

# REVIEWED CONDENSED CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2018 AND DIVIDEND ANNOUNCEMENT



Registration number 1951/000799/06 | ISIN: ZAE000007480 | Share code: TPC ("Transpaco" or "the group")

**A leading manufacturer, recycler and distributor of plastic and paper packaging products**

**NET ASSET VALUE PER SHARE 1 886 CENTS ■ HEPS UP 13% TO 297,4 CENTS ■ TOTAL DIVIDEND PER SHARE 135 CENTS**

## INTRODUCTION

Transpaco is pleased to present results for the 2018 financial year reflecting a 13.3% increase in headline earnings per share. Operating profit grew by 14.4% notwithstanding challenging trading conditions including selling price deflation, reduced customer spend and continued stagnant demand for recycled material.

This increase resulted from stringent cost control, aggressive sales and marketing and sound working capital management, further translating into operating margin increasing to 8.1% (June 2017: 7.4%).

On 1 March 2018, Transpaco acquired the Future Packaging group of companies which operates across South Africa in the packaging and related products market. Future Packaging distributes its products nationally through dedicated branches in Johannesburg, Durban, Cape Town and Bloemfontein. The acquisition will enable Transpaco's existing distribution arm, Transpaco Packaging to expand its product range and geographical footprint. Transpaco welcomes Claus Hennings, the managing director and vendor of Future Packaging to Transpaco. We look forward to his and the company's positive contributions to group profits in the future.

Although the acquisition of Future Packaging contributed towards group operating profit, the benefit was offset against non-recurring transactional costs expensed during the year.

The anti-plastic debate continues and in particular the adverse sentiment towards retail plastic bags. While Transpaco is active in this market, our diversification strategy has reduced the group's dependency on retail plastic bags. Transpaco, through its recycling division, remains South Africa's largest recycler of post-consumer polyethylene.

Transpaco is working with government, industry bodies and customers to explore suitable solutions and mitigate against any possible negative consequences. Further, we are investigating expanding into several alternative products as a substitute for retail plastic bags.

Notwithstanding the decrease in turnover in the Plastic division primarily due to price deflation, operating profits increased in all three divisions.

## FINANCIAL RESULTS

Group	June 2018	June 2017	% increase
Turnover (R'm)	1 721,9	1 635,8	5,3
Operating profits (R'm)	139,2	121,7	14,4
Total comprehensive income (R'm)	97,5	86,4	12,9
Headline earnings (R'm)	97,0	86,3	12,4
Earnings per share (cents)	298,8	262,8	13,7
Headline earnings per share (cents)	297,4	262,6	13,3
Diluted headline earnings per share (cents)	297,4	262,4	13,3
Net asset value per share (cents)	1 886	1 708	10,4

The weighted average number of shares in issue in calculating EPS and HEPS was 32 629 000 (June 2017: 32 858 000). In total, 431 123 shares held for the Transpaco share incentive scheme were cancelled during the period. Transpaco no longer allocates shares for this purpose which has been replaced by a cash incentive bonus scheme.

Cash generated from operations decreased to R125,7 million (June 2017: R204,4 million). Cash and cash equivalents at year-end were R60,4 million (June 2017: R99,5 million). Efficient working capital management minimised net interest paid and resulted in Transpaco's net interest-bearing debt-to-equity position being restricted to 11,6% (June 2017: net cash positive) while maintaining a robust balance sheet. The purchase consideration for the Future Packaging acquisition was funded by Transpaco's existing cash resources. Due to the seasonal nature of Transpaco trading profile, additional funds were required for working capital funding. The company selected long term finance due to favourable lending rates.

## PROSPECTS

The group will continue its proven business strategy, targeting organic growth while maintaining strict financial control and at the same time identifying and pursuing appropriate acquisitions.

