

for the six months ended 31 May 2014



**ENGINEERING** 

**CONSUMABLES** 

Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.



Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose.



seals, geared motors, electric motors, transmission products and alternators

Distributor of bearings, chain,



BELTING SUPPLY
SERVICES

Manufacturer of conveyor drive

Distributor of conveyer belting, industrial hose, fluid sealing and

process control products.



Distributor of Deutz diesel engines and Deutz spare parts and the provision of service



Supply and repair of hydraulic gear pumps.



Ernest Lowe ELCO

Manufacturer of hydraulic and pneumatic equipment.



Supplier of filtration solutions kits and accessories



Manufacturer of ferrous and



 $\Diamond$ 

Distributor of electrical cabling and accessories, plugs, sockets, electric feeder systems and crane



Distributor of controllers, monitors and regulators of the speed of standard AC motors.





Distributor of automotive clutch kits and ignition leads, rotary oil



Distributor of maintenance free batteries.



Distributor of intruder detection, access control and related CCTV equipment.



Distributor of professional mobile radio communication equipment and radio systems



Distributor of CCTV equipment, including system design, integration into access control, intruder, fire detection systems and Video over IP.



Distributor of Makita power tools, Mercury marine engines and survey instrumentation



Importers and distributors of standby and solar batteries.

"Value-added distribution – our core competency"



Headline earnings per share **up 2%** to 456 cents

and training etc. is a key part of Hudaco's business model.

demand in the first months of our second half.

pay about 40% of CEPS annually, remains unchanged.

Interim dividend maintained at **155 cents** per share

one of the most challenging trading environments we have experienced. In the first quarter of 2014 mining GDP contracted 25% whilst manufacturing GDP contracted 6%. There is no doubt that these depressed conditions continued into the

Comparable earnings per share **down 5%** to 416 cents

Hudaco Industries is a South African group whose principal activity is the distribution of high quality branded industrial products in the southern African region. Hudaco businesses serve markets that fall into two primary categories. The bearings, power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool, communication equipment and

automotive aftermarket businesses supply products into markets with a bias towards consumer spending. Adding value to the product sold by offering instant availability, advice

The group has delivered disappointing but resilient results for the first half of the year, in

second quarter of 2014. These two sectors of the economy account for about half of Hudaco's sales. As a result the engineering consumables segment faced very tough trading conditions particularly felt in those businesses serving the mines in the Rustenburg platinum belt. Although it looks like the strike has ended, its aftermath will continue to impact

Activity in open cast mining was not as badly affected as in deep level mining by strikes so sales volumes held up reasonably well. There were also reasonable performances from businesses serving other markets; for example sales into neighbouring countries grew Sales at R2,1 billion were up 16% of which only 3% was from ongoing operations and 13% was from acquisitions. Price increases implemented over the past year due

to Rand weakness amount to about 20% which means that volume sales are down

between 15% and 20% in ongoing businesses, a stark indication of the impact of the

strikes. Operating profit increased 3% to R200 million but without the contribution from acquisitions it would have fallen 17%. The operating margin to sales is 9.5% – well down on last year's 10.8%. Comparable earnings held up well against last year until the end of

March 2014 but in April and May they fell behind, which is an indication that conditions

comparable earnings per share are down 5%. Comparable earnings have been calculated

The interim dividend has been maintained at 155 cents per share. Our dividend policy, to

As would be expected given poorer than expected sales levels and long lead times from suppliers, the group is overstocked. As a result working capital (inventories, accounts receivable less accounts payable) is about R100 million higher than would be ideal given current activity levels. Steps have been taken to bring stock back into line and this

goal should be realised over the next six to nine months. The group has net borrowings

of R564 million at May 2014, higher than we would have liked but still within our self-

This segment is the biggest profit contributor to the group with the South African mining and manufacturing sectors accounting for two thirds of its activity. It experienced tough trading conditions this half. December, January and April are traditionally difficult because

of holidays but April and May were particularly hard hit by the strike activity in the platinum

mining sector. Demand for diesel engines and spares, electrical equipment, bearings and power transmission equipment and chemical piping was well down on last year.

Acquisitions over the past few years have significantly strengthened the sales base and market spread of this segment and businesses with less exposure to the platinum mining sector performed reasonably well under the circumstances. Businesses acquired in the last

Segment sales of R1 293 million are up 14% on last year – all of the increase came from

Sales of power tools, security equipment and automotive parts held steady in the first half.

