METAIR INVESTMENTS LIMITED automotive | industrial | retail

METAIR INVESTMENTS LIMITED

(INCORPORATED IN THE REPUBLIC OF SOUTH AFRICA)

("METAIR" OR "THE GROUP")

SUMMARISED AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013 AND DIVIDEND ANNOUNCEMENT

METAIR INVESTMENTS LIMITED automotive | industrial | retail

(Reg No. 1948/031013/06)
Share code: MTA
ISIN code: ZAE 000090692

Revenue increased 13.6% to **R5.2 billion**

Headline earnings per share of **219 cents** impacted by labour disruptions and transactions costs

Excellent progress on delivery of the group's **"3 x 50%" strategy**

Rombat integration completed and new **Start/Stop battery** facility commissioned

2014 **B-BBEE target achieved** a year early – all South African subsidiaries at Level 4 or better

Carbon footprint of South African subsidiaries **decreased 15.9%**

Production-adjusted **energy consumption limited to a 1.8% increase** across the group

Mutlu Akü acquisition represents the next step in the group's international expansion and establishes the group as the third largest battery manufacturer in the EMEA region

CONDENSED CONSOLIDATED INCOME STATEMENT

	31 December 2013 R'000	31 December 2012 Restated R'000
Revenue	**5 227 426**	4 603 150
Cost of sales	**(4 177 984)**	(3 542 121)
Gross profit	**1 049 442**	1 061 029
Other operating income	**98 087**	67 342
Distribution, administrative and other operating expenses	**(701 915)**	(558 562)
Operating profit	**445 614**	569 809
Interest income	**15 421**	19 206
Interest expense	**(27 888)**	(26 457)
Share of results of associates	**61 924**	78 921
Profit before taxation	**495 071**	641 479
Taxation	**(121 172)**	(166 903)
Profit for the period	**373 899**	474 576
Attributable to:		
Equity holders of the company	**341 376**	440 543
Non-controlling interests	**32 523**	34 033
	373 899	474 576
Depreciation and amortisation included in the above expenses	**(143 261)**	(112 599)
Operating lease rentals included in the above expenses	**(32 151)**	(33 270)
Earnings per share		
Basic earnings per share (cents)	**229**	310
Headline earnings per share (cents)	**219**	310
Diluted earnings per share		
Diluted earnings per share (cents)	**223**	304
Diluted headline earnings per share (cents)	**214**	304
Number of shares in issue ('000)	**198 986**	152 532
Number of shares in issue excluding treasury shares ('000)	**194 566**	145 461
Weighted average number of shares in issue ('000)	**149 271**	142 030
Adjustment for dilutive shares ('000)	**3 585**	2 933
Number of shares used for diluted earnings calculation ('000)	**152 856**	144 963
Calculation of headline earnings (R'000)		
Net profit attributable to ordinary shareholders	**341 376**	440 543
(Profit)/loss on insurance recovery and impairment charges	**(15 342)**	147
Taxation effect of insurance recovery and impairment charges	**1 243**	110
Profit on disposal of property, plant and equipment – net of tax	**(34)**	(132)
Headline earnings	**327 243**	440 668

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31 December 2013 R'000	31 December 2012 Restated R'000
Profit for the period	**373 899**	474 576
Other comprehensive income:		
– Actuarial gains/(losses) recognised	**395**	(1 321)
– Exchange gains arising on translation of foreign operations	**51 881**	36 845
– Cash flow hedges	**110 377**	(7 548)
– Taxation on other comprehensive income	**(157)**	(1 054)
Net other comprehensive income	**162 496**	26 922
Total comprehensive income for the period net of taxation	**536 395**	501 498
Attributable to:		
Equity holders of the company	**503 182**	467 280
Non-controlling interests	**33 213**	34 218
	536 395	501 498

