Esor Limited
(Registration number 1994/000732/06)
Incorporated in the Republic of South Africa
(JSE Code: ESR ISIN: ZAE000184669)
("Esor" or "the company" or "the group")

Reviewed condensed consolidated interim results for the six months ended 31 August 2016

Highlights
Profit up 21,7% to R7,5 million
HEPS up 6,8%
Gearing reduced to 13,8%
Post period acquisition of Tuboseal

Commentary
Introduction
The reviewed condensed consolidated results for the six months ended 31 August 2016 ("the current interim period") reflect Esor's continued efforts in building a strong balance sheet base for future growth and continued the momentum of profitability for a third successive period. The restructure of the group into two core operational divisions - Esor Construction, which is further sub-divided into the geographical areas of Inland (based in Johannesburg and Polokwane), East Coast (based in Durban), West Coast (based in Cape Town) and African operations (based in Harare); and Esor Developments, has streamlined operations and enabled management to better focus and capitalise on existing expertise and footprint. Operations are supported by Shared Services based in Johannesburg.

Revenue was 13,8% lower when compared to the previous corresponding interim period and was impacted by various project delays caused by community unrest, specifically around the Vuwani and Steelpoort areas where three months' production was lost during the run-up to the local elections, and by deploying adequate resources in the ongoing efforts to address quality issues on the Northern Aqueduct project.

Esor's work on hand at R1,4 billion remains largely dependent on government, municipal and parastatal work.

Post the current interim period, Esor concluded the acquisition of the entire share capital of Tuboseal Services Proprietary Limited and the business assets and operations from Tuboseal Proprietary Limited (collectively "Tuboseal") (see "Acquisition" below) further expanding the company's service offering and geographic reach.

Financial results
Revenue was down 13,8% to R666,3 million (2015: R772,5 million). Notwithstanding the lower revenue, profit increased by 21,7% to R7,5 million (2015: R6,2 million). Basic earnings per share grew 24,2% to 2,05 cents while headline earnings per share increased 6,8% to 2,15 cents (2015: 2,01 cents).

Profit for the current interim period was positively impacted by achieving improved productivity at the Kusile site following the introduction of a night shift with limited disruptions and adequate access. This was largely off-set by further losses at the Northern Aqueduct due to additional repair works and resultant extended completion date.

Cash flow remained under pressure given the additional costs incurred on the Northern Aqueduct, non-resolution of a number of claims and delayed payments from municipalities and water authorities. Cash on hand at period-end was R18,5 million (2015: R40,5 million).

Safety
The company's adherence to a zero harm approach reflected in an improved 12-month rolling lost time injury frequency rate ("LTIFR") for the period of 0,38 (2015: 0,59). Esor remains ISO 9001, 14001 and OHSAS 18001 accredited and is currently in the process of integrating the requirements of all three standards into a single group policy and procedure document. In addition, the company has reduced its LTIFR threshold level from 0,4 to 0,28 setting a target which is in line with best practice.

Review of operations
Esor Construction
A number of factors adversely impacted the operating environment including community unrest causing project delays, a generally tough macro-economic landscape and increased legal challenges regarding the fairness of tender awards.

The overall tendering and contracting environment remained extremely competitive with a number of larger pipeline contracts coming to the market over the last six months.

Repair work of the quality issues identified at Northern Aqueduct during the first six months of the 2016 calendar year is ongoing and expected to be completed during December. One sector has been tested and passed with a further two sectors currently undergoing testing. It is expected that the construction work and testing will be completed by the middle of December 2016 and the works handed over and the team off site by the end of February 2017. A loss of R59,8 million was recognised during the previous financial year ended 29 February 2016 and an additional loss of R31,4 million has accumulated during the current interim period. This represents the full loss to completion in February 2017 as repairs are nearing completion.

The company has submitted a number of insurance and contractual claims in pursuing further compensation from the specialist sub-contractor and employer. None of the insurance claims has been recognised although Esor and its legal team remain confident that the cost of repairs will be recovered under the relevant insurance contract.

