





UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 31 MAY
2019

➤ Turnover up 7,5% to R3,2 billion	➤ Interim dividend unchanged at 190 cps
➤ Operating profit up 2,4% to R297 million	➤ Net cash generated from operations R301 million
➤ Comparable earnings per share marginally up 0,5% to 520 cps	➤ Basic and headline earnings per share up 0,9% to 533 cps

CONSUMER-RELATED PRODUCTS

	Distributor of automotive clutch kits, ignition leads and rotary oil and hydraulic seals
	Distributor of alloy and steel wheels
	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. Designs, builds and manages battery bays for warehouses and distribution centres
	Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers
	Distributor of professional mobile radio communication equipment and integrator of radio systems
	Distributor of wireless networking, VoIP and video products and provider of 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
	Distributor of electronic security equipment, including the Texecom range of intruder detection solutions, as well as related consumables

ENGINEERING CONSUMABLES

	Distributor of bearings, chains, seals, electric motors, transmission and allied products
	Distributor of DEUTZ diesel engines, DEUTZ spare parts, HJS exhaust gas aftertreatment systems 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, industrial plugs, sockets, electric feeder systems and crane components
	Manufacturer of flame-proof connectors and lighting systems
	Distributor of special steels and provider of heat treatment
	Manufacturer of dished and flanged ends, pressing and 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:

- Consumer-related products: The automotive aftermarket, power tool, battery, security and communication equipment businesses supply products into markets with a bias towards consumer spending.
- Engineering consumables: 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 has delivered satisfactory results against a backdrop of extremely difficult trading conditions in the six months to May 2019. Economic data shows that nearly every economic sector in which Hudaco operates contracted in the first quarter. Manufacturing fell by 8,8%, mining was down 10,8%, agriculture down 13,2% and electricity generation shrunk by 6,9%. Transport fell by 4,4%, trade was down 3,6% and construction declined by 2,2%. The power outages which contributed to a 3,2% decline in GDP in the first quarter further dampened business confidence. It is encouraging that under these severe trading conditions, ongoing operations in the engineering consumables segment managed to increase turnover while holding operating margin. The pressure felt by consumers has, on the other hand, clearly impacted our consumer-related products segment, which had to give up margin in order to hold turnover.

Group sales at R3,2 billion for the half year are up 7,5% on 2018 including R108 million from acquisitions. Operating profit increased 2,4% to R297 million, with an operating margin of 9,3%, still very respectable for the first six months, which include all the major holiday periods.

Comparable earnings per share were only slightly up by 0,5% to 520 cents and basic and headline earnings per share were up by 0,9% to 533 cents. The interim dividend has been kept the same as in 2018 at 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 remains in good shape. Bank borrowings are R1 177 million, up just a marginal R14 million since November 2018. Trading generated cash of R348 million of which R47 million was reinvested in working capital as we manage stock in anticipation of the busier second half trading. This resulted in cash generated from operations of R301 million up from R100 million in the first half of 2018. During the six months we also paid finance costs of R55 million, taxation of R68 million and dividends of R123 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.

We had indicated that our inventory levels at November 2018 were higher than we had anticipated because some of our businesses had been over ambitious in stocking up for the last quarter. Substantial progress has been made in getting inventories back in line and, allowing for R66 million of inventory in acquisitions made in the second half of 2018, the overall inventory is only 1% higher than in May 2018 against an increase in sales of 7,5%. Ordering was curtailed to better align with sales levels, but some products have long lead times so the full benefit will only come through in the second half of 2019. Working capital is a key focus of management and we expect further improvement by the end of the financial year. We continue to look for suitable acquisitions and although we have a pipeline, nothing suitable crystallised during the period.

Consumer-related products

There are 14 businesses in this segment and they serve to diversify our opportunities, risks and market segment mix. Trading conditions were difficult in the first half as consumer spending remained 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 65% of operating profit. The profits of all businesses in this segment, apart from our battery business (due to load shedding), experienced declines in the first half. Segment sales increased 7,2% to R1 717 million, of which R108 million (6,3%) was from acquisitions made in the second half of 2018. Operating profit decreased 2,9% to R205 million at an operating margin of 12,0%.

Engineering consumables segment

There are 21 businesses which make up this segment. Trading conditions were extremely tough in almost all markets served 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 are starting to see the benefit from the strengthening of our senior team and the synergies being achieved in the restructuring of the portfolios within this segment. Sales grew by 8,2% to R1 467 million even though there were no acquisitions. Operating profit increased 10,0% to R109 million at an operating margin of 7,4%. All businesses found the market tough and the results were encouraging considering the poor economy.

