Sephaku Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/003306/06)
Share code: SEP
ISIN: ZAE000138459

Provisional audited financial results for the year ended 31 March 2015

Sephaku Cement ramps up cement production towards steady state at both Delmas and Aganang plants as Metier increases its footprint in Gauteng.

Sephaku Holdings Limited ("SepHold" or "the company") is pleased to present the group's provisional financial results for the year ended 31 March 2015. SepHold, Metier Mixed Concrete (Pty) Ltd ("Metier" or "the subsidiary") and Sephaku Cement (Pty) Ltd ("SepCem" or "the associate") are collectively referred to as the group.

Highlights

Metier

- Revenue increased by 36% from R571,5 million to 775,4 million
- EBITDA increased by 39% from R100,0 million to R139,1 million
- Operating profit increased by 44% from R75,5 million to R108,9 million
- Profit after tax increased by 57% from R41,3 million to R64,7 million

SepCem

- Sales revenue of R919 million by end of December 2014 mainly from the Delmas milling plant ("Delmas") that reached steady state production in November 2014
- Clinker and cement production commenced in August and October respectively at the Aganang integrated plant

Group

The group recorded a profit before tax of R72 million and net profit of R47 million

Post – period

As announced by Dangote Cement PLC on 5 May 2015 for their first quarter FY 2015 ended 31 March 2015, SepCem sales revenue increased to R521 million from R405 million recorded in the fourth quarter FY 2014 for the period ended December 2014[1]. These SepCem quarterly results will be included in the SepHold interim financial results for the six months ending 30 September 2015.

[1] SepCem has a December year-end as a subsidiary of Dangote Cement PLC

Commenting on the results, Chief Executive Officer, Dr Lelau Mohuba said, *"We are pleased to have commenced clinker production at Aganang because it has improved our cost efficiencies and enabled SepCem to remain highly competitive. SepCem's market penetration success has continued into their new financial year as reflected by the increased quarterly sales for the period ended 31 March 2015 of approximately R521 million, a 29% increase from R405 million in the fourth quarter FY2014. Our main focus going forward is to sweat the assets and increase free cash flows in preparation for the distribution of dividends to our shareholders."*

Financial review

The group achieved a revenue of R775,4 million and EBITDA of R128,9 million for the year. An operating profit of R59,3 million was recognised on group level. The group finance costs of R25,3 million were incurred on the Metier acquisition debt and asset finance and further includes an amortisation charge of R4,8 million on the discounting of the vendor loan.

SepHold's 36% interest in SepCem's operations for the year ended 31 December 2014 resulted in equity accounted earnings of R35,9 million. Included in this figure is a movement in the associate's deferred tax asset of R154 million, relating to a section 12i tax incentive that was accounted for in the reporting period. The tax adjustment brought about an increase in SepHold's equity accounted earnings of R55,4 million. SepCem recorded an operating profit of R59,5 million and a loss before taxation of R48,4 million due to it being in ramp up phase during the reporting period.

Metier continued to achieve positive earnings by attaining an operating profit of R108,9 million for the 12 months ended 31 March 2015 (2014: R75,5 million). The revenue increase to R775,4 million from R571,5 million for the comparative period was mainly due to the expansion in the plant network and growth in market share.

SepHold recorded an operating loss of R46,2 million at the company level (2014: R18,7 million) that included a non-cash loss of R28,5 million on contingent consideration. This contingent loss is a result of the issuance of 4 429 196 SepHold shares to the previous owners of Metier with regard to the additional consideration, due to the 60-day volume weighted average share price ("VWAP") of SepHold being below R9 at 1 December 2014. A final cash payment of R117 million, consisting of the original R125 million reduced by R8 million for unrecovered debt from a Metier customer, was settled with the sellers of Metier on 1 December 2014 and is now financed through the subsidiary.

Operational review

Metier

Metier continued to perform satisfactorily as illustrated by the increased sales revenue for the reporting period. The subsidiary had to increase its delivery fleet by 23% and pumping capacity by 20% compared to the previous financial period to cater for the additional demand for its good quality consistent product. All the concrete plants operated efficiently throughout the year contributing to the Metier's reliability and service offering.