Segment sales were up 20% to R819 million of which 14% was from acquisitions.

The tax challenge is progressing slowly. As expected, SARS has rejected our objections

to the assessments but we will appeal that decision in the Tax Court. It will take some

There has been a slew of bad news about the South African economy and its prospects.

Strikes, ratings downgrades and policy vacillation have undermined business confidence. Hudaco's fortunes are closely tied to the local economy and therefore it must expect a

We believe the main economic sectors served by Hudaco, the South African mining industry and the manufacturing and service sectors supporting that industry, will find a new lower level of activity over the next months. Once we have certainty about the size of the new playing field we will assess the appropriate steps required to right size those of

The South African economy seems set for a period of no or low growth. As a response, increased emphasis will be placed on sales into markets outside South Africa –

Fortunately Hudaco's business model – principally, the sale of replacement parts; and its

financial characteristics – high margin and strong cash flows with limited investment in fixed assets; allows it to weather this economic storm and adapt reasonably quickly to

SJ Connelly is stepping down as chief executive effective 30 June 2014 but will remain on

the board of Hudaco Industries as a non-executive director thereafter. GR Dunford takes over as chief executive with effect from 1 July 2014.

Interim dividend number 55 of 155 cents per share is declared payable on Monday, 18 August 2014 to ordinary shareholders recorded in the register at the close of business

Share certificates may not be dematerialised or rematerialised between Monday,

11 August 2014 and Friday, 15 August 2014, both days inclusive. The certificated

In terms of the Listings Requirements of the JSE Limited regarding Dividends Tax, the

Secondary Tax on Companies (STC) credits of 155 cents per share will be utilised;

■ The net local dividend amount is 155 cents per ordinary share for shareholders liable to

■ Hudaco Industries Limited has 34 153 531 shares in issue (which includes 2 507 828

Hudaco will host presentations on the financial results in Johannesburg and Cape Town

The slides, which form part of the presentation will be available on the company's website

on Friday, 27 June 2014 and Monday, 30 June 2014, respectively. Anyone wishing to

■ The gross local dividend amount is 155 cents per ordinary share for shareholders

■ Hudaco Industries Limited's income tax reference number is 9400/159/71/2

neighbouring territories for our complete basket of imported products and overseas markets for our own brand locally manufactured gear pumps and electrical plugs

Sales of digital communication equipment were down on last year but this reflects contract

Headline and basic earnings per share of 456 cents are up slightly on last year but

as if the restructuring of the financing of the BEE transaction (which happened on 28 February 2013) had taken place before the start of the 2013 financial year and also excludes the gain (2013: charge) arising from adjustments to estimated earn-out payments

Sales up 16% to R2.1 billion

Operating profit up 3%

Results

are still deteriorating.

imposed conservative guidelines. **Engineering Consumables Segment** 

year are performing in line with expectations.

Operating profit increased 1% to R86 million.

Tax challenge

and sockets

Directorate

Record date

Payment date

on Friday, 15 August 2014.

Last day to trade *cum* dividend

Trading *ex* dividend commences

register will be closed for this period.

following additional information is disclosed:

The local dividend tax rate is 15%

exempt from Dividends Tax;

pay Dividends Tax;

Results presentation

from Tuesday, 1 July 2014.

RT Vice

Sponsor

26 June 2014

**Nedbank Capital** 

For and on behalf of the board

Independent non-executive chairman

treasury shares); and

time to get a court date.

our businesses serving those sectors.

**Declaration of interim dividend number 55** 

The timetable for the payment of the dividend is as follows:

■ The dividend has been declared out of income reserves;

**Consumer-Related Products Segment** 

acquisitions. Operating profit was up 4% to R124 million.

timing and there should be a catch up in the second half

difficult ride as these developments play themselves out.













