Interwaste Holdings Limited

# Unaudited condensed consolidated financial results for the six months ended 30 June 2014

# Interwaste Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2006/037223/06)
(JSE code: IWE ISIN: ZAE000097903)
("Interwaste" or "the Company" or "the Group")

## Unaudited condensed consolidated financial results for the six months ended 30 June 2014

## Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2014

| *Figures in R'000* | June 2014 | % Change | June 2013 | Dec 2013 Audited |
|---|---|---|---|---|
| Revenue | 386 014 | 22% | 315 711 | 688 242 |
| Cost of sales | (201 140) | | (176 580) | (378 628) |
| **Gross profit** | **184 874** | **33%** | **139 131** | **309 614** |
| Other Income | - | | 643 | 679 |
| Operating expenses | (125 380) | | (98 742) | (218 163) |
| **Earnings before interest, tax, depreciation and amortisation** | **59 494** | **45%** | **41 032** | **92 130** |
| Depreciation and amortisation | (28 401) | | (20 515) | (41 678) |
| **Results from operating activities** | **31 093** | **52%** | **20 517** | **50 452** |
| Net finance costs | (8 296) | | (5 937) | (10 200) |
| Finance costs | (8 678) | | (6 193) | (11 335) |
| Finance income | 382 | | 256 | 1 135 |
| **Profit before taxation** | **22 797** | **56%** | **14 580** | **40 252** |
| Taxation expense | (6 576) | | (3 850) | (11 737) |
| **Profit for the period** | **16 221** | **51%** | **10 730** | **28 515** |
| **Profit attributable to:** | | | | |
| Non-controlling interests | 825 | | 748 | 1 175 |
| Owners of the company | 15 396 | 54% | 9 982 | 27 340 |
| **Other comprehensive income** | | | | |
| **Items that are or may be reclassified to profit or loss** | | | | |
| Foreign currency translation reserve movement on foreign operations | (211) | | (53) | 58 |
| **Total comprehensive income for the period** | **16 010** | **50%** | **10 677** | **28 573** |
| **Total comprehensive income attributable to:** | | | | |
| Non-controlling interests | 825 | | 748 | 1 175 |
| Owners of the company | 15 185 | | 9 929 | 27 398 |
| **Reconciliation of headline earnings** | | | | |
| Profit attributable to owners of the company | 15 396 | | 9 982 | 27 340 |
| Adjusted for: | | | | |
| Loss/(profit) on disposal of property, plant and equipment | 340 | | (79) | 4 987 |
| Gain from bargain purchase | - | | (138) | (174) |
| Taxation charge on headline earnings adjusting items | (95) | | 22 | (1 396) |
| **Headline earnings attributable to ordinary shareholders** | **15 641** | **60%** | **9 787** | **30 757** |
| Weighted average number of shares in issue on which earnings per share are based | 395 977 877 | | 330 000 880 | 359 183 791 |
| Weighted average number of shares in issue on which diluted earnings per share are based | 403 156 437 | | 331 310 697 | 361 699 763 |
| **Basic earnings per share (cents)** | **3.89** | **29%** | **3.02** | **7.61** |
| **Diluted earnings per share (cents)** | **3.82** | **27%** | **3.01** | **7.56** |
| **Headline earnings per share (cents)** | **3.95** | **33%** | **2.97** | **8.56** |
| **Diluted headline earnings per share (cents)** | **3.88** | **32%** | **2.95** | **8.50** |

