Hudaco

2008

Stephen Connelly Chief executive

AUDITED GROUP RESULTS

FOR THE YEAR ENDED 30 NOVEMBER 2008

- Normalised headline earnings per share up 33% to R9,95
- Ordinary dividends increase 54% to R4,00 per share

Hudaco is a South African group engaged in the business of importing and distributing industrial consumable products. Its customers are mainly within the southern African manufacturing, mining, construction, automotive aftermarket and security industries.

The group concluded two acquisitions this year at a cost of R152 million. Astore Africa, an importer and distributor of specialised piping to South Africa's mining and manufacturing sectors was purchased effective 1 February 2008, whilst Ambro Sales, a specialised distributor of solid and hollow round steel, was acquired on 1 March 2008.

Results

Total sales of R2,8 billion for the year are up 24% on 2007, of which 10% is attributable to the aforementioned acquisitions.

Most businesses in the Bearings and Power Transmission Products division achieved an increase in volume sales. In the Powered Products division, volume sales of diesel engines and spares increased whilst power tools and outboard motors were down. Volume sales in the Security Equipment division were flat. Rand weakness towards the end of the financial year resulted in general price increases of imported products which accelerated buying from some businesses before the increases came into effect. More frequent supplier price increases continued in 2008 due to increases in the prices of raw materials and particularly strong current worldwide demand. However, towards the end of the year, it became apparent that this trend is slowing and may even reverse in 2009.

In the Bearings and Power Transmission Products division, sales increased 36% to R1,7 billion, of which 17% came from newly acquired businesses, Astore and Ambro. Operating profit climbed 45% to R251 million. Trading conditions in the division were robust with mines and manufacturers enjoying excellent conditions and volume sales were well up. Encouragingly, there was also sustained quoting on capital project work for mines, civil engineering projects and manufacturers during the year although there were signs towards year end that some projects may be cancelled or postponed.

In the Powered Products division sales increased 14% and operating profit increased 17%. Deutz Diesel Power had another excellent year with strong demand for diesel engines, mainly for platinum mining applications. In Rutherford, unit sales of power tools declined as building activity slowed and outboard motor sales declined again in response to the interest rate increases of the past few years and the National Credit Act making credit harder to obtain.

In the Security Equipment division sales in the South African operations were up 17% on slightly improved volumes leading to a solid 20% increase in operating profit. The UK security business was closed in the second half of 2008.

Group operating profit is up 34% to R427 million. The net finance expense was R40 million (2007: finance revenue R1 million) as net interest paid was R240 million (2007: R66 million) and preference dividend income was R200 million (2007: R67 million). These significant changes are the result of the group's BEE transaction being in place for the full 2008 year compared with only four months in 2007. The tax rate decreased from 31% to 14% as dividends received are not taxed. Both headline and basic earnings per share were up over 60% as 2007 included a non-recurring charge of 130 cents per share arising on the introduction of BEE shareholders. Normalised headline earnings per share, which excludes the closure costs of Elvey UK, increased 33% to 995 cents.

A policy decision was made this year to increase the dividend payout from 33% to 40% of normalised earnings. In line with this new policy, the final dividend has been increased by 38% to 270 cents (2007: 195 cents). With an interim dividend of 130 cents the total dividends are 400 cents per share. This is an increase of 54% over last year's 260 cents and a pay out of 40% of normalised earnings per share.

The balance sheet is healthy. Working capital (inventories, accounts receivable and accounts payable) at R799 million is R291 million or 57% above 2007 levels. The increase in inventories of 43% is a little higher than we would have liked, but is understandable given the lengthening lead times from suppliers over the past few years. Now, in response to declining world demand, lead times are dropping and a corresponding reduction in inventories can be expected. The group has R69 million net cash on hand at year end (2007: R317 million). The return on net operating assets (RONA) in 2008 is 46%, similar to last year and well above our internal target of 30% and our pre-tax cost of capital which is approximately 20%.

Board appointments

Stuart Morris and Nosipho Molope were appointed independent non-executive directors and Graham Dunford joined the board as an alternate executive director with effect from 12 January 2009.

