KAAP AGRI

Sedert 1912 Since 1912

Interim report 2017

AGRIMARK

LIQUOR MARK

EXPRESSMARK

PAKMARK

The unaudited Group interim report provides an overview of the activities, results and financial position of the Group for the six months ended 31 March 2017.

The Group specialises in trading in agriculture, fuel and related retail markets in Southern Africa. Kaap Agri has over 190 operating points located in seven of the nine South African provinces as well as in Namibia.

The Board approved the unaudited Group interim report for circulation on 4 May 2017.

Operating environment

The agricultural environment remains heavily influenced by climatic conditions in the various areas in which we operate as well as foreign exchange volatility. Although the general retail sector has struggled with subdued consumer spending, Kaap Agri's committed diversification strategy has resulted in strong retail growth across a number of categories and has contributed substantially to the overall strong trading results.

Financial results

Revenue increased by 13,7% to R3,456 billion, supported by inflation of 4,6% for the period. Real comparable stores turnover grew by 11,7%. All income channels delivered strong turnover growth with retail and fuel turnover exceeding expectations. Fuel volume growth was encouraging in comparable as well as new sites. Trading profit grew at a rate higher than that of the turnover growth in all areas as a result of improved procurement and a changing product mix. Expense growth followed turnover growth, especially in the areas of new and improved offerings. Profit before tax and interest paid increased by 16,9% compared to that of last year.

Net interest received decreased by 9,5% due to increased interest rates and interest accruals on a larger debtors book, which was offset by ongoing higher capital expenditure and investment into working capital to support growth.

Fuel prices are subject to volatility as a result of exchange fluctuations. This leads to opportunistic profits or losses which are accounted for in the income statement.

Recurring headline earnings increased by 12,3% to R146,6 million.

Recurring headline earnings per share increased by 12,3% to 208,05 cents per share. Net asset value per share increased by 11,7% to R21,32 per share.

Operating results

Income from the Trading division, which includes the Agrimark and Expressmark offerings as well as packaging material distribution, mechanisation services, spare parts and irrigation, increased by 12,1% with operating income before tax increasing by 18,5%. A number of new fuel service stations were added and a few existing offerings were upgraded. Namibian turnover was subdued after the country received good rains, which resulted in lower animal feed sales and farmers' reinvesting in livestock.

Wesgraan, which includes the handling and storage of grain and related products, seed processing as well as potato seed marketing, increased its operating profit before tax by 18,4%. Grain handling income improved on the back of increased wheat volumes.

The Corporate division includes the cost of support services as well as other costs not allocated to specific segments and represents 1,3% of turnover, which was marginally greater than the previous year.

Treasury income, which represents the net internal interest received less interest paid, increased by 2,5%.

Statement of financial position

The Group accelerated its investment strategy, which resulted in a R113,7 million increase in property, plant and equipment since the previous financial year-end, as well as an additional R92,2 million investment into working capital as a direct result of acquisitions, expansions and upgrades. The Group will continue in a similar vein in the medium term.

The ratio of Total shareholders' equity to Total assets employed has declined marginally to 48,6% with the ratio of Net interest-bearing debt to Total assets employed increasing slightly to 28,1%. Although the debt to equity ratio has increased to 57,9% from 57,5% last year, the ability to further gear the business to support growth remains strong.

Cash flow

Cash profit from operations was 21,3% higher than the previous year due to improved profitability and a lower increase in net working capital compared to last year, which resulted in significantly higher net cash from operations. The change in net working capital is, however, a partially seasonal occurrence and is therefore not fully comparable year on year. Interest coverage from operations reduced to 6,4 times. The Group increased its financing facilities to allow for sufficient funding in order to support growth initiatives.

Dividend

The directors have resolved to declare a gross interim dividend of 29,4 cents per share (2016: 26,5 cents) from income reserves. This is an increase of 10,9% over the previous year's interim dividend and is in line with the company's dividend strategy, while also bearing the company's own needs to continue its growth strategy in mind. The dividend will be paid on 9 June 2017 and the last day to register is on 19 May 2017.

Prospects

While the general sentiment of the agricultural environment in the northern parts of South Africa has improved significantly due to good rainfall, conditions in the majority of the areas in which Kaap Agri operates remain under stress due to weather uncertainty. Although the general retail index remains under pressure, Kaap Agri expects above-market growth in this area as new and improved offerings start to contribute more significantly. Retail fuel growth remains an aggressive part of the expansion strategy.