The operating environment remained highly competitive as overall demand remained flat and the number of producers increased due to the low barriers to entry inherent in the industry. The subdued demand from the construction industry also resulted in prices remaining flat on a year on year basis. This meant that Metier had to prioritise cost management and the production of high value specialised concretes to maintain margins. During the reporting period, the subsidiary experienced an increase in delayed payments from customers which was intensively and successfully managed by Metier's senior team who ensured receipt of all outstanding payments.

Metier remains profitable and well positioned to retain and or grow its market share in the regions it operates. The subsidiary continues to explore viable expansion opportunities in all markets to enable it to grow market share and earnings. The short term strategy is to ensure that the existing operations continue to generate positive earnings, reduce gearing and increase operating cash flows.

SepCem

The associate's financial year ended December 2014, was undoubtedly a landmark year as SepCem evolved from being a project development business to a fully-fledged commercial trading entity. A key highlight of this initial full production year was undoubtedly the acceptance of SepCem's brands by the market as demonstrated by the growth in sales volumes in the second half of the year of 58%.

The main reasons for the positive market response were and continue to be the good quality consistent cements and exceptional levels of customer service that have ensured a successful entry into high demand markets such as Gauteng, Limpopo and Mpumalanga. By the end of December 2014, SepCem had achieved a sales revenue of R919 million and fourth quarter EBITDA of 26%. Although retail sales volumes have been satisfactory, the bulk sales have been lower due to the expectedly longer product adoption period required by this segment of the market.

Delmas performed exceptionally well for the year in spite of a slow start because of the unusually high rainfall experienced in the first quarter of calendar year 2014. By the end of the fourth quarter Delmas was operating at steady state as Aganang began ramping up cement production. Following a three month delayed start, production of clinker from the Aganang plant commenced in August 2014 and cement production in October 2014. Prior to the internally produced clinker, SepCem was manufacturing cement from the Delmas plant utilising outsourced clinker. The introduction of the internally produced clinker significantly improved cost efficiencies. The modern manufacturing technology at both plants with state of the art components further improved operational efficiencies.

Post – period performance

SepCem recorded revenue of R 521,5 million for its first quarter ended March 2015, an increase of approximately 29% from the fourth quarter 2014 of R405,3 million. The quarterly EBITDA margin was lower than expected at 23%, mainly because of reduced production as a consequence of plant maintenance at Aganang that occurred during this period.

On 3 March 2015 the kiln was stopped for a two week planned maintenance period during which the technical team identified a latent defect in a critical component that was still under guarantee from suppliers. A management decision was then taken not to operate the plant under these circumstances, in order to prevent any unforeseen failure that could result in extensive downtime. Due to this situation, SepCem's ability to supply all products to all distribution channels was negatively impacted during April 2015. The critical component was subsequently replaced on 18 April 2015 with full production resuming immediately and SepCem managed to reach steady state production at both plants in May 2015.

Metier has a robust order book as it enters the 2016 financial year having secured several large contracts. The contracts commenced in April 2015 and will continue over an 18 month period. Securing these contracts is a confirmation of Metier's ability to produce high quality concretes, offer exceptional customer service and technical support.

Provisional financial results

Summarised statement of comprehensive income

	GROUP	
	Year ended 31 March 2015 audited R	Year ended 31 March 2014 audited R
Revenue	775 425 242	571 544 796
Cost of sales	(434 430 692)	(319 156 121)
Gross profit	340 994 550	252 388 675
Other income	9 999 177	13 945 386
Operating expenses	(291 705 645)	(215 181 485)
Operating profit	59 288 082	51 152 576
Investment income	2 167 996	2 693 264
Profit/(loss) from equity-accounted investment	35 924 506	(14 745 655)
Finance costs	(25 321 027)	(25 675 522)
Profit before taxation	72 059 557	13 424 663
Taxation	(24 898 186)	(16 242 442)
Profit/(loss) for the year	47 161 371	(2 817 779)
Total comprehensive income/(loss) for the year	47 161 371	(2 817 779)
Basic earnings/(loss) per share (cents)	24,43	(1,49)
Diluted earnings/(loss) per share (cents)	23,59	(1,39)
Headline earnings/(loss) per share (cents)	24,43	(2,36)
Diluted headline earnings/(loss) per share (cents)	23,59	(2,20)
Reconciliation of basic earnings to diluted earnings and headline earnings:		
Basic profit/(loss) and diluted profit/(loss) attributable to equity holders of the parent	47 161 371	(2 817 779)

