



- Turnover up 10,6% to almost R3 billion
- Operating profit up 7,7% to R290 million
- Comparable earnings per share up 7% to 517 cps
- Basic and headline earnings per share up 9,3% to 528 cps
- Net cash generated from operating activities R100 million
- Interim dividend up 5,6% to 190 cps

CONSUMER-RELATED PRODUCTS



Distributor of automotive clutch kits, ignition leads and rotary oil and hydraulic seals



Distributor of maintenance free batteries and provider of custom designed energy solutions



Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection and electric fencing, as well as related consumables



Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market and also designs, builds and manages battery bays for warehouses and distribution centres



Distributor of professional mobile radio communication equipment and integrator of radio systems



Distributor of wireless networking, VoIP and video products and provider of strong after-sales service and technical support



Distributor of automotive spares and accessories



Distributor of integrated security and life safety solutions, including CCTV, access control, fire detection, public address and perimeter detection products



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



Distributor of stand-by and solar batteries



Supplier of voice and data solutions, specialising in PBX, communication management software and telephone management

ENGINEERING CONSUMABLES



Distributor of bearings, chains, seals, electric motors, transmission and allied products



Distributor of DEUTZ diesel engines, DEUTZ spare parts and provider of service support



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



Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose



Distributor of geared motors, helical gearboxes, frequency inverters and electric motors



Distributor of conveyor belting, industrial hose, fluid sealing and process control products



Distributor of pneumatic and process components



Manufacturer of conveyor pulleys, steel fabrication, plate rollings and distributor of sheet rubber



Distributor of plastic and stainless steel slat chains, modular belting and conveyor components and manufacturer of plastic engineering parts



Supplier and repairer of hydraulic pumps and motors



Manufacturer of hydraulic and pneumatic equipment and supplier of water valves and sewage processing systems



Supplier of filtration solutions, customised exhaust systems, kits and accessories



Manufacturer and assembler of cast iron hydraulic gear pumps



Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components



Manufacturer of ferrous and non-ferrous castings



Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials



Manufacturer of mining connectors and lighting systems



Distributor of special steels and provider of heat treatment



Manufacturer of dished and flanged ends, pressing & flanging of small conical sections, push thru's and weld caps



Distributor of electrical cable accessories and electrical instruments



Distributor and repairer of commercial and industrial automation and electronic motor control equipment

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic consumable products, mainly in the southern African region. Hudaco businesses serve markets that fall into two primary categories:

- The automotive aftermarket, power tool, battery, security and communication equipment businesses supply products into markets with a bias towards consumer spending.
- The mechanical and electrical power transmission, diesel engine, hydraulics and pneumatics, steel, thermoplastic fittings and bearings businesses supply engineering consumables mainly to mining and manufacturing customers.

Value added includes product specification, technical advice, application and installation training and troubleshooting, combined with availability at a fair price.

Results

The group continues to deliver sound results despite extremely difficult trading conditions. The positive sentiment and economic growth expectations stemming from the political changes post the 2017 ANC conference and subsequent “Ramaphoria” has not, as yet, translated to increased economic activity. On the contrary, the “expropriation without compensation” issue and the Zuma hangover have restrained the economy in the first half with statistics from the first quarter showing that the economy shrank the most of any quarter in the past nine years. Mining production contracted 9,9%. The new mining charter is not investor friendly and is unlikely to revitalise this sector. Manufacturing shrank 6,4% and agriculture shrank 24% in the first quarter. The strengthening in the Rand in the first four months of our financial year put further pressure on prices.

Group sales at almost R3 billion for the half year are up 10,6% on 2017 and include R148 million (5%) from recent acquisitions. Operating profit increased 7,7% to R290 million, which gave us an operating margin of 9,8%, very respectable for the first six months, which include all the major holiday periods.

Comparable earnings per share increased 7% to 517 cents while basic and headline earnings per share are up 9,3% to 528 cents. The interim dividend has been increased by 5,6% to 190 cents per share. Our dividend policy, to be covered between 2,5 and 2,0 times by comparable earnings annually, remains unchanged.