Prospects

The South African economy will not escape the backwash from the turmoil affecting most world markets and, with the sharp decline in commodity prices, there have already been announcements cancelling or postponing investments in mining projects. The group's reliance on GDP spending shields it to a degree from such events but trading conditions are expected to be more difficult for Hudaco in 2009. Appropriate measures to deal with a mild business correction were put in place in October 2008, including deferring decisions on expansion and acquisitions, until we can evaluate the impact of the financial crisis on our markets. Orders on suppliers have not yet been adjusted downwards since demand through to year-end was reasonably strong. If demand does decline in 2009 it may be that the group will be overstocked for a period of time, something that can easily be coped with given the strong balance sheet.

Medium term, that is to say beyond the current financial crisis, prospects are sound. Spending on South Africa's infrastructure is underway and demand fundamentals support some investment in mining projects, particularly coal We believe that overall economic growth, driven by investment spending, will resume once this crisis has passed and will continue for some years.

It is difficult, if not impossible, to predict the group's earnings performance in 2009. The business is strong and will survive this crisis. Although margins could come under pressure we believe the group's exposure to predominantly GDP spending and the weaker Rand will allow it to continue to achieve attractive returns for shareholders.

Dividend

Notice is hereby given that final dividend No.44 of 270 cents per share has been declared in respect of the year ended 30 November 2008.

The last day to trade in order to participate in the dividend ("cum" the dividend) will be Friday, 6 March 2009. The share will commence trading "ex" the dividend from the commencement of business on Monday, 9 March 2009 and the record date will be Friday, 13 March 2009. The dividend will be paid on Monday, 16 March 2009. Share certificates may not be dematerialised between Monday, 9 March 2009 and Friday, 13 March 2009, both days inclusive.

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Audit opinion

Grant Thornton has signed an unqualified audit opinion on the financial statements for the year. These have been approved by the board and abridged for purposes of this report. Both the auditors' opinion and the financial statements are available for inspection at the company's registered office. The annual report will be published on www.hudaco.co.za by no later than noon on Monday 2 February 2009.

For and on behalf of the Board

RT Vice
Chairman
29 January 2009

SJ Connelly
Chief executive

Income statement

R million	30 Nov 2008	% change	30 Nov 2007
Turnover	**2 766**	*24*	2 227
– Ongoing operations	**2 521**		2 156
– Operations acquired in 2008	**221**		
– Operation discontinued in 2008	**24**		71
Cost of sales	**1 684**		1 383
Gross profit	**1 082**		844
Operating expenses	**655**		526
Operating profit	**427**	*34*	318
– Ongoing operations	**402**		320
– Operations acquired in 2008	**31**		
– Operation discontinued in 2008	**(6)**		(2)
Cost to introduce BEE shareholders			44
Net loss on operation discontinued in 2008 * *	**2**		
Profit before dividends received, interest received and finance costs	**425**		274
Dividends received on preference shares	**200**		67
Interest received	**12**		15
Finance costs	**(252)**		(81)
Profit before taxation	**385**		275
Taxation	**55**		86
Profit after taxation	**330**	*75*	189
Attributable to shareholders of the group	**307**		183
Attributable to minorities * *	**23**		6
	330		189

* * see supplementary information

	30 Nov 2008	% change	30 Nov 2007
Normalised headline earnings per share (cents)	**995**	*33*	750
Headline earnings per share (cents)	**964**		605
Basic earnings per share (cents)	**995**		606
Diluted normalised headline earnings per share (cents)	**970**		726
Diluted headline earnings per share (cents)	**940**		585
Diluted basic earnings per share (cents)	**970**		586
Reconciliation to normalised headline earnings			
Profit attributable to shareholders of the group	**307**		183
Adjusted to eliminate the effect of the following items in attributable earnings:			
– Surplus on disposal of property, plant and equipment	**(1)**		(1)
– Foreign currency translation reserve realised	**(9)**		
Headline earnings	**297**		182
Adjusted to eliminate the effect of the following items in headline earnings:			
– Impairment of assets in operation discontinued in 2008	**10**		
– Cost to introduce BEE shareholders			44
– Debt raising fees			3
– STC on special dividend			5
– Taxation effect of adjustments			(1)
– Minority effect of adjustments			(7)
Normalised headline earnings	**307**	*35*	226
Normal dividends			
– Per share (cents)	**400**	*54*	260
– Amount (Rm)	**124**		80
Special dividend			
– Per share (cents)			330
– Amount (Rm)			102
Shares in issue	**30 923**		30 754
– Total (000)	**33 431**		33 262
– Held by subsidiary company (000)	**(2 508)**		(2 508)
Weighted average shares in issue			
– Basic (000)	**30 836**		30 178
– Diluted (000)	**31 632**		31 182