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 December 2013 R'000	31 December 2012 Restated R'000
Balance at beginning of the period	**2 052 730**	1 661 874
Net profit for the period	**373 899**	474 576
Other comprehensive income for the period	**162 496**	26 922
Total comprehensive income for the period	**536 395**	501 498
Non-controlling interest arising on acquisition of subsidiary		2 055
Proceeds from shares issued	**1 500 000**	
Share issue costs	**(44 945)**	
Employee share plan:		
– Value of service provided	**9 747**	8 574
– Deferred taxation	**15 767**	11 817
Vesting of share-based payment obligation:		
– Estimated taxation effects of utilisation of treasury shares	**(15 123)**	(16 148)
– Loss on settlement of old scheme	**(586)**	(4 194)
Transfer of cashflow hedge to purchase consideration of subsidiary	**(110 377)**	12 369
Shares disposed by the Metair Share Trust	**1 095**	6 988
Dividend *	**(155 951)**	(132 103)
Balance at end of the period	**3 788 752**	2 052 730

* An ordinary dividend of 70 cents per share (2012: 95 cents) was declared in respect of the year ended 31 December 2013 (31 December 2012).

CONDENSED CONSOLIDATED BALANCE SHEET

	31 December 2013 R'000	31 December 2012 Restated R'000	1 January 2012 Restated R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**2 844 929**	1 191 499	706 811
Intangible assets	**1 243 531**	84 494	16 728
Investment in associates	**199 786**	175 939	159 398
Deferred taxation	**10 838**	10 503	11 266
	4 299 084	1 462 435	894 203
Current assets			
Inventory	**1 264 241**	755 274	579 792
Trade and other receivables	**1 274 387**	667 665	478 003
Derivative financial assets	**15 870**	162	615
Taxation	**21 002**	424	4 869
Cash and cash equivalents	**574 742**	407 909	371 845
	3 150 242	1 831 434	1 435 124
Total assets	**7 449 326**	3 293 869	2 329 327
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital/share capital and premium	**1 497 931**	42 876	42 876
Treasury shares	**(45 241)**	(72 232)	(113 509)
Share-based payment reserve	**58 215**	33 287	17 584
Hedging reserve			(3 471)
Foreign currency translation reserve	**87 809**	36 660	
Equity accounted earnings	**190 742**	171 895	154 309
Retained earnings	**1 897 909**	1 755 168	1 485 063
Ordinary shareholders' equity	**3 687 365**	1 967 654	1 582 852
Non-controlling interests	**101 387**	85 076	79 022
Total equity	**3 788 752**	2 052 730	1 661 874
Non-current liabilities			
Borrowings	**1 021 976**	183 804	27 458
Post-employment benefits	**107 685**	28 499	24 860
Deferred taxation	**378 954**	60 590	58 510
Deferred grant income	**125 313**		
Provision for liabilities and charges	**21 080**	16 372	
	1 655 008	289 265	110 828
Current liabilities			
Trade and other payables	**1 472 949**	602 399	430 683
Borrowings	**180 796**	67 398	24 627
Taxation	**41 682**	11 601	7 541
Provisions for liabilities and charges	**141 406**	71 366	58 607
Derivative financial liabilities	**1 492**	7 629	10 061
Bank overdrafts	**167 241**	191 481	25 106
	2 005 566	951 874	556 625
Total liabilities	**3 660 574**	1 241 139	667 453
Total equity and liabilities	**7 449 326**	3 293 869	2 329 327
Net asset value per share (cents) attributable to ordinary shareholders calculated on number of shares in issue excluding treasury shares	**1 895**	1 353	1 119
Capital expenditure	**135 027**	286 163	143 040
Capital commitments:			
– contracted	**68 605**	67 504	23 134
– authorised but not contracted	**287 923**	170 200	139 824

