

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2011

Ellies Holdings Limited | Registration number 2007/007084/06 | Share code: ELI | ISIN: ZAE000103081



HOLDINGS LIMITED

↑ Revenue up 10.5% ↑ PAT up 36% ↑ EPS up to 21.01 cents ↑ HEPS up to 20.98 cents
↑ NAV per share up to 217.93 cents

Abridged consolidated statement of financial position

	Unaudited as at 31 October 2011 R'000	Unaudited as at 31 October 2010 R'000	Audited as at 30 April 2011 R'000
ASSETS			
Non-current assets	326 512	291 190	309 553
Property, plant and equipment	91 226	60 824	76 584
– Land and buildings	48 825	25 013	41 353
– Other	42 401	35 811	35 231
Goodwill and other intangible assets	225 472	224 684	223 988
Investment in associate	2 358	–	1 039
Deferred taxation	7 456	5 682	7 942
Current assets	826 293	551 307	655 240
Inventories	455 211	367 449	358 895
Trade and other receivables	327 765	172 460	224 319
Taxation receivable	344	93	418
Bank and cash balances	42 973	11 305	71 608
Total assets	1 152 805	842 497	964 793
EQUITY AND LIABILITIES			
Capital and reserves	658 699	547 961	596 079
Share capital and premium	501 494	501 494	501 494
Non-distributable reserves	(178 630)	(178 799)	(178 875)
Accumulated profits	338 577	225 266	274 824
Equity attributable to equity holders of the parent	661 441	547 961	597 443
Non-controlling interests	(2 742)	–	(1 364)
Non-current liabilities	39 283	44 967	44 059
Interest-bearing liabilities	38 992	44 967	43 913
Deferred taxation	291	–	146
Current liabilities	454 823	249 569	324 655
Interest-bearing liabilities	130 248	26 444	29 672
Trade and other payables	233 158	169 775	245 182
Provisions	1 992	1 600	2 258
Taxation payable	22 596	7 847	1 099
Shareholders for dividend	188	221	188
Bank overdraft	66 641	43 682	46 256
Total equity and liabilities	1 152 805	842 497	964 793
<i>Supplementary information:</i>			
Net asset value per share (cents)	217.93	180.54	196.40
Net tangible asset value per share (cents)	143.44	106.24	122.81
Number of shares in issue	303 505 691	303 505 691	303 505 691

Abridged consolidated statement of comprehensive income

	Unaudited six months ended 31 October 2011 R'000	Unaudited six months ended 31 October 2010 R'000	Audited year ended 30 April 2011 R'000
Revenue	721 200	652 562	1 316 055
Profit before depreciation, amortisation, interest and taxation ("EBITDA")	105 481	78 966	159 786
Depreciation	(8 170)	(6 390)	(12 229)
Amortisation of intangibles	(279)	(807)	(1 502)
Profit before interest and taxation ("PBIT")	97 032	71 769	146 055
Interest received	84	518	548
Interest paid	(7 698)	(5 437)	(12 819)
Share of losses from associate	(2 034)	–	(531)
Net profit before taxation ("PBT")	87 384	66 850	133 253
Taxation	(25 009)	(20 835)	(39 044)
Net profit after taxation ("PAT")	62 375	46 015	94 209
<i>Other comprehensive income:</i>			
Foreign currency translation reserve	245	(132)	(208)
Total comprehensive income for the period	62 620	45 883	94 001
<i>Attributable to:</i>			
Equity holders of the parent	63 753	46 015	95 573
Non-controlling interests	(1 378)	–	(1 364)
Net profit after taxation	62 375	46 015	94 209
<i>Attributable to:</i>			
Equity holders of the parent	63 998	45 883	95 365
Non-controlling interests	(1 378)	–	(1 364)
Total comprehensive income for the period	62 620	45 883	94 001
Supplementary information			
Basic earnings per share (cents)	21.01	15.16	31.49
Headline earnings per share (cents)	20.98	15.12	31.42
Weighted average number of shares in issue	303 505 691	303 505 691	303 505 691

Commentary

Introduction

Ellies Holdings Limited ("Ellies" or the "group") is a leading South African manufacturer, wholesaler, importer and distributor in diversified sectors, including consumer goods, renewable and energy savings and infrastructural power and telecommunications, servicing the local and African market.

Overview

Overall, group results reflect excellent growth in earnings, albeit with higher gearing and debt to equity ratios.