# Condensed Consolidated Statement of Financial Position

at 30 June 2014

| *Figures in R'000* | June 2014 | June 2013 | Dec 2013 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **565 264** | **388 163** | **455 121** |
| Property, plant and equipment | 505 176 | 326 474 | 395 338 |
| Goodwill | 59 382 | 60 114 | 59 382 |
| Deferred tax assets | 706 | 1 575 | 401 |
| **Current assets** | **156 198** | **141 102** | **157 243** |
| Inventories | 15 014 | 17 569 | 13 512 |
| Current tax receivables | 242 | 206 | 427 |
| Trade and other receivables | 131 675 | 117 665 | 114 017 |
| Cash and cash equivalents | 9 267 | 5 662 | 29 287 |
| **TOTAL ASSETS** | **721 462** | **529 265** | **612 364** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | **341 848** | **288 234** | **325 796** |
| Share capital and premium | 225 491 | 206 526 | 225 491 |
| Share based payment reserve | 2 564 | 1 363 | 2 063 |
| Foreign currency translation (deficit)/reserve | (112) | (12) | 99 |
| Retained earnings | 111 413 | 78 659 | 96 017 |
| Non-controlling interests | 2 492 | 1 698 | 2 126 |
| **Liabilities** | | | |
| **Non-current liabilities** | **216 964** | **98 691** | **156 513** |
| Interest-bearing borrowings | 162 038 | 64 117 | 110 577 |
| Provision for site rehabilitation | 20 819 | 11 495 | 16 837 |
| Deferred tax liabilities | 34 107 | 23 079 | 29 099 |
| **Current liabilities** | **162 650** | **142 340** | **130 055** |
| Current tax payable | 2 247 | 3 429 | 925 |
| Interest bearing borrowings | 79 250 | 37 975 | 55 171 |
| Trade and other payables | 75 395 | 80 033 | 73 422 |
| Provision for onerous lease | - | - | 532 |
| Bank overdraft | 5 758 | 20 903 | 5 |
| **TOTAL LIABILITIES** | **379 614** | **241 031** | **286 568** |
| **TOTAL EQUITY & LIABILITIES** | **721 462** | **529 265** | **612 364** |
| **Number of shares in issue at period end** | 395 977 210 | 370 691 411 | 395 977 210 |
| **Net asset value per share (cents)** | 85.7 | 77.3 | 81.7 |
| **Net tangible asset value per share (cents)** | 70.7 | 61.1 | 66.7 |

# Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2014

| *Figures in R'000* | June 2014 | June 2013 | Dec 2013 Audited |
|---|---|---|---|
| **Net cash inflow from operating activities** | 37 140 | 26 839 | 79 655 |
| **Net cash outflow on investing activities** | (138 228) | (56 079) | (145 236) |
| **Net cash inflow from financing activities** | 75 540 | 35 424 | 116 452 |
| **Total cash movement for the period** | (25 548) | 6 184 | 50 871 |
| Effect of exchange rate fluctuations on cash held | (225) | - | 43 |
| Cash and cash equivalents acquired | - | - | (207) |
| Cash and cash equivalents at beginning of period | 29 282 | (21 425) | (21 425) |
| **Total cash and cash equivalents at end of period** | **3 509** | **(15 241)** | **29 282** |

# Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014

| *Figures in R'000* | June 2014 | June 2013 | Dec 2013 Audited |
|---|---|---|---|
| **Profit for the period** | 16 221 | 10 730 | 28 515 |
| Share issue costs | - | - | (133) |
| Dividends paid to non-controlling interests | (459) | (1 170) | (1 170) |
| Additional share capital | - | 4 | 7 |
| Premium on shares issued | - | 31 031 | 50 127 |
| Foreign currency translation reserve movement | (211) | (53) | 58 |
| Share based payment expense | 501 | 531 | 1 231 |
| Purchase of additional share in subsidiary from non-controlling interests | - | (402) | (402) |
| Equity at beginning of period | 325 796 | 247 563 | 247 563 |
| **Total equity at end of period** | **341 848** | **288 234** | **325 796** |
| Made up as follows: | | | |
| Share capital issued | 40 | 37 | 40 |
| Share premium | 225 451 | 206 489 | 225 451 |
| Share based payment reserve | 2 564 | 1 363 | 2 063 |
| Foreign currency translation (deficit)/reserve | (112) | (12) | 99 |
| Retained earnings | 111 413 | 78 659 | 96 017 |
| Non-controlling interest | 2 492 | 1 698 | 2 126 |
| **Total equity at end of period** | **341 848** | **288 234** | **325 796** |