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	31 December 2013 R'000	31 December 2012 Restated R'000	31 December 2011 Restated R'000
Operating activities			
Profit before taxation	**495 071**	641 479	571 561
Non-cash items	**211 434**	67 586	(259 976)
Working capital changes	**(40 597)**	(36 620)	69 654
Cash generated from operations	**665 908**	672 445	381 239
Interest paid	**(27 888)**	(26 457)	(7 500)
Taxation paid	**(88 814)**	(156 477)	(109 260)
Dividends paid	**(155 951)**	(132 103)	(126 028)
Dividend income from associates	**43 077**	61 335	21 152
Net cash inflow from operating activities	**436 332**	418 743	159 603
Investing activities			
Interest received	**15 421**	19 206	12 647
Net cash used in other investing activities	**(2 318 046)**	(723 411)	(84 236)
Net cash outflow from investing activities	**(2 302 625)**	(704 205)	(71 589)
Net cash inflow from financing activities	**2 099 626**	152 334	324
Net increase/(decrease) in cash and cash equivalents	**233 333**	(133 128)	88 338
Cash and cash equivalents at beginning of the period	**216 428**	346 739	258 401
Exchange (losses)/gains on cash and cash equivalents	**(42 260)**	2 817	
Cash and cash equivalents at end of the period	**407 501**	216 428	346 739

CONDENSED SEGMENTAL REVIEW

	Revenue		Profit before interest and taxation	
	31 December 2013 R'000	31 December 2012 Restated R'000	31 December 2013 R'000	31 December 2012 Restated R'000
Local				
Original equipment	**3 143 576**	3 135 068	**221 968**	308 140
Aftermarket	**1 440 130**	1 162 136	**224 263**	202 724
Non-auto	**486 399**	462 957	**18 162**	59 141
	5 070 105	4 760 161	**464 393**	570 005
Direct exports				
Original equipment	**105 307**	94 844	**(3 638)**	10 415
Aftermarket	**772 275**	471 953	**60 901**	40 304
Non-auto	**44 810**	35 290	**1 494**	2 849
	922 392	602 087	**58 757**	53 568
Property rental	**90 671**	67 053	**90 026**	66 124
Reconciling items: *				
– Share of results of associates			**61 924**	78 921
– Managed associates	**(765 071)**	(759 098)	**(62 486)**	(96 243)
Other reconciling items **	**(90 671)**	(67 053)	**(105 076)**	(23 645)
Total	**5 227 426**	4 603 150	**507 538**	648 730
Net interest expense			**(12 467)**	(7 251)
Profit before taxation			**495 071**	641 479

* Although the results of Hesto Harnesses Proprietary Limited do not qualify for consolidation due to the application of IFRS 10 and IAS 28, the results of Hesto Harnesses Proprietary Limited have been included in the segmental review as Metair has a 75% equity interest and is responsible for the operational management of this associate.

** The reconciling items relate to Metair head office companies and property rental.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Accounting policies

The summarised consolidated financial statements have been prepared in accordance with the requirements of the JSE Limited Listing Requirements for abridged reports and the requirements of the Companies Act applicable to summary financial statements. The Listing Requirements require abridged reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Report Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to 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 condensed 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, except as described below:
The adoption of IFRS 10 (consolidated financial statements) required Metair to re-assess control over its investees as at 1 January 2013. As a result of this re-assessment, it was concluded that Hesto Harnesses Proprietary Limited, which was previously consolidated, should be accounted for as an associate. The group has applied IFRS 10 and IAS 28 retrospectively in accordance with their transition provisions. The financial effects of accounting for Hesto Harnesses Proprietary Limited as an associate at 1 January 2012 and 31 December 2012 are shown in the restated balances.

Supreme fire and related insurance proceeds

Included in other operating income are insurance proceeds of R30.9 million in respect of the fire at Supreme Springs (a division of Metindustrial (Supreme)) on 31 January 2013. The total profit recognised for the year amounted to R13.1 million after recognising expenses and related costs of R17.8 million.

Contingencies

At 31 December 2013, bank and other guarantees given by the group to third parties amounted to R3.7 million (2012: R3.7 million). The company provided guarantees for funding provided by Absa Bank Limited to Metindustrial and Inalex and no material liabilities are likely to arise.