Loss/(profit) on sale of non-current assets	5 425	(1 076 760)
Profit on disposal of other financial assets held for sale	-	(860 000)
Total taxation effect of adjustments	(1 519)	301 493
Headline earnings/(loss) and diluted headline earnings/(loss) attributable to equity holders of parent	47 165 277	(4 453 046)
Reconciliation of weighted average number of shares:		
Basic weighted average number of shares	193 050 707	188 987 697
Dilutive effect of share options	6 849 198	9 556 129
Contingent issuable shares	-	3 747 730
Diluted weighted average number of shares	199 899 905	202 291 556

Summarised statement of financial position

	GROUP	
	2015 audited R	2014 audited R
Assets		
Non-current assets		
Property, plant and equipment	128 787 297	129 180 045
Goodwill	223 421 981	223 421 981
Intangible asset	10 896 692	14 337 752
Investment in associate	652 313 212	616 388 706
Other financial assets	-	6 924 311
	1 015 419 182	990 252 795
Current assets		
Inventories	8 965 203	7 973 118
Other financial assets	12 504 391	6 648 582
Current tax receivable	933 668	-
Trade and other receivables	110 752 506	75 936 662
Cash and cash equivalents	70 914 266	26 001 268
	204 070 034	116 559 630
Total assets	1 219 489 216	1 106 812 425

Equity and liabilities		
Equity		
Stated capital	631 127 028	585 573 235
Reserves	15 685 391	17 624 536
Retained income	197 907 280	144 525 951
	844 719 699	747 723 722
Liabilities		
Non-current liabilities		
Other financial liabilities	248 672 308	142 576 783
Operating lease liability	-	1 640 263
Deferred income	2 379 952	1 577 232
Deferred taxation	14 778 323	13 555 933
	265 830 583	159 350 211
Current liabilities		
Other financial liabilities	24 750 000	140 907 240
Current taxation payable	-	1 192 809
Operating lease liability	1 806 319	336 348
Trade and other payables	81 869 477	56 994 212
Deferred income	513 138	307 883
	108 938 934	199 738 492
Total liabilities	374 769 517	359 088 703
Total equity and liabilities	1 219 489 216	1 106 812 425
Net asset value per share (cents)	419,79	393,80
Tangible net asset value per share (cents)	304,86	270,70
Ordinary shares in issue	201 224 508	189 872 979

Summarised statement of cash flows

	GROUP	
	year ended 31 March 2015 audited R	year ended 31 March 2014 audited R
Cash flows from operating activities		
Cash generated from operations	114 192 061	84 437 984
Interest income	2 167 996	2 693 264
Finance costs	(19 632 742)	(17 939 091)
Taxation paid	(25 802 273)	(28 357 299)
Net cash from operating activities	70 925 042	40 834 858
Cash flows from investing activities		
Purchase of property, plant and equipment	(30 437 943)	(40 706 776)
Sale of property, plant and equipment	618 158	4 929 319
Proceeds on disposal of other financial assets	-	5 760 244
Net loans advanced	1 606 002	1 932 773
Government grant received	1 436 787	831 895
Net cash from investing activities	(26 776 996)	(27 252 545)
Cash flows from financing activities		
Proceeds on share issue	16 514 952	2 970 737
Proceeds from other financial liabilities	130 000 000	123 848 444
Repayment of other financial liabilities	(28 750 000)	(137 075 108)
Settlement of deferred vendor loan	(117 000 000)	-
Decrease in loans with group companies	-	337 058
Net cash from financing activities	764 952	(9 918 869)
Total cash and cash equivalents movement for the year	44 912 998	3 663 444
Cash and cash equivalents at the beginning of the year	26 001 268	22 337 824
Total cash and cash equivalents at the end of the year	70 914 266	26 001 268

Summarised statement of changes in equity

GROUP	Stated capital	Revaluation reserve	Equity based share option reserve	Total reserves	Retained income	Total equity
Balance at 31 March 2013	580 590 616	(1 207 663)	14 776 581	13 568 918	145 987 793	740 147 327
Total comprehensive loss for the year	-	-	-	-	(2 817 779)	(2 817 779)
Issue of shares	4 982 619	-	-	-	-	4 982 619
Employees’ share option scheme	-	-	4 055 618	4 055 618	1 355 937	5 411 555
Balance at 31 March 2014	585 573 235	(1 207 663)	18 832 199	17 624 536	144 525 951	747 723 722

