total 2016 R'000	Retail motor 2016 R'000	Car hire 2016 R'000	Financial services 2016 R'000	Corporate services/ Other 2016 R'000
Segment revenue	5 278 046	4 968 181	225 998	38 072	45 795
Inter-segment revenue	(15 735)	–	–	–	(15 735)
External revenue	5 262 311	4 968 181	225 998	38 072	30 060
Operating profit	164 150	94 736	60 490	13 139	(4 215)
Finance income	9 643	–	–	2 427	7 216
Finance costs	(64 817)	(30 977)	(31 225)	–	(2 615)
Profit before taxation	108 976	63 759	29 265	15 566	386
After charging					
– employee costs	381 586	318 569	33 966	–	29 051
– depreciation charge	54 927	11 479	42 743	–	705
– impairment of goodwill	17 000	17 000	–	–	–
Total assets	2 478 509	1 387 108	721 579	40 703	329 119
Total liabilities	1 991 186	1 231 670	710 671	2 739	46 106
Goodwill at period-end	10 078	10 078	–	–	–

COMMENTARY ON RESULTS

Against the backdrop of difficult economic trading conditions, the directors are pleased with the results achieved during the past six months. The first quarter of calendar 2017 showed signs of a mild economic recovery, with predictions of modest GDP growth, and a consequent boost in new vehicle sales. However, all this positivity was destroyed by the inexplicable cabinet reshuffle in April, and the political turmoil that followed. The country officially entered a recessionary period, unemployment recorded a 13-year high, and individual and corporate confidence levels were rocked by ongoing reports of corruption, maladministration and political uncertainty. The 25 basis points reduction in the prime lending rate in July provided scant relief for overburdened consumers.

Given this scenario it is to be expected that national new vehicle sales would come under pressure, and passenger and light commercial unit sales declined 0.7% during the financial period. Of further concern has been the considerable decline in the level of units sold in the luxury segment. A drop of some 18% this year followed a 15% decline in the previous year. This is a clear indication that the middle and upper class consumers are feeling the effects of the sustained economic downturn, and that the financial investment in new vehicles has declined in excess of the fall in unit sales.

Due in part to the closure of two retail motor dealerships in the previous year, Group revenue declined 3%. However, an improvement, to 16.5%, in the gross margin, tight control over operating costs, and the absence of a need to impair goodwill, generated a 16% improvement in operating profit. The operating margin, before goodwill impairment, increased from 3.4% to 3.7%. Stable net interest charges, and a reduced tax rate, enabled a 34% increase in profit after tax. This translates to a 34% increase in earnings per share, and 10% increase in headline earnings per share. Good cash flow generation enabled the Group to pay the June dividend of R75 million, and to utilise R70 million to settle interest-bearing vehicle-financing debt. The directors have proposed a dividend of 61 cents per share, up 11%.

OPERATING REVIEW

The retail motor division's 4% rise in operating profit, before goodwill impairment, belies the tough economic conditions which prevailed throughout the period. The fact that national new vehicle sales fell only 0.7% can be attributed to manufacturer incentives which have reduced the price of new vehicles, whilst higher demand and stock shortages have increased used vehicle prices. Off a 5.4% increase in unit sales from ongoing operations, the Group recorded improved profitability. This was due to a slight margin increase, and tight operating cost control. A stable contribution from a 4.8% increase in used vehicle sales, and pleasing growth in the service departments provided welcome support.

First Car Rental achieved an 11% increase in revenue, and managed to hold its operating margin. A one-off charge, recognised in respect of a recently-concluded BEE transaction, reduced the division's profit improvement from 8% to the 3% recorded. The division, and its related CMH First Fleet initiative now boasts BEE credentials which are in line with the industry's best.

The financial services division recorded a pleasing 11% improvement in profit. This was largely due to more favourable returns from the Group's finance joint ventures, where the level of bad debt provisioning has been well controlled. Of concern, but not unexpected, has been the decline of 6% in the level of premium income generated by the insurance cells. This revenue level shows close correlation with the level of vehicle sales, and a long-term decline will impact negatively on future annuity-type income.

PROSPECTS

It is believed that corruption and lack of political leadership and direction has been, and will continue to be, a significant barrier to the country's sustainable economic and social progress. This scourge substantially undermines public confidence, and retards prospects of delivering inclusive economic growth and, with it, transformation. It discourages long-term foreign investment and diverts scarce public resources that are vital to provide social support, and stimulate job creation and economic growth. Together with the political uncertainty which will continue until the ANC conference in December, and perhaps beyond, these factors will provide serious challenges during the next six months as consumers, and particularly the corporate market, adopt a "wait and see" approach to capital expenditure. On the positive side analysts are predicting a modest increase in national unit sales during the next six months.

The directors believe that the Group will have performed well if it is able to maintain its reported headline earnings growth for the full year to February 2018.

CHANGES IN DIRECTORATE

There has been no change in directors since the release in April 2017 of the results for the year ended 28 February 2017.

DIVIDEND DECLARATION

A dividend (dividend number 59) of 61 cents per share will be paid on Monday, 18 December 2017 to members reflected in the share register of the Company at the close of business on the record date, Friday, 15 December 2017. Last day to trade cum dividend is Tuesday, 12 December 2017. First day to trade ex dividend is Wednesday, 13 December 2017. Share certificates may not be dematerialised or rematerialised from Wednesday, 13 December 2017 to Friday, 15 December 2017, 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 2017 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, (the "Act"), applicable to summary financial statements. The interim report has been 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 2017. 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 Report on Corporate Governance and complies with the principles of both the Report and the JSE Limited Listings Requirements.

A report on the Group's application of the King IV Report on Corporate Governance will appear in the 2018 Integrated Annual Report.

By order of the board of directors

K Fonseca CA(SA)

Company Secretary

16 October 2017

**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

JTM Edwards (chairman)

JD McIntosh (CEO)

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JS Dixon

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