Balance sheet

R million	30 Nov 2008	30 Nov 2007
ASSETS		
Non-current assets	**2 429**	2 333
Property, plant and equipment	**92**	74
Investments	**2 181**	2 181
Goodwill	**131**	76
Intangible assets	**25**	
Deferred taxation		2
Current assets	**1 422**	1 260
Inventories	**780**	544
Accounts receivable	**507**	399
Bank deposits and balances	**135**	317
TOTAL ASSETS	**3 851**	3 593
EQUITY AND LIABILITIES		
Equity	**1 055**	835
Shareholders' equity	**1 015**	806
Minority interest	**40**	29
Non-current liabilities	**2 204**	2 181
Subordinated debenture	**2 181**	2 181
Deferred taxation	**5**	
Due to vendors - interest bearing	**18**	
Current liabilities	**592**	577
Accounts payable	**488**	434
Amounts due to bankers	**66**	
Due to vendors – interest bearing	**5**	11
Shareholders for special dividend		102
Taxation	**33**	30
TOTAL EQUITY AND LIABILITIES	**3 851**	3 593

Cash flow statement

R million	30 Nov 2008	30 Nov 2007
Cash generated from trading	**450**	334
Applied to working capital	**(235)**	(71)
Cash generated from operating activities	**215**	263
Preference dividends and interest received	**212**	82
Finance costs	**(249)**	(80)
Taxation paid	**(56)**	(81)
Cash flow from operations	**122**	184
Special dividends paid	**(102)**	
Dividends paid	**(112)**	(67)
NET CASH APPLIED	**(92)**	117
Investment in new operations – net	**(140)**	(35)
Investment in plant and equipment – net	**(20)**	(17)
Investment in preference shares		(2 181)
NET CASH INVESTED	**(160)**	(2 233)
Cash utilised	**(252)**	(2 116)
Issue of shares	**4**	14
Issue of subordinated debenture		2 181
DECREASE IN NET CASH	**(248)**	79

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Statement of changes in equity

R million	30 Nov 2008	30 Nov 2007
Equity at the beginning of the year	**835**	750
Attributable profit for the year	**330**	189
Increase in equity compensation reserve	**6**	5
Movement on fair value of cash flow hedges	**(2)**	2
Gain on translation of foreign entities	**2**	
Foreign currency translation reserve realised	**(8)**	
Arising on the introduction of BEE shareholders		44
Shares issued	**4**	14
Dividends	(112)	(169)
Equity at the end of the year	**1 055**	835

Supplementary information

These results were prepared applying accounting policies which conform with International Financial Reporting Standards and are consistent with those applied in the previous financial year. These results also comply with the requirements of IAS 34 on interim reporting.

	30 Nov 2008	30 Nov 2007
Average net operating assets (Rm)	**923**	612
Operating profit margin (%)	**15,4**	14,3
Average NOA turn (times)	**3,0**	3,6
Return on average NOA (%)	**46,2**	51,9
Net asset value per share (cents)	**3 282**	2 623
Net loss on operations discontinued in 2008 (Rm)	**2**	
Impairments of assets of operation discontinued	**10**	
Foreign currency translation reserve realised	**(8)**	
Profit after tax attributable to minorities (Rm)	**23**	6
– Share of normalised earnings	**23**	13
– Share of cost to introduce BEE shareholders		(7)
Operating profit has been determined after taking into account the following charges:		
- Depreciation	**15**	12
- Amortisation of intangible assets acquired in acquisitions	**3**	
Capital expenditure		
– Spent during the period (Rm)	**25**	21
– Budgeted for 2009 (Rm)	**31**	
Commitments and contingencies		
– Operating leases on property (Rm)	**99**	76
– Break fee on debenture (Rm)	**21**	50
– A contingent liability still exists in respect of an ongoing dispute on whether an employer contribution holiday in one of the group's defined contribution retirement funds, was authorised by its rules.		
Net cash comprises (Rm)	**69**	317
– Bank deposits and balances	**135**	317
– Amounts due to bankers	**(66)**	