# Condensed Consolidated Segment Report

for the six months ended 30 June 2014

| *Figures in R'000* | June 2014 | June 2013 | Dec 2013 Audited |
|---|---|---|---|
| **Gross revenue** | | | |
| Waste management | 312 950 | 245 370 | 529 761 |
| Compost manufacturing and sales | 13 993 | 13 625 | 42 855 |
| Landfill management | 59 071 | 56 716 | 115 626 |
| | **386 014** | **315 711** | **688 242** |
| **Results from operating activities** | | | |
| Waste management | 22 264 | 10 381 | 23 736 |
| Compost manufacturing and sales | (1 971) | (1 572) | (6 553) |
| Landfill management | 10 800 | 11 708 | 33 269 |
| | **31 093** | **20 517** | **50 452** |
| **Depreciation** | | | |
| Waste management | 21 686 | 13 883 | 30 560 |
| Compost manufacturing and sales | 1 099 | 1 183 | 2 353 |
| Landfill management | 5 616 | 5 449 | 8 765 |
| | **28 401** | **20 515** | **41 678** |

The preparation of the Group's condensed consolidated financial results was supervised by the group financial director, AP Broodryk, CA(SA).

## OVERVIEW

Despite a challenging operating environment, compounded by the impact of the lengthy strike in the platinum industry, we are pleased to report an improvement in performance over the comparable period in 2013.

Revenue was up by 22%, headline earnings rose 60% and diluted headline earnings per share were up by 32%. The lower increase in earnings per share was a function of the additional shares issued in the latter part of 2013. The growth for the period reflected the benefits of the diversified nature of the Group. Interwaste has a sustainable base that is able to render a contribution through market cycles and which was supplemented by a number of operations that performed strongly.

FG landfill again produced pleasing growth, the effluent treatment plant we invested in three years ago has come of age and is producing returns which have exceeded our expectations, our operations outside South Africa have required significant investment but are producing profits which more than justify the monies spent, the Envirowaste acquisition is solidly profitable and our core waste business performed well. The landfill management business produced slower growth than in previous periods as a result of our decision to exit loss making or marginally profitable contracts and to tender for new business at rates which will yield returns appropriate to the risks in the business.

Certain geographic areas within our logistics business disappointed and the compost business remains of concern. These are being addressed and we expect improvements, particularly from the logistics areas.

The operating margin for the current period is significantly higher than that for the comparable prior period. This was the result of a number of profitable initiatives supported by our continued focus on managing our cost base and on addressing under performing operations. We benefitted from the growth we have achieved over the last 24 months with the positive leverage resulting from revenue growth exceeding the rate of increase in our costs.

The period under review was characterised by a substantial level of investment in the core business and in new projects. A consequence of this was that the total investment spend for the six months was at similar levels to the investment spend for the whole of the 2013 financial year and resulted in an increase in the gearing ratio. This will be managed over the next financial year.

The majority of the investment spend was applied to the cyclic replacement of a portion of our fleet. This was effected through the purchase of the vehicles rather than the off balance sheet full maintenance lease structures we used previously. While this increased balance sheet debt levels, based on our experience over the last fleet cycle, we expect ownership of the vehicles to provide a material medium term financial benefit.

The new projects included a further investment into the waste derived fuel blending platform, in partnership with Lafarge, which was brought into operation during the period. The clean, no waste to landfill, option provided by the platform represents an important waste disposal alternative to a number of our larger customers and we look forward to strong growth from this area. Waste legislation is likely to become increasingly restrictive as to the waste streams that can be disposed of in landfills and the blending platform provides a scalable cost effective alternative.

Progress on the Klinkerstene landfill continues and the current investment spend is creating an important future source of landfill airspace for Johannesburg and should provide a sound foundation for the Company's medium term growth. Greenfield landfill development is a multi year process and while we recognise that the current investment is dilutive and will remain so until the landfill is brought into operation, we are confident that the asset value substantially exceeds its cost. We also commenced the construction of the next cell at FG landfill to cater for the higher than expected demand we have experienced. We have a number of other landfill initiatives in progress and will report on those in due course.

We are constructing a transfer station in the northern part of Johannesburg which should result in significant logistic and cost efficiencies for both our fleet and for certain of our customers.

We have supplemented our effluent treatment plant with an evaporator. This was brought into operation post the period end and will enable us to process a significantly wider range of effluent liquids.

We have continued to invest in our operations outside South Africa and the returns to date support further emphasis on this area. We have resourced the area properly and we gained encouraging levels of new business during the period while also making progress on certain of the approvals we require to realise the full potential of the operations. We are progressing a number of new non South African opportunities.