Group statement of financial position

	31 May	31 May	30 Nov*
R million	2014	2013	2013
ASSETS			
Non-current assets	1 102	869	922
Property, plant and equipment	240	210	214
Goodwill	731	603	619
Intangible assets	46	40	39
Taxation	80		40
Deferred taxation	5	16	10
Current assets	1 910	1 742	1 902
Inventories	1 221	998	1 104
Trade and other receivables	675	744	780
Taxation	12		2
Bank deposits and balances	2		16
TOTAL ASSETS	3 012	2 611	2 824
EQUITY AND LIABILITIES			
Equity	1 883	1 739	1 835
Interest of shareholders of the group	1 863	1 722	1 816
Non-controlling interest	20	17	19
Non-current liabilities	301		30
Bank borrowings	300		
Amounts due to vendors of businesses acquired	1		30
Current liabilities	828	872	959
Trade and other payables	541	588	673
Bank overdraft	266	148	220
Amounts due to vendors of businesses acquired	21	91	61
Taxation		45	5
TOTAL EQUITY AND LIABILITIES	3 012	2 611	2 824

	Six months		Six months	Voor
	montns ended 31 May	% change	montns ended 31 May	Year ended 30 Nov
R million	2014	Change	2013	2013
Turnover	2 111	16	1 813	3 942
- Ongoing operations	1 859	3	1 800	3 846
– Acquired in 2013 and 2014	252	5	13	96
Cost of sales	1 358		1 148	2 463
Gross profit	753	13	665	1 479
Operating expenses	553		470	1 010
Operating profit	200	3	195	469
– Ongoing operations	161	(17)	194	458
– Acquired in 2013 and 2014	39		1	11
Fair value adjustment to amounts due to vendors	15			(23)
Profit before interest	215	10	195	446
Dividends received on preference shares			50	50
Finance costs	(17)		(64)	(71)
Profit before taxation Taxation	198 51	9	181 38	425 120
Profit for the period	147	3	143	305
Other comprehensive income to be recycled to profit and loss Movement on fair value of cash flow		3		303
hedges	(2)		5	
Total comprehensive income for the period	145	(2)	148	305
Profit attributable to:  – shareholders of the group	144		142	294
non-controlling shareholders	3		1	11
	147		143	305
Total comprehensive income				
attributable to: – shareholders of the group	142		147	294
– non-controlling shareholders	3		1 1	11
-	145		148	305
Basic earnings per share (cents)	456	2	448	930
Headline earnings per share (cents)	456	2	448	928
Comparable earnings per share (cents)	416	(5)	440	983
Diluted basic earnings per share (cents) Diluted headline earnings	448		446	918
per share (cents)	448		446	917
Diluted comparable earnings	400		426	070
per share (cents)	408		436	970
Calculation of headline earnings Profit attributable to shareholders of the group Adjusted for:	144	2	142	294
Reversal of impairment and profit on disposal of property, plant and equipment Tax effect				(1) 1
Headline earnings	144	2	142	294
Calculation of comparable earnings Headline earnings	144	2	142	294
Adjusted for: Preference dividend received			(50)	(50)
Interest on debenture			58	59
Tax effect			(16)	(16)
STT on redemption of preference shares			5	5
Fair value adjustment on amounts due to vendors	(15)			23
Non-controlling interest	2			(4)
Comparable earnings	131	(5)	139	311
Dividends				
– per share (cents)	155		155	465
– amount (Rm)	49		49	147

Group statement of cash flows

	months ended 31 May	months ended 31 May	Year ended 30 Nov*
R million	2014	2013	2013
Cash generated from trading Increase in working capital	231 (118)	221 (114)	513 (138)
Cash generated from operations Taxation paid	113 (116)	107 (5)	375 (169)
Net cash from operating activities	(3)	102	206
Net investment in new operations Net investment in plant and equipment Disposal of preference shares Dividends and interest received	(217) (25)	(98) (16) 2 181 50	(181) (32) 2 181 50
Net cash from investing activities	(242)	2 117	2 018
Debenture repurchased Non-current bank borrowings Finance costs paid Dividends paid	300 (15) (100)	(2 181) (61) (108)	(2 181) (66) (164)
Net cash from financing activities	185	(2 350)	(2 411)
Net decrease in cash and cash equivalents Cash and cash equivalents at beginning of period	(60) (204)	(131) (17)	(187) (17)
Cash and cash equivalents at end of period	(264)	(148)	(204)