The financial position is strong. Bank borrowings are R1 045 million, up R185 million since November 2017. Trading generated cash of R338 million, of which R238 million was reinvested in working capital, including R144 million in inventories, which normally peak at the half year, as we stock up for our busier second half and, this year, for an expected upturn in the economy. During the six months we also paid finance costs of R43 million, taxation of R30 million and dividends of R144 million. Borrowings are still well within our self-imposed conservative guidelines and our available banking facilities and, unless we make further acquisitions, our usual strong second half cash generation should reduce them by year end.

Consumer-related products segment

Trading conditions were difficult in the first half and although consumer confidence improved initially, disposable income came under pressure. This segment’s contribution to group sales continues to benefit from strategic acquisition activity over the past few years and it accounted for 54% of group sales and 68% of operating profit. There are 11 businesses in this segment and they serve to diversify our opportunities, risks and market segment mix. All businesses in this sector, bar our security business, performed well in the first half. Segment sales increased 19,3% to R1 603 million, of which R127 million (9,4%) was from acquisitions. Operating profit increased 19,6% to R211 million at an operating margin of 13,2%.

Engineering consumables segment

This segment comprises 21 businesses. Trading conditions were extremely tough in most of the markets served by this sector as shown by the first quarter economic indicators which reflect significant declines in mining, manufacturing, construction and agriculture. These gruelling trading conditions continued in the second quarter, creating aggressive pricing pressure. We were, however, resolute in protecting market share and gross margin. The segment increased sales by 1,8% to R1 355 million, of which acquisitions contributed R21 million (1,6%). Operating profit decreased 7,8% to R99 million at an operating margin of 7,3%. All businesses in this sector struggled and results reflect the tough economy.

Prospects

Hudaco’s prospects largely depend on general economic activity and that in turn depends largely on government policy and its implementation. We still hope that the Zuma hangover witnessed so far in 2018 will fade and that the optimism around President Ramaphosa will translate into growth in the economy and into investment in those sectors of the economy that are traditional Hudaco markets. As we explained in our 2017 results announcement in January, this will enable those of our businesses that have been in austerity mode for the past few years to thrive once again. Many of our businesses are well placed to benefit immediately from such a scenario, while others will need to wait for the positive cycle to mature first. If industry is active, we will supply the replacement parts it requires. We will also continue to seek out strategic acquisitions as a further source of growth.

Hudaco’s business model, which is principally the sale of consumable products including replacement parts with a high value added component; and its financial characteristics – high margin and strong cash flows with a limited requirement for investment in fixed assets, makes Hudaco resilient and this set of results bears testament to that characteristic.

Lawsuit against Bravura and certain associates

Hudaco’s legal action against Bravura, Cadiz and certain associates for up to R490 million continues. One of the defendants lodged an exception to our particulars of claim. This was heard in the High Court in February and judgement was handed down in our favour with costs in June. We can now focus on getting the primary action to court. Hudaco has brought the action to recover, *inter alia*, secret profits made on the financing arrangements around the Hudaco BEE transaction that ran from August 2007 to February 2013.

We note with interest the judgement in SARS’s favour enabling it to institute an inquiry in terms of s50 of the Tax Administration Act into the tax affairs of Bravura, with particular reference to BEE structures. We further note the announcement by another listed company that was also advised by Bravura on its BEE structure, indicating a willingness to settle with SARS.

Declaration of interim dividend number 63

Interim dividend number 63 of 190 cents per share is declared payable on Monday, 13 August 2018 to ordinary shareholders recorded in the register at the close of business on Friday, 10 August 2018.

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

Last day to trade <i>cum</i> dividend	Monday, 6 August 2018
Trading <i>ex</i> dividend commences	Tuesday, 7 August 2018
Record date	Friday, 10 August 2018
Payment date	Monday, 13 August 2018

Share certificates may not be dematerialised or rematerialised between Tuesday, 7 August 2018 and Friday, 10 August 2018, both days inclusive. The certificated register will be closed for this period.