Prospects

Hudaco's prospects depend largely on how the economy performs and that in turn depends largely on government policy and its implementation. Tough decisions together with action plans, time frames and measurables have to be made by government. We had hoped that these would be in place by now. Unless they are soon, we believe that the outlook for the economy for the rest of the year and 2020 will be no different from what we have experienced in the past 18 months.

We will continue to manage what is under our control and we look forward to the further contribution from the senior management brought on board and the synergies to be gained from the ongoing restructure of the engineering consumables portfolio as well as the bolt-on acquisitions in the consumer-related products segment. As always, we continue to seek out strategic acquisitions as a further source of growth and diversification.

Hudaco's business model, which is principally the sale of 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 in difficult times. 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 continues. A court date has been set for the last quarter of 2019. Hudaco has brought the action to recover damages and secret profits made on the financing arrangements around the Hudaco BEE transaction that ran from August 2007 to February 2013.

Declaration of interim dividend no 65

Interim dividend number 65 of 190 cents per share is declared payable on Monday, 12 August 2019 to ordinary shareholders recorded in the register at the close of business on Thursday, 8 August 2019.

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

Last day to trade <i>cum</i> dividend	Monday, 5 August 2019
Trading ex dividend commences	Tuesday, 6 August 2019
Record date	Thursday, 8 August 2019
Payment date	Monday, 12 August 2019

Share certificates may not be dematerialised or rematerialised between Tuesday, 6 August 2019 and Thursday, 8 August 2019, 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 dividend has been declared from income reserves;
- The Dividends Tax rate is 20%;
- 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.

Results presentation

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 28 June 2019 and Monday, 1 July 2019, respectively. Anyone wishing to attend should contact Sebolla Masekwameng at 011 657 5000.

The slides, which form part of the presentation will be available on the company's website from Friday, 28 June 2019.

For and on behalf of the board

SJ Connelly

Non-executive chairman

27 June 2019

GR Dunford

Chief executive

Nedbank Corporate and Investment Banking

Sponsor

These results are also available at www.hudaco.co.za.

COMPANY INFORMATION	Registered office	Group secretary
Hudaco Industries Limited 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, 1609 Tel +27 11 657 5000 Email: info@hudaco.co.za	R van Zyl Sponsor Nedbank Corporate and Investment Banking
Transfer secretaries	Directors	
Computershare Investor Services Proprietary Limited PO Box 61051 Marshalltown, 2107	SJ Connelly (<i>Chairman</i>)* GR Dunford (<i>Chief executive</i>) CV Amoils (<i>Financial director</i>) N Mandindi* LFI Meiring D Naidoo* MR Thompson* * <i>Non-executive</i>	

GROUP STATEMENT OF FINANCIAL POSITION

R million	31 May 2019	31 May 2018	30 Nov* 2018
ASSETS			
Non-current assets	1 902	1 845	1 875
Property, plant and equipment	297	277	277
Investment in joint venture	10	11	9
Goodwill	1 512	1 480	1 505
Intangible assets	36	56	49
Deferred taxation	47	21	35
Current assets	2 977	2 792	3 167
Inventories	1 768	1 682	1 822
Trade and other receivables	1 162	1 068	1 278
Taxation	4	4	4
Bank deposits and balances	43	38	63
TOTAL ASSETS	4 879	4 637	5 042
EQUITY AND LIABILITIES			
Equity	2 637	2 422	2 579
Equity holders of the parent	2 563	2 356	2 509
Non-controlling interest	74	66	70
Non-current liabilities	1 067	1 096	1 124
Amounts due to bankers	964	875	1 014
Amounts due to vendors of businesses acquired	102	220	109
Deferred taxation	1	1	1
Current liabilities	1 175	1 119	1 339
Trade and other payables	766	742	989
Bank overdraft	256	208	212
Amounts due to vendors of businesses acquired	119	99	105
Taxation	34	70	33
TOTAL EQUITY AND LIABILITIES	4 879	4 637	5 042