Kaap Agri's performance has countered the negative trend of the economy as it grows real turnover in double digit terms in comparable stores. The further diversification of the business is ongoing and contributes to lower seasonality and reduced sector and geographical risk.

Currently, a number of key strategic initiatives are underway and additional capital expenditure will be taken on in the second half of the year. New opportunities are evaluated on an ongoing basis and will be pursued when appropriate.

Improved earnings growth is expected for the next six months and the business remains on track to achieve its strategic medium-term targets.

The JSE listing is on track for later this year.

GM STEYN
Chairman

S WALSH
Managing Director

STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 31 March 2017 R'000**	Unaudited 31 March 2016 R'000	Audited 30 September 2016 R'000
ASSETS				
Non-current assets				
Property, plant and equipment	4	**850 315**	658 445	753 593
Intangible assets	5	**47 180**	13 146	48 094
Loans		**–**	18 905	–
Deferred taxation		**6 681**	5 604	6 008
		904 176	696 100	807 695
Current assets				
Inventory		**776 261**	698 220	829 210
Trade and other receivables		**1 453 337**	1 252 114	1 441 831
Financial instruments for hedging		**7 796**	901	10 335
Short-term portion of loans		**18 604**	10 127	26 821
Cash and cash equivalents		**26 997**	17 268	16 983
		2 282 995	1 978 630	2 325 180
Total assets		**3 187 171**	2 674 730	3 132 875
EQUITY AND LIABILITIES				
Capital and reserves		**1 502 469**	1 344 930	1 405 677
Non-current liabilities				
Deferred taxation		**9 116**	5 263	5 858
Provisions for other liabilities and charges		**23 722**	26 786	24 003
		32 838	32 049	29 861
Current liabilities				
Trade and other payables		**676 248**	539 115	805 329
Financial instruments for hedging		**7 796**	901	10 335
Short-term portion of provisions for other liabilities and charges		**7 569**	6 895	7 569
Short-term borrowings		**947 735**	742 190	871 058
Income tax		**12 516**	8 650	3 046
		1 651 864	1 297 751	1 697 337
Total liabilities		**1 684 702**	1 329 800	1 727 198
Total equity and liabilities		**3 187 171**	2 674 730	3 132 875
Total shareholders' equity to Total assets employed (%)		**48,6**	50,9	45,7
Net interest-bearing debt to Total assets employed (%)		**28,1**	24,9	25,8
Net asset value per share (rand)		**21,32**	19,09	19,95
Shares issued (number – '000)		**70 462**	70 462	70 462

INCOME STATEMENT

	Unaudited six months to 31 March 2017 R'000	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000
Revenue	**3 456 683**	3 040 950	5 652 843
Cost of sales	**(2 878 254)**	(2 561 680)	(4 730 958)
Gross profit	**578 429**	479 270	921 885
Operating expenses	**(396 915)**	(321 820)	(680 677)
Operating profit before interest received	**181 514**	157 450	241 208
Interest received	**56 852**	46 435	96 898
Operating profit	**238 366**	203 885	338 106
Finance costs	**(37 495)**	(25 046)	(47 308)
Profit before tax	**200 871**	178 839	290 798
Income tax	**(56 165)**	(48 263)	(80 376)
Profit for the period attributable to equity holders of the holding company	**144 706**	130 576	210 422
Earnings per share – basic and diluted (cents)	**205,37**	185,31	298,63

HEADLINE EARNINGS RECONCILIATION

	Unaudited six months to 31 March 2017 R'000	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000
Profit for the period	**144 706**	130 576	210 422
Net profit on disposal of assets	**(113)**	(55)	(118)
Gross	**(157)**	(76)	(164)
Tax effect	**44**	21	46
Headline earnings attributable to equity holders of the holding company	**144 593**	130 521	210 304
Non-recurring expenses	**2 000**	–	–
Recurring headline earnings attributable to equity holders of the holding company	**146 593**	130 521	210 304
Headline earnings per share (cents)	**205,21**	185,24	298,46
Recurring headline earnings per share (cents)	**208,05**	185,24	298,46
Weighted average number of shares (number – '000)	**70 462**	70 462	70 462

STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months to 31 March 2017 R'000	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000
Profit for the period	**144 706**	130 576	210 422
Other comprehensive income:			
Cash flow hedges	**–**	–	(427)
Gross	**–**	–	(593)
Tax	**–**	–	166
Total comprehensive income for the period attributable to equity holders of the holding company	**144 706**	130 576	209 995

STATEMENT OF CHANGES IN EQUITY

	Unaudited six months to 31 March 2017 R'000	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000
Share capital	**456 643**	456 643	456 643
Other reserves	**(277)**	150	(277)
Opening balance	**(277)**	150	150
Other comprehensive income	**–**	–	(427)
Retained profit	**1 046 103**	888 137	949 311
Opening balance	**949 311**	798 429	798 429
Profit for the period	**144 706**	130 576	210 422
Dividends paid	**(47 914)**	(40 868)	(59 540)
Capital and reserves	**1 502 469**	1 344 930	1 405 677

STATEMENT OF CASH FLOWS

	Unaudited six months to 31 March 2017 R'000	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000
Cash profit from operating activities	**258 675**	213 263	384 616
Changes in operating capital	**(92 237)**	(126 598)	(204 504)
Cash generated by operations	**166 438**	86 665	180 112
Income tax paid	**(44 110)**	(42 290)	(79 650)
Cash flow from operating activities	**122 328**	44 375	100 462
Cash flow from investment activities	**(113 669)**	(65 509)	(213 746)
Cash flow from financing activities	**1 355**	14 900	106 765
Net cash generated/(utilised)	**10 014**	(6 234)	(6 519)
Cash and cash equivalents at the beginning of the period	**16 983**	23 502	23 502
Cash and cash equivalents at the end of the period	**26 997**	17 268	16 983

INFORMATION ABOUT BUSINESS SEGMENTS

SEGMENT INCOME AND RESULTS

	Segment income			Segment results		
	Unaudited six months to 31 March 2017 R'000	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000	**Unaudited six months to 31 March 2017 R'000**	Unaudited six months to 31 March 2016 R'000	Audited twelve months to 30 September 2016 R'000
Trade	**2 900 486**	2 587 688	5 089 261	**174 834**	147 571	258 778
Wesgraan	**553 804**	450 703	558 610	**32 786**	27 700	30 785
Total for reportable segments	**3 454 290**	3 038 391	5 647 871	**207 620**	175 271	289 563
Corporate	**2 393**	2 559	4 972	**(46 902)**	(35 605)	(80 170)
Treasury	**–**	–	–	**40 153**	39 173	81 405
Total external income	**3 456 683**	3 040 950	5 652 843			
Profit before tax				**200 871**	178 839	290 798
Income tax				**(56 165)**	(48 263)	(80 376)
Profit for the period				**144 706**	130 576	210 422

SEGMENT ASSETS AND LIABILITIES

	Segment assets			Segment liabilities		
	Unaudited 31 March 2017 R'000	Unaudited 31 March 2016 R'000	Audited 30 September 2016 R'000	**Unaudited 31 March 2017 R'000**	Unaudited 31 March 2016 R'000	Audited 30 September 2016 R'000
Trade	**1 514 083**	1 225 341	1 467 213	**640 506**	522 003	704 367
Wesgraan	**104 215**	74 261	63 312	**18 851**	2 817	17 274
Total for reportable segments	**1 618 298**	1 299 602	1 530 525	**659 357**	524 820	721 641
Corporate	**161 342**	143 795	231 586	**68 494**	57 527	128 641
Trade debtors	**1 400 850**	1 225 729	1 364 756	**–**	–	–
Short-term borrowings	**–**	–	–	**947 735**	742 190	871 058
Deferred taxation	**6 681**	5 604	6 008	**9 116**	5 263	5 858
	3 187 171	2 674 730	3 132 875	**1 684 702**	1 329 800	1 727 198

NOTES

1. Basis of presentation and accounting policies

The condensed Group interim financial statements for the six months to 31 March 2017 were prepared in accordance with IAS 34 "Interim Financial Reporting". The condensed Group interim financial statements should be read in conjunction with the Group annual financial statements for the year ended 30 September 2016. The accounting policies used to prepare the interim results are consistent with those applied in the previous period, except as described below.