Total comprehensive income for the year	-	-	-	-	47 161 371	47 161 371
Issue of shares	45 553 793	-	-	-	-	45 553 793
Employees' share option scheme	-	-	(1 939 145)	(1 939 145)	6 219 958	4 280 813
Balance at 31 March 2015	631 127 028	(1 207 663)	16 893 054	15 685 391	197 907 280	844 719 699

Notes to the summarised financial statements

Accounting policies

Basis of preparation

The summarised consolidated provisional financial results are prepared in accordance with the requirements of the JSE Limited Listings Requirements ("Listings Requirements") for abridged reports and the requirements of the Companies Act, 2008. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International financial Reporting Standards ("IFRS"), the SAICA financial Reporting guides as issued by the Accounting practices committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and must also, as a minimum, contain the information required by IAS 34 Interim financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the abridged consolidated financial statements were derived, are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements.

As a result of the adoption of new and amended standards and interpretations in issue that were effective for the first time in the current reporting period, a number of new policies were introduced. However, the adoption of these new and amended standards and interpretations did not have a material impact on the results for the current period.

The preparation of the annual financial statements has been supervised by NR Crafford-Lazarus CA (SA).

Segment information

	Ready-mixed concrete R	Head office R	Group totals R
2015			
Segment revenue – external revenue	775 425 242	–	775 425 242
Segment cost of sales	(434 430 692)	-	(434 430 692)
Segment expenses	(242 117 993)	(49 587 652)	(291 705 645)
Profit from equity-accounted investment	–	35 924 506	35 924 506
Loss on sale of property, plant and equipment	(5 425)	–	(5 425)
Loss on contingent consideration	-	(28 501 340)	(28 501 340)
Segment profit/(loss) after taxation	64 662 471	(17 501 100)	47 161 371

Taxation	(25 861 683)	963 497	(24 898 186)
Interest received	2 126 072	41 924	2 167 996
Interest paid	(20 477 267)	(4 843 760)	(25 321 027)
Depreciation and amortisation	(30 194 125)	(3 454 043)	(33 648 168)
Segment assets	425 062 048	794 427 168	1 219 489 216
Investment in associate included in the above total segment assets	–	652 313 212	652 313 212
Capital expenditure included in segment assets	29 725 480	712 463	30 437 943
Segment liabilities	(369 976 119)	(4 793 398)	(374 769 517)

	Ready-mixed concrete R	Head office R	Group totals R
2014			
Segment revenue – external revenue	571 544 796	–	571 544 796
Segment cost of sales	(319 156 121)	-	(319 156 121)
Segment expenses	(190 867 146)	(24 314 339)	(215 181 485)
Loss from equity-accounted investment	–	(14 745 655)	(14 745 655)
Profit on sale of property, plant and equipment	1 076 760	–	1 076 760
Profit on disposal of other financial assets	860 000	–	860 000
Segment profit/(loss) after taxation	41 299 405	(44 117 184)	(2 817 779)
Taxation	(17 803 973)	1 561 531	(16 242 442)
Interest received	2 429 956	263 308	2 693 264
Interest paid	(18 784 598)	(6 890 924)	(25 675 522)
Depreciation and amortisation	(24 552 280)	(5 576 891)	(30 129 171)
Segment assets	231 791 330	875 021 095	1 106 812 425
Investment in associate included in the above total segment assets	–	616 388 706	616 388 706
Capital expenditure included in segment assets	36 655 641	4 051 135	40 706 776
Segment liabilities	(241 367 871)	(117 720 832)	(359 088 703)

The only commodity actively managed by Metier Mixed Concrete Proprietary Limited (Metier) is ready-mixed concrete.

The group does not rely on any single external customer or group of entities under common control for 10% or more of the group's revenue as disclosed in the annual financial statements.

Sephaku Cement Proprietary Limited (SepCem) is an associate of Sephaku Holdings Limited (SepHold). No segment report has been presented for Cement as the amounts attributable to Cement have been included in the "head office segment".

Investment in associate

The directors would like to draw attention to the fact that the profit from the equity accounted investment of R35 924 506 included in the statement of comprehensive income, mostly relates to a movement on the associate's deferred taxation asset balance for the year.