Borrowings

During the year the group repaid long-term loans of R58.2 million (2012: R69 million), raised long-term loans of R773.1 million (2012: R199.8 million), repaid short-term loans of R56.2 million (2012: R110.1 million) and raised short-term loans of R0.1 million (2012: R144.9 million).

Fair value adjustment on financial instruments

	31 December 2013		31 December 2012	
R'000	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts - fair value hedges	15 870	1 492	162	7 629

Business combinations

On 5 December 2013, the group acquired 100% of the issued shares of Mutlu Holdings Anonim Şirketi (Mutlu group), which is a group of companies incorporated under Turkish law. Mutlu Akü, a 75% held listed company in Turkey, is the group's main operating subsidiary and a manufacturer of 'lead-acid batteries' for the original manufacturers (OEM), aftermarket, non-automotive and export segments. Mutlu group was acquired to complement the group's existing battery operations and to deliver strategic and financial benefits.

Total consideration transferred amounted to R2 890.7 million (including MTO liability raised). Goodwill of R543.7 million arising from the acquisition is attributable to the anticipated profitability arising from the group's access to new geographic markets, increased supply and the anticipated future operating synergies from the combination. The following table summarises the assets and liabilities obtained at the acquisition date:

Recognised amounts of identifiable assets acquired and liabilities assumed:	**Provisional Fair value R'000**
Assets	
Intangible assets – Brands and customer relationships	**657 533**
Property, plant and equipment	**1 595 895**
Inventory	**430 200**
Trade and other receivables	**503 754**
Cash and cash equivalents	**84 784**
	3 272 166
Liabilities	
Borrowings	**(297 005)**
Provisions	**(127 289)**
Trade and other payables	**(182 275)**
Net deferred taxation	**(318 644)**
	(925 213)
Total identifiable net assets	**2 346 953**
Goodwill	**543 697**
Purchase consideration (including currency hedging)	**2 890 650**

Transaction-related costs included in administration expenses in the income statement amounted to R78.1 million for the year ended 31 December 2013.

The fair value of trade receivables is R503.8 million and includes trade receivables with a fair value of R481.7 million, of which R0.1 million is considered doubtful. None of the goodwill recognised is expected to be deductible for income taxation purposes.

The fair value of the acquired identifiable tangible and intangible assets is provisional, pending final valuations for those assets.

In respect of this acquisition, the total consideration is based on US Dollars of 287 152 540, translated into Rands at an exchange rate of R10.48 to the US Dollar (effective rate of R10.07 after hedging).

Impact of the acquisition on the results of the group	**At the date of acquisition R'000**	**As from 1 January 2013 R'000**
From the dates of acquisition, the acquired businesses contributed:		
– Revenue	**319 676**	**2 276 202**
– Attributable profit	**33 244**	**146 817**

Auditors' report

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon.

The audited annual financial statements and auditors' report thereon are available for inspection at the company's registered office.

The directors take full responsibility for the preparation of the abridged condensed report and the financial information has been correctly extracted from the underlying annual financial statements. Any reference to future financial performance has not been reviewed or reported on.

Declaration of Ordinary Dividends No 63

Notice is hereby given that a gross cash dividend of 70 cents per share has been declared by the board in respect of the year ended 31 December 2013.
The dividend has been declared out of income reserves.
The salient dates for the payment of the dividend are detailed below

Last day to trade	Friday, 16 May 2014
Shares to commence trading ex dividend	Monday, 19 May 2014
Record date	Friday, 23 May 2014
Payment of dividend	Monday, 26 May 2014

Shareholders will not be permitted to dematerialise or rematerialise their share certificates between Monday, 19 May 2014 and Friday, 23 May 2014, both days inclusive.