Interwaste was the subject of a number of press articles during the period. These contained a range of unfounded allegations and a number of factual errors. We published a response setting out the facts and commissioned a forensic investigator to address the matter, which investigation led to the opening of a criminal case which is now in the hands of the South African Police Service.

## SEGMENTAL REVIEW

The waste management business grew revenue by 27.5% and operating profit by 114%. We were able to grow volumes across much of our core business and won a number of new contracts. Our efforts to fully understand our customers' needs and to innovate to meet them have continued to produce growth with material portions of the current period growth yielding strong margins. Our on-site full service offering has been successful where implemented and we expect growth from the area as more customers convert. Our non South African business was a strong contributor during the period and we expect that to continue.

Revenue in the compost business was flat and the operating loss for the period increased to R2 mln from R1.6 mln in the comparative period. This business remains problematic with limited pricing power and a difficult cost base. As indicated previously, our focus is to minimise the losses in the area until we are able to exit the business in a manner which realises a meaningful proportion of the net value we believe exists, and avoids any adverse effects on the waste management division.

The landfill management business produced a 4.1% increase in revenue and a 7.8% decrease in operating profit. The substantial reduction from the ratios for the comparative period was the result of a number of costs we expensed that did not qualify for capitalisation but which are expected to yield a long term benefit, and the decision to exit marginal landfills and not to tender other than at rates we believe are appropriate to the risks in managing municipal landfills. Income from the FG landfill continued to grow and supported the result for the division. Although the landfill management business (excluding FG landfill) is unlikely to produce strong revenue growth in the short term, it will be an important contributor in the medium term as a number of the projects we are currently investing in come on line.

## PROSPECTS

Our periodic refrain that conditions on the ground remain difficult is relevant once again. Despite lacklustre GDP growth we have seen interest rate hikes, although tempered, and there is no obvious catalyst to create the levels of growth the South African economy badly needs. In addition, there is ongoing pressure on the industrial sectors' cost base as a result of e-tolls, administered price increases and the increases in the cost of fuel over the last year.

Although the metal workers strike in July was resolved in a shorter period than the earlier strike in the platinum industry, it involved significantly more workers and a far wider array of businesses. The impact on many of our customers was pronounced and had a consequent effect on our results for July.

We anticipate a difficult second half with more labour unrest and tepid economic growth. Nonetheless, we expect a number of our investments to come into full operation and to produce their budgeted returns, we anticipate continued growth from our core business as initiatives to work more closely with our customers gain traction and we are optimistic about our non South African business.

We will continue to invest in the next period while remaining cogniscent of capital constraints and the need to drive returns from the monies spent to date.

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

## DIVIDEND

Interwaste will not pay a dividend for the period. Interwaste Cleaning (Pty) Ltd, a partly owned subsidiary, paid dividends of R 459 000 to non-controlling shareholders.

## SUPPLEMENTARY NOTES

Interwaste is a South African registered company. The condensed consolidated financial statements of the Company comprise the Company and its subsidiaries.

## STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

## BASIS OF MEASUREMENT

The condensed consolidated interim financial statements are presented in thousands of South African Rands (R'000s) on the historical cost basis, except for derivative financial instruments which are measured at fair value.

## GOING CONCERN

The condensed consolidated financial statements have been prepared on the going concern basis as the directors believe that the Group has adequate resources to continue in operation for the foreseeable future.

## APPRECIATION

The board extends its gratitude to our employees, our customers and our investors for the effort and support during the period

On behalf of the Board
18 August 2014

**WAH Willcocks**
Chief Executive

**AP Broodryk**
Financial Director

## Corporate Information

**Non-executive directors:** A Kawa (Chairperson), LJ Mahlangu, PF Mojono, GR Tipper, BL Willcocks
**Executive directors:** WAH Willcocks (CEO), AP Broodryk (FD), LC Grobbelaar
**Registration number:** 2006/037223/06
**Registered address:** P O Box 382, Germiston, 1400
**Company secretary:** Allen de Villiers
**Telephone:** (011) 323 7300
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**Transfer secretaries:** Computershare Investor Services (Pty) Limited
**Designated Adviser:** Grindrod Bank Limited

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