

ELI 201401210001A

Unaudited interim results for the six months ended 31 October 2013

Ellies Holdings Limited

Registration number: 2007/007084/06

JSE share code: ELI

ISIN: ZAE000103081

UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 OCTOBER 2013

Revenue down 3,8%

PAT down 40,9%

EPS of 25,27 cents down 40,7%

HEPS of 25,09 cents down 40,9%

NAV per share of 341,31 cents up 20,1%

Abridged consolidated statement of financial position

	Unaudited as at 31 October 2013 R'000	Unaudited as at 31 October 2012 R'000	Audited as at 30 April 2013 R'000
ASSETS			
Non-current assets	472 266	375 394	409 485
Property, plant and equipment	180 184	127 246	163 115
- Land and buildings	91 217	78 047	86 140
- Other	88 967	49 199	76 975
Goodwill and other intangible assets	263 252	226 139	226 182
Investment in associate	11 153	8 967	10 491
Deferred taxation	17 677	13 042	9 697
Current assets	1 527 727	1 076 227	1 282 644
Inventories	738 322	630 582	667 983
Trade and other receivables	512 018	274 591	392 259
Amounts due from contract customers	243 936	155 434	158 651
Taxation receivable	2 126	590	447
Bank and cash balances	31 325	15 030	63 304
Total assets	1 999 993	1 451 621	1 692 129
EQUITY AND LIABILITIES			
Capital and reserves	1 035 322	862 206	958 467
Share capital and premium	501 494	501 494	501 494
Non-distributable reserves	(177 585)	(178 522)	(178 316)
Accumulated profits	711 992	539 234	635 289
Equity attributable to equity holders of the parent	1 035 901	862 206	958 467
Non-controlling interests	(579)	-	-
Non-current liabilities	336 698	162 936	260 266
Interest-bearing liabilities	335 671	161 179	259 411
Vendor loans payable	182	1 169	-
Deferred taxation	845	588	855
Current liabilities	627 973	426 479	473 396
Interest-bearing liabilities	81 240	4 310	26 104
Vendor loans payable	4 181	853	1 278
Trade and other payables	438 262	287 906	343 671
Amounts due to contract customers	12 776	-	8 246
Provisions	20 577	20 147	20 787
Taxation payable	1 454	43 654	1 060
Shareholders for dividends	35	563	40
Bank overdraft	69 448	69 046	72 210
Total equity and liabilities	1 999 993	1 451 621	1 692 129
Supplementary information:			
Net asset value per share (cents)	341,31	284,08	315,80
Net tangible asset value per share (cents)	254,44	209,37	241,12

Number of shares in issue	303 505 691	303 505 691	303 505 691
Abridged consolidated statement of comprehensive income	Unaudited		Unaudited
Audited	six months		six months
year	ended		ended
ended	31 October	31 October	30
April	2013		2012
2013	R'000		R'000
R'000			
Revenue	1 083 441	1 125 748	1 996 053
Profit before interest, taxation, depreciation and amortisation ('EBITDA')	123 778	198 157	348 282
Depreciation	(7 086)	(8 202)	(11 331)
Amortisation of intangibles	(279)	(279)	(557)
Profit before interest and taxation ('PBIT')	116 413	189 676	336 394
Interest received	3 978	413	5 994
Interest paid	(14 084)	(10 983)	(27 853)
Share of losses from associate	(386)	(417)	(1 666)
Net profit before taxation ('PBT')	105 921	178 689	312 869
Taxation	(29 797)	(49 898)	(88 023)
Net profit after taxation ('PAT')	76 124	128 791	224 846
Other comprehensive income:			
Foreign currency translation reserve	731	385	591
Total comprehensive income for the period	76 855	129 176	225 437
Attributable to:			
Equity holders of the parent	76 703	129 270	225 325
Non-controlling interests	(579)	(479)	(479)
Net profit after taxation	76 124	128 791	224 846
Attributable to:			
Equity holders of the parent	77 434	129 655	225 916
Non-controlling interests	(579)	(479)	(479)
Total comprehensive income for the period	76 855	129 176	225 437
Supplementary information:			
Basic earnings per share (cents)	25,27	42,59	74,24