STATEMENT OF COMPREHENSIVE INCOME			
R'000	Reviewed 12 months June 2018	% change	Audited 12 months June 2017
<b>Revenue</b>	<b>1 725 113</b>		1 639 861
<b>Turnover</b>	<b>1 721 876</b>	5,3	1 635 790
Cost of sales	(1 095 588)		(1 046 749)
<b>Profit before operating costs and depreciation</b>	<b>626 288</b>	6,3	589 041
Operating costs	(446 423)		(422 076)
Depreciation	(40 656)		(45 262)
<b>Operating profit</b>	<b>139 209</b>	14,4	121 703
Finance income	3 237		4 071
Finance costs	(7 404)		(6 429)
<b>Profit before taxation</b>	<b>135 042</b>	13,2	119 345
Taxation	(37 556)		(32 986)
<b>Profit for the year</b>	<b>97 486</b>		86 359
Other comprehensive income	-		-
<b>Total comprehensive income for the year</b>	<b>97 486</b>	12,9	86 359
Weighted average ranking number of shares in issue ('000)	32 629		32 858
Diluted weighted average ranking number of shares in issue ('000)	32 629		32 883
Earnings per share (cents)	298,8	13,7	262,8
Diluted earnings per share (cents)	298,8	13,8	262,6
Headline earnings per share (cents)	297,4	13,3	262,6
Diluted headline earnings per share (cents)	297,4	13,3	262,4
Dividend per share (cents)*	135,0	12,5	120,0
<i>*Includes interim dividend of 45 cents (June 2017 – 48 cents) and a dividend declared after the period of 90 cents (June 2017 – 72 cents)</i>			
Reconciliation of headline earnings (R'000)			
Basic earnings	97 486		86 359
Profit on disposal of property, plant and equipment	(462)		(65)
<b>Headline earnings</b>	<b>97 024</b>	12,4	86 294

STATEMENT OF CHANGES IN EQUITY					
R'000	Share capital	Share premium	Other reserves	Distributable reserve	Total
Balance at 30 June 2016	328	11 019	4 005	507 602	522 954
Profit for the year	-	-	-	86 359	86 359
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	86 359	86 359
Dividend paid	-	-	-	(48 088)	(48 088)
Balance at 30 June 2017	328	11 019	4 005	545 873	561 225
Profit for the year	-	-	-	97 486	97 486
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	97 486	97 486
Transfer	-	-	(4 005)	4 005	-
Dividend paid	-	-	-	(38 580)	(38 580)
<b>Balance at 30 June 2018</b>	<b>328</b>	<b>11 019</b>	<b>-</b>	<b>608 784</b>	<b>620 131</b>

## TRANSFORMATION

Transpaco's eighth independent accreditation process in respect of Black Economic Empowerment reflected a Level 6 value-added contributor, which was down on previous ratings due to the amendments to the generic scorecard. We are addressing this in order to improve our level.

During the year Transpaco focused its transformation initiatives on skills, supplier and enterprise development and employment equity.

## DIVIDEND

The board has declared a final gross cash dividend out of income reserves of 90,0 cents per share, resulting in total dividends of 135,0 cents per share for the year ended 30 June 2018 (June 2017: 120,0 cents per share). After applying the dividend withholding tax of 20%, a net final dividend of 72,0000 cents per share will be paid to those shareholders who are not exempt from the dividends tax. The issued shares at the date of declaration are 32 886 359 ordinary shares. The Income Tax reference number is 9975/112/71/6.

The salient dates for the dividend are as follows:

Last date to trade shares cum dividend	Tuesday, 11 September 2018
Shares trade ex dividend	Wednesday, 12 September 2018
Record date	Friday, 14 September 2018
Payment date	Monday, 17 September 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 September 2018 and Friday, 14 September 2018, both days inclusive.

## BASIS OF PREPARATION AND ACCOUNTING POLICIES

The group's annual financial results have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") issued by the International Auditing Standards Board ("IASB"), its interpretations issued by the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements for provisional reports and the Companies Act of South Africa. The principal accounting policies are consistent in all material respects with those applied in the preparation of the group's annual financial statements for the year ended 30 June 2017. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 30 June 2018. The presentation and disclosure complies with International Accounting Standard ("IAS") 34.

The fair value of the assets and liabilities approximate the carrying amounts largely due to the short-term maturities of these instruments. Interest-bearing borrowings are not materially different from their calculated fair values due to market related rates embedded into the terms of these borrowing.

## IFRS 9

There will be a reclassification of financial assets and the measurement of provisions against receivables will be revised using the expected loss method, the impact of which is not material. The effective date is 1 July 2018 and the modified retrospective method will be used.