Segment analysis

Turnover

R million	30 Nov 2008	% change	30 Nov 2007
Bearings and Power Transmission Products	**1 727**	*36*	1 273
-Ongoing operations	**1 506**		1 273
-Operations acquired in 2008	**221**		
Powered Products	**673**	*14*	589
Security Equipment	**367**	*1*	365
-Ongoing operations	**343**		294
-Operation discontinued in 2008	**24**		71
Internal/head office	**(1)**		
Total group	**2 766**	*24*	2 227

Segment analysis

Operating profit

R million	30 Nov 2008	% change	30 Nov 2007
Bearings and Power Transmission Products	**251**	*45*	173
-Ongoing operations	**220**		173
-Operations acquired in 2008	**31**		
Powered Products	**145**	*17*	124
Security Equipment	**49**	*11*	44
-Ongoing operations	**55**		46
-Operations discontinued in 2008	**(6)**		(2)
Internal/head office	**(18)**		(23)
Total group	**427**	*34*	318

Segment analysis

Average net operating assets

R million	30 Nov 2008	% change	30 Nov 2007
Bearings and Power Transmission Products	**696**	*56*	446
-Ongoing operations	**513**		446
-Operations acquired in 2008	**183**		
Powered Products	**138**	*38*	100
Security Equipment	**80**		80
-Ongoing operations	**67**		67
-Operations discontinued in 2008	**13**		13
Internal/head office	**9**		(14)
Total group	**923**	*51*	612

Acquisitions

Hudaco Trading acquired 100% of the businesses of Astore Africa Group and Ambro Sales on 1 February 2008 and 1 March 2008 respectively for an aggregate purchase consideration of R152 million. Property, plant and equipment of R11 million, working capital (inventories, accounts receivable and accounts payable) of R69 million, goodwill and other intangible assets (brand name and customer relations) of R82 million, and deferred tax liabilities of R10 million were recognised at date of acquisition. These values approximate the fair value as determined under IFRS 3. The accounting for the acquisitions has been finalised as the valuations of intangible assets were completed by the end of this financial year. These acquisitions increased the reported attributable earnings of the group for the year by R7 million and if both these acquisitions had been effective on 1 December 2007 the turnover and attributable earnings of the group would have been approximately R2 800 million and R305 million respectively.

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Bearings and Power Transmission products

ABES Technical	Distributor of oil and hydraulic seals, clutch kits and automotive ignition leads.
AmbroSales	Distributor of special solid and hollow round steel.
	Distributor of specialised pipes and fittings.
Bearings International	Distributor of bearings, seals and transmission products.
	Distributor of power transmission and conveyor belting products and industrial hose.
Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings.
Ernest Lowe ELCO	Manufacturer and distributor of hydraulic and pneumatic equipment.
BAUER	Distributor of geared and electric motors and frequency inverters.
	Distributor of electrical cabling, plugs, sockets, electric feeder systems and crane materials.
VARISPEED	Distributor of controllers, monitors and regulators for the speed of standard AC motors.

Powered Products

DEUTZ DIESELPOWER	Distributor of Deutz diesel engines and provider of aftermarket services.
Rutherford	Distributor of power tools, outboard motors, survey equipment and rivets.

Security Equipment

ELVEY Security Technologies	Distributor of intruder detection, closed-circuit television, access control and fibre-optic equipment.

Transfer secretaries
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PL Campbell# GE Gardiner (Alt GR Dunford) JB Gibbon#
YKN Molefi# CWN Molope# SG Morris# PM Poole
Independent non-executive

Group secretary
MMM Nkumanda

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Share code HDC ISIN ZAE000003273

"Value-added distribution – our core competency"