The balance of the pipelines contracts is performing to expectation and includes four projects in Limpopo, the Western Aqueduct in KwaZulu-Natal as well as smaller to mid-sized projects in Gauteng. The Swaziland contract is nearing completion and provisional acceptance was obtained on 15 September 2016.

The continued lack of new major infrastructure works is still impacting Esor's ability to secure additional works and grow in the sector. To this end, we have managed to secure new mining infrastructure work and are also in final negotiations to secure further work in this sector.

The Kusile power station contracts remain the anchor projects and continue to perform strongly with Package 25 nearing completion. All claims on this package have been successfully resolved and the project is profitable. We are still in the final phases of negotiations on resolving the Package 26 claims that should be finalised by the end of this calendar year. We have recognised revenue to the value of R105 million against these claims in the previous financial year, and to date we have received R60 million as an interim payment against the claims.

Fierce competition in the pipejacking market has resulted in reduced revenue for the six months under review. We continue to be the market leader with a track record in excess of 30 years.

Pipejacking has been fully consolidated into the geographical footprint of the group with contracts in five provinces as well as Botswana. The longer term contracts are the O6 pipeline for Rand Water which is nearing completion as well as the 110 metre jacks at Steelpoort for Basil Read. We are currently in negotiations with Basil Read on claims regarding the Steelpoort contract that has had a R35 million negative effect on cash flow. A number of opportunities exist both within South Africa and Botswana that once secured will result in a full order book for the next six months.

The integration of Tuboseal, a company rendering specialist trenchless rehabilitation solutions and based in Cape Town, which was acquired effective 1 September 2016, is in progress, with the positive impact expected in the second half of the 2017 financial year (see "Acquisitions" below).

Esor's building and housing efforts remain focused on commercial and retail refurbishments as well as the construction of the lower end of the housing market. Competition for projects remains fierce in a competitive environment marked by very low margins. Esor has remained selective in the tendering for new work resulting in a reduction in work on hand. There are a number of housing opportunities being priced that may be finalised and awarded by the end of the calendar year.

Esor Developments

Esor remains focussed on identifying the right opportunities which fit its strategy with the aim of growing its portfolio on a considered and selective basis.

The Orchards development remains on track and the final extension will be ready for proclamation and registration by January 2017. The only remaining opportunities will be the two commercial sites that are available for development.

The affordable housing project in Khayelitsha is awaiting the final administration step of land registration. A total of 368 serviced stands are available for development, with a number of sales in place following the registration as well as a further 1 000 opportunities to be serviced and developed.

Uitvlugt is in the final phases of township planning and layout that will be followed by environmental applications and approvals and will ultimately consist of 16 smaller phases. This will ensure the viability of the development but may take 12 months to come to market.

All environmental issues at Diepsloot have been resolved and we are confident that the bulk infrastructure work will commence before financial year-end.

Africa

Africa continues to present numerous growth opportunities. Our Swaziland project is on track and due for imminent completion following the provisional acceptance by the client on 15 September 2016. Botswana continues to be a growth area with further pipejacking work being secured in the Thune district. Projects ex-South Africa provide a foreign currency hedge, which is favourable when the rand is weakening, and potentially offer higher margins after taking the associated risks into account. Opportunities in Zimbabwe and Zambia continue to be explored with a number of smaller piling contracts being completed in Zimbabwe and the Old Mutual piling contract in Harare being secured which commenced in November 2016. The Zambian efforts have not yet translated into orders.

Competition Commission

Negotiations with the Competition Commission are ongoing in relation to the Tribunal inquiry into the 2009 complaint of collusive tendering practices in the geotechnical exploration and investigation works.

CAPEX

Capex for the six-month period totalled R7,8 million (2015: Nil). Esor's reinvestment in plant and equipment has been subdued in the past three years but it is critical to manage the average age of its fleet and replace ageing capital equipment. An order for new excavators has already commenced. Critical and specialised items are being evaluated and a replacement plan has been put in place.

Transformation

Following a BEE scorecard assessment in terms of the new Revised Codes of Good Practice, Esor has maintained its Level 3 B-BBEE accreditation.