The following additional information is disclosed with regard to the dividend:
- the local dividend tax rate is 15%;
- no STC credits were utilised;
- the gross local dividend amount is 70 cents per share for shareholders exempt from dividends tax;
- the net local dividend amount is 59.50 cents per share for shareholders liable to pay a dividend tax;
- Metair's issued share capital is 198 985 886 (which includes 4 419 421 treasury shares); and
- Metair's income tax reference number is 9300198711.

Annual general meeting

The annual report will be mailed to shareholders along with the notice of annual general meeting. The annual general meeting will be held on 5 May 2014 at 14:00 at Metair's registered office, 10 Anerley Road, Parktown, Johannesburg.

OPERATING RESULTS

In the context of the extremely difficult labour environment, Metair produced a reasonable set of financial results for the year ended 31 December 2013. The 2013 year was a year of contrasts that can be characterised on the one hand by nine weeks of debilitating labour unrest and on the other, by the conclusion after a three-year process of the acquisition of Mutlu Akü, the largest battery manufacturer in Turkey.

Management's focus on the delivery of our strategy by executing the extremely complicated and challenging acquisition of Mutlu Akü should have been supported by a strong local market performance. However, the disruptive labour environment negatively impacted our local OE segment by R87 million (PBIT). In addition, the labour disruptions experienced in the mining sector resulted in the R41 million (PBIT) decline in the non-automotive segment's profit before interest and tax. These factors, combined with the substantial once-off acquisition expense of R78 million, reduced earnings to R374 million from the previous period's R475 million. Earnings per share declined to 229 cents compared to 310 cents in 2012. Notwithstanding the decline in attributable earnings, cash generated from operations was R665 million compared to R672 million in 2012.

The once-off Mutlu Akü acquisition expense of R78 million was partly offset by earnings of R29 million from the solid performance from Mutlu Akü for the three weeks of December trade that have been included in Metair's results.

Acquisition of Mutlu Akü

The acquisition of Mutlu Akü was a transformative event that deepens Metair's international relevance. Mutlu Akü is Turkey's leading battery manufacturer, Start/Stop ready, vertically integrated and has the largest share of both the Turkish OE and aftermarkets. Mutlu Akü has production capacity of approximately 5.7 million batteries and has been the market leader in Turkey for more than 60 years. It also has an extensive battery dealer network in Turkey through 82 dealerships and more than 6 100 sub-dealers.

The mandatory tender offer closed on 11 March 2014 and Metair now owns 96.4% of Mutlu Akü.

The total acquisition price was US Dollars 287.2 million which was hedged at an effective average exchange rate of R10.07 to the US Dollar.

The Mutlu group not only gives Metair access to additional production capacity, but also positions us closer to strategic markets in Europe, Eastern Europe, the Middle East and North Africa. The Mutlu group transforms Metair by providing us with access to attractive growth markets and enhances our geographical diversification As with the Rombat acquisition in 2012, this transaction brings further balance to our business and allows us to leverage our technological expertise and strong balance sheet.

The integration of Mutlu Akü within the Metair group is proceeding according to plan. Mutlu Akü's management are highly motivated and have welcomed Metair's inclusive management practices and disciplines. Our relationship with the previous controlling shareholders is excellent and the handover is proceeding well within the expectations we set ourselves. We are grateful for all the support and guidance the previous shareholders continue to provide, in particular Mr Attila Turker and Mr Ali Nuri Turker.

Review of operations

Rombat

Rombat had another pleasing year, despite declines in sales from most European Original Equipment Manufacturers. The company delivered EBITDA of Lei 36 million (R106 million). Turnover rose to Lei 305 million (R900 million) compared to Lei 240 million (R576 million) for the nine-and-a-half months of inclusion in 2012. Return on equity rose strongly, although this has been offset by an increased investment in marketing spend. The Romanian government supported Rombat's new Start/Stop manufacturing facilities through a grant of €8 million which was received in the latter part of 2013. The grant will be released though the income statement over the estimated useful life of the facility.