In terms of the Listings Requirements of the JSE Limited regarding the Dividends Tax, the following additional information is disclosed:

- The dividends tax rate is 20%;
- The dividend has been declared from income reserves;
- The net local dividend amount is 152 cents per share for shareholders liable to pay the Dividends Tax and 190 cents per share for shareholders exempt from the Dividends Tax;
- Hudaco Industries Limited has 34 153 531 shares in issue (which includes 2 507 828 treasury shares); and
- Hudaco Industries Limited’s income tax reference number is 9400/159/71/2.

Directorate

As reported on SENS, Royden Vice retired and Stephen Connelly became chairman of Hudaco’s board with effect from 5 April 2018. Daisy Naidoo assumed the role of lead independent director and joined the nomination committee. Nyami Mandindi joined the remuneration committee.

Results presentation

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 29 June 2018 and Monday, 2 July 2018, respectively. Anyone wishing to attend should contact the company at 011 657 5000.

The slides, which form part of the presentation, will be available on the company’s website from Friday 29 June 2018.

For and on behalf of the board

**SJ Connelly**  
Non-executive chairman

**GR Dunford**  
Chief executive

Nedbank Corporate and Investment Banking

Sponsor

These results are available on the internet: [www.hudaco.co.za](http://www.hudaco.co.za)

COMPANY INFORMATION	Registered office	Group secretary
<b>Hudaco Industries Limited</b> Incorporated in the Republic of South Africa Registration number: 1985/004617/06 JSE share code: HDC ISIN code: ZAE000003273	1st Floor, Building 9 Greenstone Hill Office Park Emerald Boulevard, Greenstone Hill, Edenvale Tel +27 11 657 5000 Email: <a href="mailto:info@hudaco.co.za">info@hudaco.co.za</a>	R van Zyl  Sponsor Nedbank Corporate and Investment Banking
<b>Transfer secretaries</b> Computershare Investor Services Proprietary Limited PO Box 61051 Marshalltown, 2107	<b>Directors</b> SJ Connelly (Chairman)* GR Dunford (Chief executive) CV Amols (Financial director) N Mandindi* D Naidoo* MR Thompson* * Non-executive	

GROUP STATEMENT OF FINANCIAL POSITION

R million	31 May 2018	31 May 2017	30 Nov* 2017
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 845</b>	1 726	1 843
Property, plant and equipment	277	260	270
Investment in joint venture	11	8	9
Goodwill	1 480	1 344	1 480
Intangible assets	56	69	70
Deferred taxation	21	45	14
<b>Current assets</b>	<b>2 792</b>	2 537	2 777
Inventories	1 682	1 552	1 538
Trade and other receivables	1 068	902	1 156
Taxation	4	19	2
Bank deposits and balances	38	64	81
<b>TOTAL ASSETS</b>	<b>4 637</b>	4 263	4 620
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>2 422</b>	2 186	2 376
Equity holders of the parent	2 356	2 120	2 295
Non-controlling interest	66	66	81
<b>Non-current liabilities</b>	<b>1 096</b>	1 003	891
Amounts due to bankers	875	775	675
Amounts due to vendors of businesses acquired	220	209	215
Deferred taxation	1	19	1
<b>Current liabilities</b>	<b>1 119</b>	1 074	1 353
Trade and other payables	742	719	943
Bank overdraft	208	262	266
Amounts due to vendors of businesses acquired	99	60	116
Taxation	70	33	28
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 637</b>	4 263	4 620

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	Six months ended 31 May 2018	% change	Six months ended 31 May 2017	Year* ended 30 Nov 2017
<b>Turnover</b>	<b>2 955</b>	10,6	2 671	5 902
– Ongoing operations	2 807	5,2	2 668	5 784
– Operations acquired after December 2016	148		3	118
Cost of sales	1 879		1 684	3 704
<b>Gross profit</b>	<b>1 076</b>		987	2 198
Operating expenses	786		718	1 522
<b>Operating profit</b>	<b>290</b>	7,7	269	676
– Ongoing operations	270	0,5	268	659
– Operations acquired after December 2016	20		1	17
Adjustment to fair value of amounts due to vendors of businesses acquired	4			2
<b>Profit before interest</b>	<b>294</b>	9,2	269	678
Finance costs	56		52	103
<b>Profit before taxation</b>	<b>238</b>	9,7	217	575
Taxation	64		62	156
<b>Profit after taxation</b>	<b>174</b>	12,0	155	419
Income from joint venture	1		2	3
<b>Profit for the period</b>	<b>175</b>	11,6	157	422
<b>Other comprehensive income (loss)</b>	<b>4</b>		3	(2)
Movement on fair value of cash flow hedges	4		3	2
Exchange loss on translation of foreign operations				(4)
<b>Total comprehensive income for the period</b>	<b>179</b>		160	420
Profit attributable to:				
– Equity holders of the parent	167	9,3	153	397
– Non-controlling shareholders	8		4	25
	175	11,6	157	422
Total comprehensive income attributable to:				
– Equity holders of the parent	170		155	396
– Non-controlling shareholders	9		5	24
	179		160	420