The following standards, amendments and interpretations have been adopted by the Group and became effective for the current reporting period beginning on 1 October 2016:

- Amendments to IAS 1 – Presentation of financial statements – Clarification on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies (effective from 1 January 2016)

- Amendments to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets – Clarification that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate (effective from 1 January 2016)

- Amendments to IAS 19 – Employee benefits – Clarification that market depth of high-quality corporate bonds is assessed on the currency in which the obligation is denominated, rather than the country where the obligation is located (effective from 1 January 2016)

- Amendments to IAS 27 – Separate financial statements – Restored the option to use the equity method in separate financial statements (effective from 1 January 2016)

- Amendments to IAS 34 – Interim financial reporting – The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included the greater interim financial report (effective from 1 January 2016)

- Amendments to IFRS 5 – Non-current assets held for sale and discontinued operations – Clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan (effective from 1 January 2016)

- Amendments to IFRS 7 – Financial instruments: Disclosures – Applicability of the offsetting disclosures to condensed interim financial statements (effective from 1 January 2016)

- Amendments to IFRS 7 – Financial instruments: Disclosures – Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset (effective from 1 January 2016)

- Amendments to IFRS 10 – Consolidation financial statements and IAS 28 (2011) – Investments in associates and joint ventures – Applying the consolidation exception (effective from 1 January 2016)

- Amendments to IFRS 11 – Acquisition of joint operations (effective from 1 January 2016)

None of the new standards, amendments, improvements and interpretations of existing standards mentioned above, that have been published, have any material effect on the interim financial statements of the Group.

Taxes on income in the interim financial statements are accrued using the expected tax rate that would be applicable to the annual profits or losses.

2. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 September 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.

3. Fair value estimation

Financial instruments measured at fair value, are disclosed by level of the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The only financial instruments that are carried at fair value are derivative financial instruments held for hedging. The fair value is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price (Level 2).

Level 2 hedging derivatives comprise forward purchase and sale contracts and options. The effects of discounting are generally insignificant for Level 2 derivatives.

The fair value of the following financial instruments approximate their carrying amount at the reporting date:

- Trade and other receivables
- Trade and other payables
- Short-term borrowings
- Loans

	Unaudited 31 March 2017 R'000	Unaudited 31 March 2016 R'000	Audited 30 September 2016 R'000
4. Property, plant and equipment			
Reconciliation of movements in carrying value:			
Carrying value at the beginning of the period	**753 593**	607 756	607 756
Additions	**113 869**	65 686	177 398
Disposals	**(43)**	(100)	(1 029)
Improvements to leased premises written off	**(1 715)**	(1 078)	(2 374)
Depreciation	**(15 389)**	(13 819)	(28 158)
Carrying value at the end of the period	**850 315**	658 445	753 593
5. Intangible assets			
Reconciliation of movements in carrying value:			
Carrying value at the beginning of the period	**48 094**	14 061	14 061
Carrying value on acquisition of operations	**–**	–	35 862
Amortisation	**(914)**	(915)	(1 829)
Carrying value at the end of the period	**47 180**	13 146	48 094

ADMINISTRATION

Board of directors

Non-executive

GM Steyn (Chairman)

BS du Toit

D du Toit

JH le Roux

EA Messina

CA Otto

HM Smit

JH van Niekerk

Executive

S Walsh (Managing)

GW Sim (Financial)

Company Secretary and registered office

RH Köstens

65 Voortrekker Road, Malmesbury, 7300

PO Box 22, Malmesbury, 7299

Telephone number: 022 482 8000

Fax number: 022 482 8008

Internet address: www.kaapagri.co.za

Share transfer office

Contact person: Lizelle Bleeker

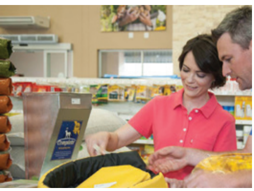
PO Box 13, Porterville, 6810

Telephone number: 022 931 8200

Fax number: 086 636 7200

E-mail: lbleeker@kaapagri.co.za

www.kaapagri.co.za



the fuel company

WESGRAAN

KAAP AGRI MECHANISATION

agriplas PERFECT WATER MANAGEMENT SOLUTIONS