Headline earnings per share (cents) 74,00	25,09	42,46	
Weighted average number of shares in issue 691	303 505 691	303 505 691	303 505
* Ellies has no dilutionary instruments in issue.			
Reconciliation of basic earnings and headline earnings			
	Unaudited six months ended 31 October 2013 R'000	Unaudited six months ended 31 October 2012 R'000	Audited year ended 30 April 2013 R'000
Net profit for the period attributable to equity holders of the parent	76 703	129 270	225 325
Adjusted for:			
Profit on sale of property, plant and equipment	(754)	(379)	(120)
Profit on change of control from subsidiary to associate	-	(120)	(857)
Tax effect on adjustments	211	106	240
Headline earnings attributable to ordinary shareholders	76 160	128 877	224 588
Abridged consolidated statement of cash flows			
	Unaudited six months ended 31 October 2013 R'000	Unaudited six months ended 31 October 2012 R'000	Audited year ended 30 April 2013 R'000
Cash flows from operating activities	(131 910)	32 958	445
Cash (utilised by)/generated from operations	(89 980)	97 236	153 428
Interest received	3 978	413	5 994
Interest paid	(13 996)	(10 903)	(27 713)
Taxation paid	(31 907)	(23 812)	(100 765)
Dividends paid	(5)	(29 976)	(30 499)
Cash flows from investing activities	(30 891)	(35 911)	(77 529)
Cash flows from financing activities	130 954	(8 851)	110 390
Net (decrease)/increase in cash and cash equivalents	(31 847)	(11 804)	33 306
Cash and cash equivalents at the beginning of the period	(8 906)	(42 212)	(42 212)
Cash and cash equivalents acquired as part of business combination	2 630	-	-
Cash and cash equivalents at the end of the period	(38 123)	(54 016)	(8 906)
Abridged consolidated statement of changes in equity			
	Unaudited six months ended 31 October 2013 R'000	Unaudited six months ended 31 October 2012 R'000	Audited year ended 30 April 2013 R'000
Balances at the beginning of the period	958 467	760 450	760 450
Total comprehensive income for the period	76 855	129 176	225 437
Change of control from subsidiary to associate	-	2 931	2 931
Dividends declared	-	(30 351)	(30 351)
Balances at the end of the period	1 035 322	862 206	958 467
Segmental analysis			

	Unaudited six months ended 31 October 2013 R'000	Unaudited six months ended 31 October 2012 R'000	Audited year ended 30 April 2013 R'000
Revenue	1 083 441	1 125 748	1 996 053
Consumer goods and services	677 438	749 848	1 301 030
- Total	677 438	749 848	1 308 065
- Inter-segment	-	-	(7 035)
Infrastructure	406 003	368 799	687 922
- Total	406 003	368 799	688 382
- Inter-segment	-	-	(460)
Property division	-	-	-
- Total	4 812	3 861	8 483
- Inter-segment	(4 812)	(3 861)	(8 483)
Other	-	7 101	7 101
Segmental profits/(losses) from operations			
Net profit before interest and taxation	116 027	189 259	334 728
Consumer goods and services	65 765	127 759	249 298
Infrastructure	47 203	60 239	82 112
Property division	3 767	3 034	6 790
Other	(386)	(1 461)	(2 710)
Holding company/consolidation	(322)	(312)	(762)
Interest received	3 978	413	5 994
Interest paid	(14 084)	(10 983)	(27 853)
Operating segments (combined)	(10 281)	(8 655)	(22 804)
Property division	(3 715)	(2 248)	(4 909)
Deemed vendor interest	(88)	(80)	(140)
Net profit before taxation	105 921	178 689	312 869

Business combinations

On 1 May 2013, Ellies, through a wholly-owned subsidiary, acquired 100% of the shares and loans of Botjheng Water (Pty) Ltd ('Botjheng Water'). The purchase price of R10 million was settled via a cash payment of R7 million on this date and the balance over a 12-month period. A summary of the provisional fair values of assets, liabilities and purchase consideration is as follows:

	R'000
Property, plant and equipment	785
Deferred taxation (asset)	7 165
Inventories	35
Trade and other receivables	11 796
Bank and cash	2 630
Interest-bearing liabilities	(573)
Trade and other payables	(48 708)
Total net liabilities acquired	(26 870)
Purchase consideration discharged as follows:	9 866
- Cash payments made on effective date	7 000
- Deferred payment due in the future	2 866
Cash payments made on costs of business combination	446
Goodwill	37 182

In terms of IFRS 3: Business Combinations, Ellies has a maximum of 12 months from the acquisition date to complete the acquisition accounting of Botjheng Water. The allocation of the purchase consideration to the identifiable assets and subsequent amendment to the recorded goodwill will therefore be reported at the year ending 30 April 2014 and retrospectively applied for the six months ended 31 October 2013.