<b>Earnings per share (cents)</b>				
– Basic	528	9,3	483	1 254
– Headline	528	9,3	483	1 256
– Comparable	517	7,0	483	1 251
<b>Diluted earnings per share (cents)</b>				
– Basic	511	8,0	473	1 241
– Headline	511	8,0	473	1 243
– Comparable	501	5,9	473	1 237

<b>Calculation of headline earnings</b>				
Profit attributable to equity holders of the parent	167	9,3	153	397
<i>Adjusted for:</i>				
Loss on disposal of plant and equipment				1
<b>Headline earnings</b>	<b>167</b>	9,3	153	398

<b>Calculation of comparable earnings</b>				
Headline earnings	167	9,3	153	398
<i>Adjusted for:</i>				
Adjustment to fair value of amounts due to vendors of businesses acquired	(4)			(2)

Non-controlling interest	1			
<b>Comparable earnings</b>	<b>164</b>	7,0	153	396

<b>Dividends</b>				
– Per share (cents)	190	5,6	180	560
– Amount (Rm)	60		57	177
<b>Shares in issue</b> (000)	<b>31 646</b>		31 646	31 646
– Total (000)	34 154		34 154	34 154
– Held by subsidiary (000)	(2 508)		(2 508)	(2 508)
<b>Weighted average shares in issue</b>				
– Total (000)	31 646		31 646	31 646
– Diluted (000)	32 671		32 287	31 981

SEGMENT INFORMATION

R million	Turnover				R million	Operating profit				R million	Average net operating assets			
	Six months ended 31 May 2018	% change	Six months ended 31 May 2017	Year* ended 30 Nov 2017		Six months ended 31 May 2018	% change	Six months ended 31 May 2017	Year* ended 30 Nov 2017		Six months ended 31 May 2018	% change	Six months ended 31 May 2017	Year* ended 30 Nov 2017
<b>Consumer-related products</b>	<b>1 603</b>	19,3	1 343	3 051	<b>211</b>	19,6	177	428	<b>1 881</b>	24,6	1 510		1 592	
– Ongoing operations	1 476	9,9	1 343	2 958	197	11,8	177	418	1 659	9,9	1 510		1 528	
– Operations acquired after December 2016	127			93	14			10	222				64	
<b>Engineering consumables</b>	<b>1 355</b>	1,8	1 330	2 861	<b>99</b>	(7,8)	107	272	<b>1 778</b>	4,0	1 709		1 710	
– Ongoing operations	1 334	0,5	1 327	2 836	93	(13,1)	106	265	1 704	0,2	1 700		1 671	
– Operations acquired after December 2016	21		3	25	6		1	7	74		9		39	
<b>Total operating segments</b>	<b>2 958</b>	10,6	2 673	5 912	<b>310</b>	9,3	284	700	<b>3 659</b>	13,7	3 219		3 302	
Head office, shared services and eliminations	(3)		(2)	(10)	(20)		(15)	(24)	32		125		109	
<b>Total group</b>	<b>2 955</b>	10,6	2 671	5 902	<b>290</b>	7,7	269	676	<b>3 691</b>	10,4	3 344		3 411	