Summary of group interest in Sephaku Cement Proprietary Limited and its subsidiaries:

	Year ended 31 December 2014	Year ended 31 December 2013
Non-current assets	3 844 530 357	3 319 954 465
Current assets	434 023 077	110 351 889
Total assets	4 278 553 434	3 430 306 354
Total equity	1 173 212 824	1 073 422 528
Non-current liabilities	(2 712 586 543)	(2 148 277 262)
Current liabilities	(392 754 067)	(208 606 564)
Total liabilities	(3 105 340 610)	(2 356 883 826)
Revenue for the period	918 978 411	36 889 399
Cost of sales	(730 273 759)	(22 032 942)
Gross profit	188 704 652	14 856 457
Operating profit/(loss)	59 533 480	(55 472 969)
Finance costs	(112 903 760)	(27 089)
Loss before taxation	(48 440 987)	(52 346 320)
Taxation income (due to deferred tax asset)	148 231 283	11 386 166
Profit/(loss) after taxation for the year	99 790 296	(40 960 154)
Total comprehensive income/(loss) for the year	99 790 296	(40 960 154)

Loss on contingent consideration

On 28 February 2013, the group acquired 100% of the shares in Metier Mixed Concrete Proprietary Limited from KJ Capes, the JTR Trust, RS Thompson and WM Witherspoon (collectively, "the Sellers"). The total nominal purchase consideration payable for Metier was R365 million and consisted of cash payments and issue of fully paid SepHold shares.

On 1 December 2014, SepHold settled the remaining consideration owing and accordingly has made the following payments:

i) a cash payment of R117 million (being R125 million less R8 million relating to an uncollected debtor) to the sellers in settlement of the final cash payment; and
ii) 4 429 196 additional consideration shares have been allotted to the sellers at the 60-day VWAP of 643,488 cents (calculated as the difference between the minimum required payment of R100 million, and the 11 111 11 consideration shares multiplied by the 60-day VWAP of 643,488 cents). The resulting loss on the contingent consideration of R28 501 340 is recognised in the statement of comprehensive income.

Stated capital

4 429 196 shares were issued during the year in terms of a specific authority to the seller of Metier at a 60-day VWAP of 643,488 cents for no consideration as final settlement of the Metier acquisition. The additional consideration shares were issued to the following directors and public officers: 1 018 715 shares to KJ Capes, 974 423 shares to MW Witherspoon and 974 423 shares to RS Thompson.

A total amount of 6 707 333 (2014: 1 971 136) shares issued during the year for a cash amount of R16 514 952 relates to share options that were exercised by employees and directors. 215 000 shares were issued at a value of R2,50 for no cash consideration, in terms of the provisions of the Sephaku share incentive scheme, as a float to administer the share incentive scheme on behalf of identified Sephaku Holdings' employees.

Statement on going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Events after the annual reporting period

The directors are not aware of any material fact or circumstance arising between the end of the financial year and the date of this report that would require adjustments to or disclosure in the financial results.

Changes to the board

Name	Position	Change
Dr D Twist	Non-executive director	Resigned 21 August 2014
CRDW de Bruin	Non-executive director	Resigned 21 April 2014
J Pitt	Alternate director to MM Ngoasheng	Appointed 21 August 2014

Auditors' report

The summarised financial information included in this announcement is extracted from audited information but is not itself audited.

The directors take full responsibility for the preparation of the summarised financial information and that it has been correctly extracted from the underlying annual financial statements.

The underlying annual financial statements have been audited by the group's external auditors, Grant Thornton. A copy of their unqualified report, as well as the annual financial statements, are available for inspection at the company's registered office.

Any reference to operational or future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors. The auditors' report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' work, they should obtain a copy of that report together with the accompanying financial information from the registered office of the company.

By order of the board

Chief Executive Officer	Financial Director
Dr. Lelau Mohuba	Neil Crafford Lazarus
26 June 2015	

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Sponsor to Sephaku Holdings: Questco (Pty) Ltd

About Sephaku Holdings Limited

Sephaku Holdings Limited is a building and construction materials company with a portfolio of investments in the cement sector in South Africa. The company's core investments are a 36% stake in Sephaku Cement (Pty) Ltd and 100% in Metier Mixed Concrete (Pty) Ltd. SepHold's strategy is to generate income and realise value for shareholders through the production of cement and ready mixed concrete in Southern Africa.

www.sephakuholdings.com