The group's Megatron division delivered growth with impressive earnings contributing substantially to the group's results. Megatron grew PBIT by 361% on the prior corresponding period, resulting in the group's reported increase in EPS of 39%. Megatron's earnings growth is largely the result of its improved product offering across the various sectors in which it operates, with significant investments having been made in new products and in improving production facilities and skills. This has resulted in increased orders from an expanded customer base, primarily from African mining clients.

PBIT of the Ellies consumer goods segment declined by some 5% against the prior corresponding period. The board considers this satisfactory, as the prior corresponding period included the effects of the World Cup. Although the division's decline in revenue was around 18%, the division improved its gross profit percentage to 48% (2010: 38%). Both the decline in revenue and the improvement in gross profit percentage were largely the result of a change in the satellite pricing and distribution models, which did not impact on volumes sold or on market share.

The group's statement of financial position remains strong, with NAV and NTAV per share improving to 217 cents (2010: 181 cents) and 142 cents (2010: 106 cents) respectively.

At 30 April 2011, the group's positive cash position was largely due to creditor financing and significant cash receipts against contract orders placed prior to the year-end. Soon thereafter a significant portion of this cash was utilised for the fulfilment of these contract orders.

During the period under review interest-bearing bank debt, which includes property term finance of R49 million (2010: R25 million), grew by R116 million, to R235.8 million, resulting in a total interest-bearing debt to equity ratio of 28% (2010: 16%). Excluding property term finance, which is appropriate in that the group's investment in its operating properties is strategic and long-term, interest-bearing debt to equity is at 22% (2010: 12%). The group's interest cover to EBITDA remains at a satisfactory level of 14 times.

The group's working capital came under pressure by as much as R211 million as compared to 30 April 2011. In Ellies' consumer goods division, initial stocking requirements of new product lines increased inventory and seasonal influences required early ordering to alleviate historic shipping delays at the ports. This seasonal influence resulted in short-term extended debtors and inventory days. The growth in the Megatron business added to the working capital pressure.

The group's capital demands, additional investments in plant and equipment and the construction of new production facilities on existing land and buildings has been financed through the additional gearing. Negotiations are being finalised with the group's bankers for the restructuring of short-term funding into term debt.

On 11 November 2011, Mr MS Mazwi resigned from the board. The Ellies board wishes him well in his endeavours. A process is underway to appoint additional independent non-executive directors to the board. The group remains BEE compliant with a current Level 6 rating.

Prospects

The group's diversification into new product development and ventures continues to build on its existing skills, infrastructure and customer base.

Ellies expects that implementation of the Digital Terrestrial Television ("DTT") migration rollout through Southern Africa is imminent. Ellies, together with the group's strong strategic partners and alliances, will be positioned to participate in and benefit from the DTT rollout.

Reconciliation of basic earnings and headline earnings

	Unaudited six months ended 31 October 2011 R'000	Unaudited six months ended 31 October 2010 R'000	Audited year ended 30 April 2011 R'000
Net profit after taxation attributable to equity holders of the parent	63 753	46 015	95 573
<i>Adjusted for:</i>			
Profit on sale of property, plant and equipment	(98)	(172)	(301)
Tax effect on adjustment	27	48	84
Headline earnings attributable to ordinary shareholders	63 682	45 891	95 356

Abridged consolidated statement of cash flows

	Unaudited six months ended 31 October 2011 R'000	Unaudited six months ended 31 October 2010 R'000	Audited year ended 30 April 2011 R'000
Cash flows from operating activities	(116 747)	14 715	93 290
Cash (utilised by)/generated from operations	(106 326)	53 158	166 000
Interest received	84	518	548
Interest paid	(7 698)	(5 476)	(12 338)
Taxation paid	(2 807)	(18 531)	(45 932)
Dividends paid	–	(14 954)	(14 988)
Cash flows from investing activities	(27 928)	(34 155)	(57 177)
Cash flows from financing activities	95 655	316	2 492
Net (decrease)/increase in cash and cash equivalents	(49 020)	(19 124)	38 605
Cash and cash equivalents at the beginning of the period	25 352	(13 253)	(13 253)
Cash and cash equivalents at the end of the period	(23 668)	(32 377)	25 352

Abridged consolidated statement of changes in equity

	Unaudited six months ended 31 October 2011 R'000	Unaudited six months ended 31 October 2010 R'000	Audited year ended 30 April 2011 R'000
Balances at beginning of the period	596 079	517 254	517 254
Total comprehensive income for the period	62 620	45 883	94 001
Dividends declared	–	(15 176)	(15 176)
Balances at end of the period	658 699	547 961	596 079

