Chief executive officer's report

The year under review has been quite extraordinary. The national lockdown imposed in response to the Covid-19 pandemic resulted in the Group only operating at 10% of capacity in April and 40% of capacity in May. The restrictions meant that at the end of the first quarter of this financial year, the Group had recorded a loss before taxation of R42 million. From that point on, the Group managed to perform really well and we are very pleased to report a total comprehensive profit of R128 million, a R253 million improvement from the R125 million loss in the prior period.

The Group's businesses are very diverse and interface into various sectors of the economy. The businesses that interface into the agricultural and mining sectors for instance, experienced quite strong demand post the lockdown. On the other hand, the businesses interfacing into the education, hospitality and automotive sectors faced subdued demand. On the whole, the businesses proved very resilient given the challenging environment.

The lockdowns in the first quarter, saw revenue from continuing operations down R325 million for this period. Thereafter, demand recovered somewhat and by year-end, revenue from continuing operations was down R268 million (9%). A combination of better gross margins, through rationalisation of ranges, and significant cost savings, saw the Group deliver an operating profit of R181 million, a 5% improvement on the prior year. Given the circumstances and the dramatic unplanned drop-off in revenue, we are happy with the operating performance.

Most pleasing is the fact that the Group was also strongly cash-generative and reduced its net interest-bearing debt by R201 million during the current year. Over the past two financial years, on the back of a deliberate plan, the Group's net interest-bearing debt has reduced by some R474 million. We believe that the Group's debt is now at a far more manageable level and leaves it well placed to take advantage of any opportunities that may arise in the future. The reduced debt levels and lower interest rates saw net finance expense reduce by R50 million. The above factors have allowed us to increase the distribution to shareholders to 7 cents per share.

At the prior year-end, the outlook for the economy in general was very uncertain and thus we revalued the property portfolio downwards by R41 million. We reported at the time, that this was our best estimate of the impact of the response to the virus on our property portfolio. As it transpired, the property portfolio held up well, with nearly all rentals due having been collected and no significant deterioration in occupancy rates. Revenue is up R7 million (4%) and operating profit is up R7 million (5%). The property portfolio as valued by our external independent valuer has been revalued up by R57 million. This is split R50 million on investment properties and R7 million on owner-occupied properties.

The Branded Product Distribution segment has found the environment challenging, reflective of the pressures on consumer spending and the fact that most of the businesses in this segment were unable to operate for the first two months of the financial year. Revenue from continuing operations is down R303 million (22%), but a good turnaround in the Toy business in particular, helped this segment deliver a profit of R23 million as opposed to a loss of R29 million in the prior period.

Our manufacturing businesses also had a very difficult first quarter with most businesses only able to operate from June and even then, at reduced capacity due to social distancing requirements. The automotive segment saw revenue decline by R87 million (16%). This was on the back of lower demand for automobiles globally due to Covid-19 and latterly by a shortage of computer chips which has disrupted international supply chains in the sector. Faced with the reduced turnover, the management team in this business has done extremely well to report an operating profit of R32 million.

The Industrial Product Manufacturing segment saw revenue decline by R193 million (16%), but improved margins and very strict cost controls saw operating profit increase to R43 million, up 50% on the R29 million recorded in the prior year.

We estimate that the restrictions put in place due to the Covid-19 pandemic resulted in turnover being down some R400 million. As reported on in the prior year report, the Group had insurance in place for business interruption subject to a limit of R100 million. The Group's insurers have indicated that the circumstances around the Covid-19 lockdown fell outside of our policy. The Group took advice on the matter and we have a contradictory viewpoint, supported by the rulings in various recent court cases on the matter. The Group is currently engaged in constructive discussions with the insurers and will keep shareholders informed as and when it is appropriate to do so.

During the period under review, two of our executive directors announced their retirements. Amon Ntuli and Dave Duncan had both served the group for over 40 years and their respective contributions to the Group's success have been immense. Dave Duncan has remained on the board in a non-executive capacity so his input will not be entirely lost to the Group. We are very sad to report that subsequent to his retirement for health reasons, Amon Ntuli passed away. We miss his input into the Group.

Stuart Queen
Chief executive officer

26 July 2021