Original equipment

South Africa

The South African automotive industry was on track to report production of around 550 000 units in 2013 (2012: 510 000 units) on the back of increased exports from BMW and Ford. However, production ended the year at 514 000 units as a direct result of the strike disruptions. Due to the length of the strikes, it was not possible to catch up the lost production.

The outlook for the South African OE automotive sector in the short term is uncertain. On the one side, there is the fantastic support structure of the APDP and the benefits of the devaluation of the rand. On the other, the country appears to face a power struggle in the labour environment. It is unclear which side will prevail and should a balanced labour environment not be achieved there is a real risk that future OE production will be shared between South Africa and other low-cost manufacturing destinations

Europe

Dacia was one of the beneficiaries of the trend towards more affordable vehicles in Europe and grew sales by 18% when most OEMs shrank by more than 10% in 2013. Romania is one of the major production locations for Dacia and Rombat benefitted as a result.

Romanian vehicle production volumes increased slightly to 411 000 units.

Aftermarket

South Africa

Our aftermarket and non-automotive businesses remain a key focus for entrenching balance in our business. Aftermarket was seriously affected by the flood of cheap imports across all categories. Our focus is to maintain quality and focus on the high-end brands through our superior production processes. Some non-automotive product lines were negatively affected by continuing disruptions in the mining industry and project delays in the construction industry.

Europe

In a difficult market, the group held market share in Romania and its other export destinations like France, Germany and Italy.

Transformation

We are extremely pleased with our continued progress in all aspects of transformation in the group. Five of our major South African operations are at Level 3 on the Department of Trade and Industry Codes of Good Practice, and four are at Level 4. This exceeds our target of achieving Level 4 at all South African operations by 2014.

Human capital

The industry strikes overshadowed 2013 and emphasised once again the importance of maintaining good relationships with workers. Our focus on improving the daily experience of our employees continued during 2013. We also standardised and refined our wellness plans across the group. We completed upgrades of our canteens, clinics and ablution facilities. We again invested a substantial amount in skills development initiatives and reported a significant improvement in our Lost Time Injury Frequency Rate to 1,26 incidents per 200 000 hours worked.

Outlook

During 2014 we will be focusing intently on maximising the benefits of our international acquisitions, ensuring rapid and effective integration and entrenching our relevance in the new markets we have access to.

Metair's performance in the year ahead is dependent upon, inter alia, the successful execution of our strategy, OE volumes, a peaceful labour environment, efficiencies, internal inflation recoveries and the exchange rate. Subject to such factors we expect 2014's financial performance to be satisfactory.

Board changes

With effect from 1 January 2014 Mr Brand Pretorius was appointed to the board as an independent non-executive director and Mr David Wilson as non-executive director.

Thanks

We would like to thank the people who work for us for their diligence in overcoming 2013's difficult circumstances and ensuring direction of the group. Our thanks also go to the support staff, advisors and funders who helped to make the Mutlu Akü acquisition possible.

Lastly, we thank all our stakeholders and particularly our customers for their continued support.

INTEGRATED REPORT

The group's sustainability reporting included in the annual report for 2013 and the results presentation will be available on the company's website (www.metair.co.za).

The summarised audited consolidated results were produced by Mr BM Jacobs (Finance Director) B Comm B Acc CA (SA).

REGISTRARS
Computershare Investor Services (Pty) Limited
70 Marshall Street
JOHANNESBURG 2001

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INVESTOR RELATIONS
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Signed on behalf of the board in Johannesburg on 24 March 2014

O M E Pooe – Chairman

C T Loock – Managing Director

EXECUTIVE DIRECTORS: CT Loock (Managing); BM Jacobs (Finance) **NON-EXECUTIVE DIRECTORS:** OME Pooe (Chairman); A Joffe; DR Wilson **INDEPENDENT NON-EXECUTIVE DIRECTORS:** RS Broadley; L Soanes*; A Galiel; JG Best; SG Pretorius **COMPANY SECRETARY:** SM Vermaak

*British