The Esor Broad Based Share Ownership Scheme ("EBBSOS") holds a 5,32% stake in the company. A number of strategies are already in place to drive further transformation within and across the group from employment practices to internships and enterprise development initiatives.

Following the issue of the new Construction Charter, currently open for comment, management and the board will review and adapt our transformation strategy where required.

Directorate

Keneilwe Moloko retired by rotation as a director and did not stand for re-election at the annual general meeting on 24 June 2016. The board thanks her for her contribution during her tenure and wishes her well for the future.

Reneiloe Masemene was appointed as an independent non-executive director effective 19 August 2016. She is an attorney with extensive experience in mining, labour law and corporate finance and serves on the Social & Ethics and Remuneration & Nomination committees. The board welcomes her and looks forward to working together to grow the group.

Prospects

The current challenging market conditions are not expected to change in the short term.

Nonetheless, Africa and specifically the SADC countries offer good growth prospects. We are currently completing nine pipejacks in Botswana with the possibility of additional works and are commencing with our largest piling job in Harare, Zimbabwe for Old Mutual. We also continue to actively tender in Swaziland and Zambia.

Work on hand has decreased marginally to R1,4 billion compared to R1,6 billion for the comparative period. However, there are a number of imminent outstanding awards which could positively boost the order book to R2,5 billion. Cash conversion rates from this pipeline will remain a challenge taking into account the secured margin and commercial terms.

Dividend declaration

In line with group policy no dividend has been declared (2015: Nil). It remains the policy of the group to review the dividend policy annually in light of cash flow, gearing, capital requirements and bank covenants.

Events after the reporting date

Acquisition

As announced on SENS on 10 October 2016, Esor acquired the entire share capital of Tuboseal Services Proprietary Limited and the business assets and operations from Tuboseal Proprietary Limited (collectively "Tuboseal") for R15 million and R18,25 million, respectively. The acquisition complements Esor's existing water-focused and pipeline business and secures annuity and maintenance income, while marking Esor's entry into the Western Cape. The niche business adds an additional service offering in trenchless specialist pipeline rehabilitation with over 100 000 metres of pipe cracking and over 30 000 metres of pipe renewal by CIPP (cure in pipe process). Tuboseal is able to assist municipalities in ascertaining their rehabilitation needs and priority areas in water and sewer reticulation systems. From Tuboseal's perspective the acquisition provides access to Esor's extensive geographic footprint to expand beyond its current home market in the Western Cape.

The acquisition was effective from 1 September 2016.

Mandatory offer and rights offer

Post the current interim period, our strategic investor, Geomer Investments Proprietary Limited ("Geomer"), increased its holding in the company to 42,46% (net of treasury shares) triggering a mandatory offer to shareholders. As an existing shareholder with whom we had been exploring possible synergies in the water and sanitation space, we believe Geomer's support will prove positive to the growth of the company.

Geomer has further provided funding for the acquisition of Tuboseal and is fully underwriting the proposed rights offer to shareholders which will follow the mandatory offer in January 2017. Esor anticipates that the proposed rights offer will comprise 98 796 357 shares at 38 cents each (see SENS announcements of 21 and 26 October 2016, respectively, for further details).

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.

The financial statements for the current interim period were prepared under the supervision of Bruce Atkinson, Esor's financial director.

Auditor's independent review
These interim condensed consolidated financial statements for the period ended 31 August 2016 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report.

Appreciation
We thank our management and staff for their continued hard work and dedication during trying times and in sometimes extreme circumstances. Our appreciation also goes to our fellow directors for their wise counsel and our business partners, suppliers, advisors and valued clients as well as shareholders, notably Geomer, for their loyal support.