Notes to the unaudited interim results

Basis of preparation and accounting policies

The unaudited interim results for the six months ended 31 October 2013 have been prepared in

accordance with International Financial Reporting Standards ('IFRS'), and comply with IAS 34 - Interim

Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Board

or its successor, the requirements of the Companies Act, No. 71 of 2008 of South Africa and the Listings

Requirements of the JSE Limited. The accounting policies used in the preparation of the unaudited interim

results for the six months ended 31 October 2013, are consistent with those applied in the audited

financial statements for the year ended 30 April 2013. These results have been compiled under the

supervision of the Chief Financial Officer, MF Levitt CA (SA). The interim results have not been reviewed or

reported on by the group auditors, Grant Thornton (Jhb) Inc.

Change in presentation

As referred to in the 30 April 2013 results, in order to improve on the group's disclosure, the receivables

accounted for under Construction contracts have been moved out of 'Trade and other receivables' and

placed under 'Amounts due from Contract customers'. The effect on the 31 October 2012 interim results

is to reduce 'Trade and other receivables' by R155,4 million. There is no effect on any statements of

financial position prior to 2012, as there were no amounts relating to Construction contracts.

Commentary

Introduction

Ellies Holdings Limited ('Ellies' or the 'group') is a leading South African manufacturer, wholesaler,

importer and distributor in diversified sectors servicing the local and African markets. Operational

divisions comprise consumer and commercial goods and services, renewable energy, power

management, water and telecommunications infrastructure.

Overview

The period under review has been challenging for the group. During the prior period, the group enjoyed

the majority of the benefits derived from the Eskom consumer programme. This contributed substantially

to the group's prior period comparative growth in EPS from 21 cents to 43 cents and is now reflected in

the comparative negative movement to the current 25 cents per share.

Notwithstanding this, the core

business of the group, excluding the Eskom impact, achieved satisfactory growth in revenue, albeit at

a 3% drop in gross margin.

Notwithstanding the current difficult trading conditions in the Ellies consumer goods and services

segment, it still achieved core business growth at the lower margin.

Consumer revenue for the first half of 2013 (excluding Eskom) was R520 million being core revenue.

The comparative core revenue (excluding Eskom and OpenView HD ('OVHD')) for the first half of 2014 grew

by around 20%. The lower margins were necessitated as a result of market conditions and currency impact.

The Infrastructure division for the first half of the 2014 period increased revenue by 10%, largely due

to the acquisition of Botjheng Water which did not achieve an operating profit during this initial stage.

The Infrastructure division thus reflected a decline in PBIT of 22% from R60,2

million to R47,2 million, after incorporating the R1 million loss from Botjheng Water. This however is an improvement on this division's immediate preceding six months of R21,9 million. The group's statement of financial position remains solid, with NAV and NTAV per share improving to 341 cents (2012: 284 cents) and 254 cents (2012: 209 cents) respectively. The total interest-bearing bank debt, which includes property term finance, results in a debt to equity ratio of 40% as compared to 31% at April 2013. With the exclusion of the property funding, which replaces rent with interest, this ratio drops to 33% as compared to 24% at April 2013. The higher inventory holding in anticipation of future opportunities, including Digital Terrestrial Television ('DTT') and OVHD, together with work-in-progress and longer cycle contract customers, impacted on these ratios. The group's interest cover to EBITDA is 12,25 times (2012: 18,75 times). Management's objective is the achievement of a 25% gearing level, excluding any property financing, and believes that the current higher ratio is short-term.

The cash flows from operating activities declined by R132 million as a result of the working capital requirements to roll out the OVHD programme. A R150 million two year facility was raised to fund this.

Prospects

The group's diversification into new products and ventures together with its alignments with leading technology partners, enables the group to build on its existing skills, infrastructure and customer base. Management believes that the current difficult trading conditions will continue. We endeavour to leverage off our existing core competencies, our capacity and customer base.

The Consumer goods and services division

The DTT migration rollout in South Africa is keenly anticipated in the short term. New production machinery has been installed for increased local production and employment. In the interim we continue to export DTT products into Africa.

OVHD, a free to view satellite broadcaster, was launched in October 2013. This late launch and stock placement into the retail market failed to take full advantage of the festive period. The roll out is expected to gain traction in the coming months.