## IFRS 15

Management has assessed the potential impact of IFRS 15 on the financial statements of the group and concluded that the group does not sell products based on multiple-element arrangements and it does not sell products on a provisional or variable pricing basis and as such IFRS 15 does not have a significant impact on the timing or amount of the group's revenue recognition. The effective date is 1 July 2018 and the modified retrospective method will be used.

## REVIEW OF INDEPENDENT AUDITORS

The group's auditors Ernst & Young Inc. have reviewed the condensed consolidated financial information for the year. The unmodified review report is available for inspection at Transpaco's registered office. The review was performed in accordance with ISRE 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's external auditors.

STATEMENT OF FINANCIAL POSITION		
R'000	Reviewed 12 months June 2018	Audited 12 months June 2017
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>432 831</b>	382 035
Property, plant and equipment	347 019	338 406
Intangibles	17 855	17 855
Goodwill	64 182	23 195
Deferred taxation	3 775	2 579
<b>Current assets</b>	<b>649 978</b>	541 469
Inventories	259 846	204 006
Trade and other receivables	328 796	237 929
Taxation receivable	888	-
Cash and cash equivalents	60 448	99 534
<b>TOTAL ASSETS</b>	<b>1 082 809</b>	923 504
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	<b>620 131</b>	561 225
Issued share capital	328	328
Share premium	11 019	11 019
Other reserve	-	4 005
Distributable reserve	608 784	545 873
<b>Non-current liabilities</b>	<b>158 362</b>	106 303
Interest-bearing borrowings	113 811	65 259
Deferred income	11 053	13 153
Deferred taxation	33 498	27 891
<b>Current liabilities</b>	<b>304 316</b>	255 976
Trade payables and accruals	250 464	208 813
Provisions	32 145	27 929
Current portion of interest-bearing borrowings	18 790	16 916
Deferred income	2 103	2 113
Taxation payable	814	205
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 082 809</b>	923 504
<b>Number of shares in issue ('000)</b>		
Number of shares (net of treasury shares)	32 861	32 841
Net movement in treasury shares	25	20
Ranking number of shares	32 886	32 861
<b>Salient features</b>		
Net asset value per share (cents)	1 886	1 708
Operating margin %	8,1	7,4
Net interest-bearing debt-to-equity ratio %	11,6	Net cash positive

CAPITAL COMMITMENTS		
R'000	Reviewed 12 months June 2018	Audited 12 months June 2017
Capital expenditure authorised and contracted		
Property, plant and equipment	12 812	6 386

## APPROVAL AND PREPARATION

These condensed consolidated financial results have been prepared under the direction and supervision of the Financial Director, L Weinberg CA(SA).

## ON BEHALF OF THE BOARD

**DJJ Thomas**  
Non-executive Chairman

**PN Abelheim**  
Chief Executive

**L Weinberg**  
Financial Director

Date 21 August 2018

## NOTE

### Acquisition of Future Packaging and Machinery group

On 1 March 2018, Transpaco acquired Future Packaging and Machinery (Pty) Ltd, Future Packaging and Machinery Cape (Pty) Ltd and Future Packaging and Machinery KZN (Pty) Ltd. The Future Packaging and Machinery group offers innovative and effective solutions with respect to general packaging as well as customised technical turnkey projects relating to packaging lines. Branches are strategically positioned throughout South Africa to service the local and export market.

The Future Packaging and Machinery group was acquired due to its achievement of consistent growth in sales and profitability, strong growth prospects and the opportunity to grow the current group's operations. The purchase consideration for the business includes a premium of R41,0 million of which the group believes to be a fair and reasonable consideration payable for the impressive business with sound standard operating procedures, scalable business model which allows for significant growth through expansion without excessive requirements and anticipated earnings enhancement.

### Assets acquired and liabilities assumed

The preliminary fair values of the identifiable assets and liabilities of the Future Packaging and Machinery group as at the date of acquisition were:

R'000	Fair value recognised at acquisition
<b>Assets</b>	
Property, plant and equipment	11 308
Deferred taxation	72
Inventory	46 308
Trade and other receivables	69 252
Cash and cash equivalents	3 705
	<b>130 645</b>
<b>Liabilities</b>	
Interest-bearing borrowings	3 180
Trade payables and accruals	60 640
Taxation payable	1 531
	<b>65 351</b>
<b>Total identifiable net assets at fair value</b>	<b>65 294</b>
Goodwill and intangibles	40 986
<b>Purchase consideration transferred</b>	<b>106 280</b>
<b>R'000</b>	<b>Cash flow on acquisition</b>
Net cash acquired	3 705
Cash paid	(100 276)
Net cash flow on acquisition	(96 571)

### Consideration transferred

The acquisition of the business was settled by cash resources.