\* Audited

GROUP STATEMENT OF CASH FLOWS

R million	Six months ended 31 May 2018	Six months ended 31 May 2017	Year* ended 30 Nov 2017
Cash generated from trading	338	329	772
Increase in working capital	(238)	(67)	(61)
<b>Cash generated from operations</b>	<b>100</b>	262	711
Taxation paid	(30)	(52)	(131)
<b>Net cash from operating activities</b>	<b>70</b>	210	580
Net investment in new operations	(22)	(90)	(210)
Net investment in property, plant and equipment	(29)	(18)	(47)
<b>Net cash from investing activities</b>	<b>(51)</b>	(108)	(257)
Increase (decrease) in non-current amounts due to bankers	200	65	(35)
Share-based payments**	(17)	(12)	(16)
Finance costs paid	(43)	(42)	(81)
Dividends paid	(144)	(116)	(177)
<b>Net cash from financing activities</b>	<b>(4)</b>	(105)	(309)
Decrease (increase) in net bank overdraft	15	(3)	14
Foreign exchange translation loss			(4)
Net bank overdraft at beginning of the period	(185)	(195)	(195)
<b>Net bank overdraft at end of the period</b>	<b>(170)</b>	(198)	(185)

\*\* Reclassified from operating activities in May 2017.

GROUP STATEMENT OF CHANGES IN EQUITY

R million	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
<b>Balance at 1 December 2017</b>	<b>55</b>	<b>78</b>	<b>2 181</b>	<b>2 314</b>	<b>81</b>	<b>2 395</b>
Comprehensive income for the period			<b>170</b>	<b>170</b>	<b>9</b>	<b>179</b>
Movement in equity compensation reserve		<b>11</b>		<b>11</b>		<b>11</b>
Dividends			<b>(120)</b>	<b>(120)</b>	<b>(24)</b>	<b>(144)</b>
<b>Balance at 31 May 2018</b>	<b>55</b>	<b>89</b>	<b>2 231</b>	<b>2 375</b>	<b>66</b>	<b>2 441</b>
Less: Shares held by subsidiary company			<b>(19)</b>	<b>(19)</b>		<b>(19)</b>
<b>Net balance at 31 May 2018</b>	<b>55</b>	<b>89</b>	<b>2 212</b>	<b>2 356</b>	<b>66</b>	<b>2 422</b>
<b>Balance at 1 December 2016</b>	<b>55</b>	<b>64</b>	<b>1 965</b>	<b>2 084</b>	<b>65</b>	<b>2 149</b>
Comprehensive income for the period			<b>155</b>	<b>155</b>	<b>5</b>	<b>160</b>
Movement in equity compensation reserve		<b>12</b>		<b>12</b>		<b>12</b>
Dividends			<b>(112)</b>	<b>(112)</b>	<b>(4)</b>	<b>(116)</b>
<b>Balance at 31 May 2017</b>	<b>55</b>	<b>76</b>	<b>2 008</b>	<b>2 139</b>	<b>66</b>	<b>2 205</b>
Less: Shares held by subsidiary company			<b>(19)</b>	<b>(19)</b>		<b>(19)</b>
<b>Net balance at 31 May 2017</b>	<b>55</b>	<b>76</b>	<b>1 989</b>	<b>2 120</b>	<b>66</b>	<b>2 186</b>
<b>Balance at 1 December 2016</b>	<b>55</b>	<b>64</b>	<b>1 965</b>	<b>2 084</b>	<b>65</b>	<b>2 149</b>
Comprehensive income for the year			<b>(2)</b>	<b>398</b>	<b>24</b>	<b>420</b>
Movement in equity compensation reserve		<b>16</b>	<b>(13)</b>	<b>3</b>		<b>3</b>
Dividends			<b>(169)</b>	<b>(169)</b>	<b>(8)</b>	<b>(177)</b>
<b>Balance at 30 November 2017</b>	<b>55</b>	<b>78</b>	<b>2 181</b>	<b>2 314</b>	<b>81</b>	<b>2 395</b>
Less: Shares held by subsidiary company			<b>(19)</b>	<b>(19)</b>		<b>(19)</b>
<b>Net balance at 30 November 2017*</b>	<b>55</b>	<b>78</b>	<b>2 162</b>	<b>2 295</b>	<b>81</b>	<b>2 376</b>