Group statement of changes in equity

	and	Non- distribut- able reserves	Retained income	Interest of share- holders of the group	Non- control- ling interest	Equity
R million						
Balance at 1 December 2013 Comprehensive income for the period Movement in equity compensation	55	70	1 710 142	1 835 142	19 3	1 854 145
reserve Dividends		3	(98)	3 (98)	(2)	3 (100)
Balance at 31 May 2014 Less: Shares held by subsidiary company	55	73	1 754 (19)	1 882 (19)	20	1 902 (19)
Net balance at 31 May 2014	55	73	1 735	1 863	20	1 883
Balance at 1 December 2012 Comprehensive income for the period Movement in equity compensation	55	67	1 567 147	1 689 147	26 1	1 715 148
reserve		3		3		3
Dividends			(98)	(98)	(10)	(108)
Balance at 31 May 2013 Less: Shares held by subsidiary company	55	70	1 616 (19)	1 741 (19)	17	1 758 (19)
Net balance at 31 May 2013	55	70	1 597	1 722	17	1 739
Balance at 1 December 2012 Comprehensive income for the year	55	67	1 567 294	1 689 294	26 11	1 715 305
Movement in equity compensation reserve		3	(4)	(1)		(1)
Non-controlling interest acquired Dividends			(147)		(1) (17)	(1) (164)
Balance at 30 November 2013 Less: Shares held by subsidiary company	55	70	1 710 (19)	1 835 (19)	19	1 854 (19)
Net balance at 30 November 2013*	55	70	1 691	1 816	19	1 835

Supplementary information

The consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), SAICA Financial Reporting Guides as issued by the Accounting Practices Board, the JSE Listings Requirements and in the manner required by the Companies Act of South Africa. The principal accounting policies set out in the group's 2013 integrated report have been consistently applied throughout the period ended 31 May 2014, except for the adoption of the following new standards; IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interests in Other Entities, IFRS 13, Fair Value Measurement, and the various amendments and revisions to existing standards, none of which had a material impact on the group's financial statements based on management's assessment of these standards. These results have been compiled under the

Average net operating assets (NOA) (Rm) Operating profit margin (%) Operating profit margin (%) Return on average NOA (%) Return on average NOA (%) Return on average NOA (%)  Average NOA turn (times) Return on average NOA (%)  Average NTOA turn (times) Net asset value per share (cents) Return on average NTOA (%)  Net asset value per share (cents) Return on average equity (%) Comparable return on average equity (%)  Operating profit has been determined arter taking into account the following charges: Depreciation Amortisation  Capital expenditure (Rm) Incurred during the period Authorised but not yet contracted for Contingent liability The group has received and is strongly refuting tax assessments relating to the financing of the BEE transaction. The maximum exposure for tax, interest and penalties is considered to be R1, 4 billion but the prospects of having to pay such an amount are considered remote.  Commitments  Operating lease commitments on properties (Rm) Tax payments in advance of legal process. R20 million per quarter until matter is resolved.  Acquisition of new businesses The group acquired 100% of the share capital of Dosco, GPM and Joseph Grieveson from a company controlled by Graham Dunford, a director of Hudaco for a consideration of R154,2 million, Plant and equipment of R17,7 million, inventories of R31,5 million, trade and other payables of R40,6 million, trade and other payables of R40,6 million, Intangible assets of R16,9 million, deferred taxation of R7,2 million and goodwill of R112,5 million, trade and other payables of R40,6 million, trade and other payables of R41,5 million, borrowings of R7,2 million, as a determined under IRFS 3. The results since acquisition date (1 December 2013) included in the consolidated results for the period are as follows:  - Turnover (Rm)		31 May	31 May	30 No	
Operating profit margin (%) Average NOA turn (times) Return on average NOA (%) Average net tangible operating assets (NTOA) (Rm) PBITA margin (%) Average net tangible operating assets (NTOA) (Rm) PBITA margin (%) Average NTOA turn (times) Average NTOA (%) Average		2014	2013	2013	
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- Amortisation  Capital expenditure (Rm) - Incurred during the period - Authorised but not yet contracted for - Authorised but		17	1.4	20	
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Contingent liability The group has received and is strongly refuting tax assessments relating to the financing of the BEE transaction. The maximum exposure for tax, interest and penalties is considered to be R1,4 billion but the prospects of having to pay such an amount are considered remote.  Commitments  - Operating lease commitments on properties (Rm) - Tax payments in advance of legal process. R20 million per quarter until matter is resolved.  Acquisition of new businesses The group acquired 100% of the share capital of Dosco, GPM and Joseph Grieveson from a company controlled by Graham Dunford, a director of Hudaco for a consideration of R15,2 million.  Plant and equipment of R17,7 million, inventories of R31,5 million, trade and other payables of R40,6 million, trade and other payables of R40,6 million, borrowings of R7,2 million, taxation of R8,1 million, intangible assets of R16,9 million, deferred taxation of R7,2 million and goodwill of R112,5 million were recognised on date of acquisition. These values approximate the fair value as determined under IFRS 3.  The results since acquisition date (1 December 2013) included in the consolidated results for the period are as follows:  - Turnover (Rm)	– Incurred during the period	27	17	38	
The group has received and is strongly refuting tax assessments relating to the financing of the BEE transaction. The maximum exposure for tax, interest and penalties is considered to be R1,4 billion but the prospects of having to pay such an amount are considered remote.  Commitments  Operating lease commitments on properties (Rm)  Tax payments in advance of legal process. R20 million per quarter until matter is resolved.  Acquisition of new businesses  The group acquired 100% of the share capital of Dosco, GPM and Joseph Grieveson from a company controlled by Graham Dunford, a director of Hudaco for a consideration of R15,2 million, trade and other receivables of R40,6 million, trade and other payables of R40,6 million, borrowings of R7,2 million, taxation of R8,1 million, intangible assets of R16,9 million, deferred taxation of R7,2 million and goodwill of R112,5 million were recognised on date of acquisition. These values approximate the fair value as determined under IFRS 3.  The results since acquisition date (1 December 2013) included in the consolidated results for the period are as follows:  - Turnover (Rm)	– Authorised but not yet contracted for	32	25	59	
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included in the consolidated results for the period are as follows: – Turnover (Rm)					
– Turnover (Rm) 114	included in the consolidated results for the period are				
	as follows:	444			
	– Turnover (Rm) – Profit after tax (Rm)	114 15			