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	Six months ended 31 May 2019	% change	Six months ended 31 May 2018	Year* ended 30 Nov 2018
Turnover	3 175	7,5	2 955	6 381
– Ongoing operations	3 067	3,8	2 955	6 282
– Operations acquired after December 2017	108			99
Cost of sales	2 031		1 879	4 060
Gross profit	1 144		1 076	2 321
Operating expenses	847	7,7	786	1 666
– Ongoing operations	815	3,6	786	1 638
– Operations acquired after December 2017	32			28
Operating profit	297	2,4	290	655
– Ongoing operations	282	(2,9)	290	644
– Operations acquired after December 2017	15			11
Impairment of goodwill and intangible assets				(34)
Adjustment to fair value of amounts due to vendors of businesses acquired	(3)		(9)	11
– Adjustment to estimated capital amounts due	5		4	34
– Adjustment for time-value of money	(8)		(13)	(23)
Profit before interest	294	4,5	281	632
Finance costs	55		43	91
Profit before taxation	239	0,3	238	541
Taxation	63		64	144
Profit after taxation	176	0,8	174	397
Income from joint venture	1		1	3
Profit for the period	177	0,6	175	400
Other comprehensive income	5		4	3
Movement on fair value of cash flow hedges	4		4	
Exchange gain on translation of foreign operations	1			3
Total comprehensive income for the period	182	1,8	179	403
Profit attributable to:				
– Equity holders of the parent	169	0,9	167	381
– Non-controlling shareholders	8		8	19
	177		175	400
Total comprehensive income attributable to:				
– Equity holders of the parent	173	1,8	170	383
– Non-controlling shareholders	9		9	20
	182		179	403
Earnings per share (cents)				
– Basic	533	0,9	528	1 202
– Headline	533	0,9	528	1 289
– Comparable	520	0,5	517	1 198
Diluted earnings per share (cents)				
– Basic	526	2,9	511	1 173
– Headline	526	2,9	511	1 258
– Comparable	513	2,4	501	1 168
Calculation of headline earnings				
Profit attributable to equity holders of the parent	169	0,9	167	381
<i>Adjusted for:</i>				
Impairment of goodwill and intangible assets				34
Profit on disposal of plant and equipment				(2)
Non-controlling interest and tax				(5)
Headline earnings	169	0,9	167	408
Calculation of comparable earnings				
Headline earnings	169	0,9	167	408
<i>Adjusted for:</i>				
Fair value adjustment on capital amounts due to vendors of businesses acquired	(5)		(4)	(34)
Non-controlling interest	1		1	5
Comparable earnings	165	0,5	164	379
Dividends				
– Per share (cents)	190		190	570
– Amount (Rm)	60		60	180
Shares in issue (000)	31 646		31 646	31 646
– Total (000)	34 154		34 154	34 154
– Held by subsidiary (000)	(2 508)		(2 508)	(2 508)
Weighted average shares in issue				
– Total (000)	31 646		31 646	31 646
– Diluted (000)	32 074		32 671	32 435

SEGMENT INFORMATION

	Turnover				Operating profit				Average net operating assets			
R million	Six months ended 31 May 2019	% change	Six months ended 31 May 2018	Year* ended 30 Nov 2018	Six months ended 31 May 2019	% change	Six months ended 31 May 2018	Year* ended 30 Nov 2018	Six months ended 31 May 2019	% change	Six months ended 31 May 2018	Year* ended 30 Nov 2018
Consumer-related products	1 717	7,2	1 603	3 491	205	(2,9)	211	462	2 135	13,5	1 881	1 935
– Ongoing operations	1 609	0,4	1 603	3 392	190	(10,1)	211	451	2 058	9,4	1 881	1 880
– Operations acquired after December 2017	108			99	15			11	77			55
Engineering consumables												
– Ongoing operations	1 467	8,2	1 355	2 910	109	10,0	99	246	1 816	2,2	1 778	1 821
Total operating segments	3 184	7,6	2 958	6 401	314	1,2	310	708	3 951	8,0	3 659	3 756
Head office, shared services and eliminations	(9)		(3)	(20)	(17)		(20)	(53)	42		32	25
Total group	3 175	7,5	2 955	6 381	297	2,4	290	655	3 993	8,2	3 691	3 781
* Audited												

GROUP STATEMENT OF CASH FLOWS

R million	Six months ended 31 May 2019	Six months ended 31 May 2018	Year* ended 30 Nov 2018
Cash generated from trading	348	338	760
Increase in working capital	(47)	(238)	(292)
Cash generated from operations	301	100	468
Taxation paid	(68)	(30)	(164)
Net cash from operating activities	233	70	304
Net investment in new operations	(8)	(22)	(242)
Net investment in property, plant and equipment	(44)	(29)	(51)
Dividend received			4
Net cash from investing activities	(52)	(51)	(289)
(Decrease) increase in non-current amounts due to bankers	(50)	200	339
Share-based payments	(18)	(17)	(18)
Finance costs paid	(55)	(43)	(91)
Dividends paid	(123)	(144)	(211)
Net cash from financing activities	(246)	(4)	19
(Increase) decrease in net bank overdraft	(65)	15	34
Foreign exchange translation gain	1		2
Net bank overdraft at beginning of the period	(149)	(185)	(185)
Net bank overdraft at end of the period	(213)	(170)	(149)