The goodwill and intangibles of R40 986 000 comprises the fair value of expected synergies arising from the acquisition. In terms of IFRS 3 – Business Combinations, management will perform a final purchase price allocation ("PPA") to determine the fair value of the assets and liabilities acquired. The final PPA exercise will be completed during the course of the 2019 financial year.

STATEMENT OF CASH FLOWS			
R'000	Reviewed 12 months June 2018	Audited 12 months June 2017	
<b>Cash flow from operating activities</b>			
Cash generated from operations	125 713	204 387	
Dividends paid	(38 580)	(48 088)	
Finance income received	3 237	4 071	
Finance costs paid	(7 404)	(6 429)	
Taxation paid	(35 409)	(33 185)	
<b>Net cash inflow from operating activities</b>	<b>47 557</b>	120 756	
<b>Cash flow used in investing activities</b>			
Proceeds on disposal of property, plant and equipment	1 418	2 615	
Acquisition of business	(96 571)	-	
Expansion and replacement of property, plant and equipment	(38 737)	(118 369)	
<b>Net cash outflow from investing activities</b>	<b>(133 890)</b>	(115 754)	
<b>Cash flow used in financing activities</b>			
Proceeds from borrowings	66 434	59 929	
Repayment of borrowings	(19 187)	(50 564)	
<b>Net cash inflow from financing activities</b>	<b>47 247</b>	9 365	
Net movement in cash for the year	(39 086)	14 367	
Cash and cash equivalents at the beginning of the year	99 534	85 167	
<b>Cash and cash equivalents at the end of the year</b>	<b>60 448</b>	99 534	

SEGMENTAL ANALYSIS					
R'000	Plastic Products	Paper and Board Products	Properties and Group Services	Total Group	
<b>Turnover – 2018</b>	<b>1 126 945</b>	<b>594 931</b>	-	<b>1 721 876</b>	
Turnover to all customers	1 182 480	637 172	-	1 819 652	
Less turnover to internal customers	55 535	42 241	-	97 776	
<b>Turnover – 2017</b>	<b>1 168 733</b>	<b>467 057</b>	-	<b>1 635 790</b>	
Turnover to all customers	1 215 968	500 084	-	1 716 052	
Less turnover to internal customers	47 235	33 027	-	80 262	
<b>Operating profit – 2018</b>	<b>83 980</b>	<b>43 214</b>	<b>12 015</b>	<b>139 209</b>	
Operating profit – 2017	71 403	41 253	9 047	121 703	
<b>Profit before tax – 2018</b>	<b>81 242</b>	<b>42 073</b>	<b>11 727</b>	<b>135 042</b>	
Profit before tax – 2017	68 207	40 250	10 888	119 345	
<b>Capital expenditure – 2018</b>	<b>26 044</b>	<b>7 660</b>	<b>5 033</b>	<b>38 737</b>	
Capital expenditure – 2017	57 424	6 764	54 181	118 369	
<b>Assets – 2018</b>	<b>562 791</b>	<b>365 469</b>	<b>154 549</b>	<b>1 082 809</b>	
Assets – 2017	541 339	185 420	196 745	923 504	
<b>Liabilities – 2018</b>	<b>210 443</b>	<b>134 141</b>	<b>118 094</b>	<b>462 678</b>	
Liabilities – 2017	218 928	92 381	50 970	362 279	

## DIRECTORS

DJJ Thomas (Chairman)\*; PN Abelheim (Chief Executive); L Weinberg (Financial Director); HA Botha\*; SR Bouzagliou; SJ Jacobson\*; B Mkhondo\*; SP van der Linde (Lead Independent Director)\*

\*non-executive

\*independent non-executive

Transpaco Limited Registration number: 1951/000799/06, Share code: TPC, ISIN: ZAE000007480

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