held by subsidiary (000)

Weighted average shares in issue

Shares in issue

- total (000)

- basic (000)

- diluted (000)

Segment information	Turnover				Operating profit				Average net operating assets			
	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*
R million	2014		2013	2013	2014		2013	2013	2014		2013	2013
Engineering consumables	1 293	14	1 133	2 478	124	4	119	292	1 566	24	1 258	1 394
<ul><li>Ongoing operations</li><li>Acquired in 2013 and 2014</li></ul>	1 132 161	1	1 120 13	2 412 66	99 25	(16)	118 1	286 6	1 405 161	12	1 251 7	1 374 20
Consumer-related products	819	20	684	1 470	86	1	85	199	662	21	547	601
– Ongoing operations – Acquired in 2013 and 2014	728 91	6	684	1 440 30	72 14	(15)	85	194 5	601 61	10	547	596 5
Total operating segments Head office, shared services and eliminations	2 112 (1)	16	1 817 (4)	3 948 (6)	210 (10)	3	204 (9)	491 (22)	2 228 129	23	1 805 103	1 995 124
Total group	2 111	16	1 813	3 942	200	3	195	469	2 357	24	1 908	2 119

Company information **HUDACO INDUSTRIES LIMITED** Incorporated in the Republic of South Africa Registration number: 1985/004617/06

\* Audited

Transfer secretaries Computershare Investor Services Ptv Ltd PO Box 61051

31 646

34 154

(2508)

31 646

32 133

31 646

34 154

(2508)

31 646

31 873

31 646

34 154

(2 508)

31 646

32 054

Registered office Building 9, Greenstone Hill Office Park Emerald Boulevard, Greenstone Hill, Edenvale Tel +27 11 657 5000 Email info@hudaco.co.za

Directors RT Vice (Chairman)\* SJ Connelly (Chief executive) CV Amoils (Financial director)

GR Dunford SG Morris\* D Naidoo\* \*Independent non-executive **Group secretary** R Wolmarans Sponsor Nedbank Capital

These results are available on the internet: www.hudaco.co.za

attend should contact Janine Yon at 011 657 5007.

Friday, 8 August 2014 Monday, 11 August 2014

Friday, 15 August 2014

Monday, 18 August 2014

JSE code: HDC ISIN: ZAE000003273

SJ Connelly

Chief executive