Segmental analysis

	Unaudited six months ended 31 October 2011 R'000	Unaudited six months ended 31 October 2010 R'000	Audited year ended 30 April 2011 R'000
Revenue	721 200	652 562	1 316 055
Wholesale distribution of consumer goods and services	466 300	567 036	1 095 946
Infrastructural electrification	251 098	85 526	216 540
Property division	2 862	711	3 131
Other	3 802	–	3 569
Holding company/consolidation	(2 862)	(711)	(3 131)
Segmental profits/(losses) from operations	94 998	71 769	145 524
Net profit before interest and taxation	94 998	71 769	145 524
Wholesale distribution of consumer goods and services	60 281	63 204	124 772
Infrastructural electrification	38 157	8 270	22 821
Property division	2 563	573	2 646
Other	(5 723)	–	(4 289)
Holding company/consolidation	(280)	(278)	(426)
Net finance costs	(7 614)	(4 919)	(12 271)
Operating segments (combined)	(5 918)	(4 004)	(10 108)
Property division	(1 696)	(434)	(1 682)
Deemed vendor interest	–	(481)	(481)
Profit before taxation	87 384	66 850	133 253

Notes to the unaudited interim results

Basis of preparation and accounting policies

The unaudited interim results for the six months ended 31 October 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and comply with IAS 34 – Interim Financial Reporting, the AC 500 series of interpretations, the requirements of the Companies Act, No. 71 of 2008 of South Africa, and the Listings Requirements of the JSE Limited. The accounting policies used in the preparation of the unaudited interim results for the six months ended 31 October 2011, are consistent with those applied in the audited financial statements for the year ended 30 April 2011. These results have been compiled under the supervision of the Chief Financial Officer, MF Levitt CA (SA). The interim results have not been reviewed or reported on by the group auditors, PKF (Jhb) Inc.

The group's initiatives in energy conservation, making use of renewable energy products, are achieving traction. Ellies' energy efficient lighting products are proving to be an important component of these initiatives and are successfully penetrating the consumer market, with expected further ongoing growth in this sector.

Ellies has established a close working relationship with Eskom, in an effort to assist in the reduction of energy consumption in the domestic home. With the group's technology partners in the lighting and energy saving environment, Ellies is seeing pleasing uptake of its technology and household products.

With the continued weakening of the Rand, greater penetration into Africa is anticipated. Management is planning aggressive expansion into export markets. It is expected that Ellies' existing manufacturing capacity will facilitate this drive.

SkyeVine has been slow to achieve its initial objectives. Ellies management has adopted a conservative approach to its future involvement.

Megatron's growth is expected to continue. This is supported by Megatron's current order book and new business opportunities in South Africa and the rest of Africa. These new opportunities include the development of alternate power solutions, telecommunication towers and data centre infrastructure. Substantial alliances with international technology and product leaders in industrial battery power storage, modular data centres, telecommunications and telecommunication towers have been secured.

Megatron's traditional business of customised solutions for power generation, transmission and distribution for utilities continues to recover. The group is reviewing mechanisms to confer operating independence on Megatron, particularly given its capital requirements in this growth phase.

The board remains positive as regards the group's continued organic growth, new ventures and product opportunities, which continue to present themselves.

Dividend policy

The payment of dividends is reviewed periodically, taking into account prevailing circumstances and future cash requirements. No dividend is proposed at this stage due to short-term funding requirements to support working capital needs.

Appreciation

The directors and management, as always, continue to recognise and appreciate the focused efforts and hard work of the group's staff and also continue to appreciate its customers, business partners, advisors, suppliers and most importantly shareholders.

By order of the board

ER Salkow
Chairman

WMG Samson
CEO

24 January 2012

Directors

Executive directors: ER Salkow (Chairman), WMG Samson (Chief Executive Officer), MF Levitt (Chief Financial Officer), RH Berkman, RE Otto

Lead independent non-executive director: OD Fortuin

Independent non-executive directors: MR Goodford, MS Mazwi (resigned 11 November 2011)

Non-executive director: AC Brooking

Registered office: 94 Elloff Street Ext, Village Deep, Johannesburg, 2001 (PO Box 57076, Springfield, 2137)

Sponsor: Java Capital

Company secretary: Probit Business Services (Pty) Limited

Transfer secretaries: Link Market Services South Africa (Pty) Limited

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