Sales of Multichoice's DStv remain constant and it is anticipated to maintain its share in the entertainment market.

Ellies is well positioned to participate in and benefit from all aspects of the growth in the domestic TV entertainment and connectivity demand across all population groups. The Ellies Connect concept has been established to consolidate and facilitate the marketing of various vendor offerings.

The group's initiatives in energy conservation continue to attract new and innovative renewable energy products and ideas. The expansion into commercial efficient lighting and energy generation continues to attract interest. Management anticipates that this business-to-business sector will see significant future opportunities.

Infrastructure division

The contribution of the Infrastructure division remains important to the group, consistently contributing

approximately one third of the group's profits and offering diversification in both product and customer base.

Megatron Federal has been re-certified as ISO-compliant for the company's quality control systems.

It is working towards an integrated certification which will incorporate the environmental and health and safety ISO certifications. Increased compliance with the ISO standards will drive sales particularly in the mining sector. This will contribute to greater operational efficiencies.

Power products manufacturing sector
This sector's historical investment in capital equipment and standards testing continues to yield greater volumes and efficiencies with a consistent revenue contribution.

Success has been achieved in engaging with numerous developers for a number of sites in the South African Renewable Energy Independent Power Producer's ('REIPP') programme, through the specially-developed Transformer Compact Substation. The first operating solar plant has being installed using this technology.

The miniature substation manufacturing operation has experienced growth following the successful product type-testing and certification. It remains a key product within the sector.

Likewise, the transformer manufacturing operation is experiencing growth with increased exports to both Mozambique and Namibia in particular.

The prospects for this sector remain positive. A healthy order book for the coming period together with yet more REIPPP projects is expected.

Infrastructure projects sector
During the first six months of the period, this sector showed a strong performance. Engagement in additional geographical and commercial markets as well as expansion into our traditional markets, contributed to an increase in revenue for the sector. The addition of Botjheng Water to the portfolio will allow access to new markets for both Botjheng Water's traditional business, as well as adding complementary services to Megatron's power offerings.

Work continues on our mining-based projects in Africa, with the DRC, Ghana and the Republic of Congo remaining key.

Exports continue to represent the largest portion of the revenues generated by this sector. Our track record and experience in Africa, continue to bolster confidence in our company. The company's reputation positions it to benefit from the anticipated growth in infrastructure development in Africa, with solid opportunities in numerous markets.

The construction and renewables divisions will be commencing new projects in 2014 with good growth prospects.

Telecommunications projects sector
Telecommunications performed in line with expectations for the period under review.

49% of the Towers business unit was sold to allow for a broad-based ownership structure. Growth in both revenue and earnings is expected.

Within South Africa, there is a growing trend amongst telecoms operators to secure electricity supply to meet their stringent up-time requirements, whilst investing in long-term strategies to mitigate rising energy costs. Our key products of 'green' sites and the Integrated Power System continue to represent

the largest growth within the business unit. As the uptake of the technology increases we are well placed to capitalise on this trend.

Strategic investments

The group is always engaged with exciting prospects for organic growth, new ventures and product opportunities. Currently, alliances and investments are being investigated for the expansion of renewable energy products, skills and resources. This would further enable growth of the group's commercial offerings into renewable energy projects.

The group's investment in SkyeVine has begun to reflect improvements. It is anticipated that these positive signs will continue.

Dividend policy

The dividend policy will be reviewed periodically taking into account prevailing circumstances and future cash requirements. At present and in view of the prospects, all cash generated by the company will be utilised to fund new opportunities. Accordingly, no interim dividend is proposed at this stage.

Appreciation

The directors and management once again continue to recognise and appreciate the focused efforts and hard work of the group's staff and also continue to appreciate its customers, business partners, advisors, suppliers and, most importantly, shareholders.

By order of the board

ER Salkow

Chairman

21 January 2014

Executive Directors

ER Salkow (Chairman)

WGM Samson (Chief executive officer)

MF Levitt (Chief financial officer)

RH Berkman

RE Otto

Non-executive Directors

AC Brooking

MR Goodford

Lead independent non-executive Director

OD Fortuin

Independent non-executive Directors

FS Mkhize

M Moodley

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Company secretary:

Probity Business Services

(Pty) Ltd

Transfer secretaries:

Link Market Services

South Africa (Pty) Ltd

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WGM Samson

CEO

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