On behalf of the board

Bernie Krone
Chairman

Wessel van Zyl
CEO

24 November 2016

Condensed consolidated statement of financial position

	Reviewed 31 August 2016 R'000	Reviewed 31 August 2015 R'000	Audited 29 February 2016 R'000
ASSETS			
Non-current assets	409 135	457 168	404 539
Property, plant and equipment	174 774	208 786	178 381
Goodwill	112 091	155 323	112 091
Financial assets at fair value through profit or loss	51 228	29 488	51 228
Deferred tax asset	10 173	11 805	10 186
Investment and loan to joint venture	60 108	51 005	51 892
Loans and long-term receivables	761	761	761
Current assets	673 298	656 073	696 386
Loans and receivables	37 428	37 619	35 428
Inventories	127 435	127 222	108 075
Non-current assets held for sale	9 500	–	9 500
Taxation	8 928	2 692	15 552
Trade and other receivables	471 474	448 003	485 409
Cash and cash equivalents	18 533	40 537	42 422
Total assets	1 082 433	1 113 241	1 100 925
EQUITY AND LIABILITIES			
Share capital and reserves	668 411	673 420	669 102
Share capital and premium	581 014	582 381	581 014
Equity compensation reserve	72	–	72
Foreign currency translation reserve	19 568	16 040	27 756
Retained earnings	67 757	74 999	60 260
Non-current liabilities	74 422	110 100	72 968
Secured borrowings*	44 576	83 984	45 726
Preference shares*	–	5 000	–
Deferred tax liabilities	29 846	21 116	27 242
Current liabilities	339 600	329 721	358 855
Current portion of secured borrowings*	57 508	58 116	55 093
Current portion of preference shares*	5 250	5 239	10 605
Financial liability at fair value through profit or loss	–	–	5 843
Taxation	–	–	714
Provisions	6 452	12 813	17 040
Trade and other payables	270 390	253 553	269 560
Total equity and liabilities	1 082 433	1 113 241	1 100 925
Net asset value per share (cents)	183,2	182,3	183,4
Tangible net asset value per share (cents)**	161,0	152,0	161,2

* Interest-bearing debt.
** (Net asset value less intangible assets net of deferred tax)/issued shares at period-end.

Condensed consolidated statement of comprehensive income

	Reviewed six months ended 31 August 2016	Reviewed six months ended 31 August 2015	Change	Audited year ended 29 February 2016

	R'000	R'000	%	R'000
Revenue	666 286	772 551	(13,8)	1 435 901
Cost of sales	(645 038)	(721 088)	(10,5)	(1 353 798)
Gross profit	21 248	51 463	(58,7)	82 103
Other income	20 601	10 876	89,4	52 589
Operating expenses	(18 731)	(32 760)	(42,8)	(52 899)
Profit before interest, tax, amortisation, impairments and depreciation	23 118	29 579	(21,8)	81 793
Depreciation, impairments and amortisation	(10 640)	(16 385)	(35,1)	(78 016)
Results from operating activities	12 478	13 194	5,4	3 777
Finance income	1 451	4 445	(67,4)	12 577
Finance costs	(2 029)	(6 880)	(70,5)	(9 851)
Profit before tax	11 900	10 759	(10,6)	6 503
Taxation	(4 403)	(4 599)	4,3	(2 820)
Profit for the period	7 497	6 160	(21,7)	3 683
Other comprehensive income:				
Foreign currency translation differences for foreign operations	10 497	(1 627)	(745,21)	933
Income tax on other comprehensive income	(2 309)	358	745,21	(210)
Other comprehensive income for the period, net of tax	8 188	(1 269)	745,21	723
Total comprehensive income attributable to:				
Owners of the company	15 685	4 891	220,7	4 406
Basic earnings per share (cents)	2,05	1,65	24,24	1,0
Diluted earnings per share (cents)	1,98	1,65	20,00	1,0
Reconciliation of headline earnings				
Profit attributable to ordinary shareholders	7 497	6 160	22	3 683
Adjusted for:				
Loss on disposal of property, plant and equipment	337	1 371	(75)	2 678
Impairment of investments and goodwill	–	–	–	47 108
Headline earnings attributable to ordinary shareholders	7 834	7 531	4	53 469
Number of ordinary shares in issue ('000)	395 185	395 185		395 185
Diluted weighted average	378 730	374 096		378 996
Weighted average	364 941	374 096		370 506
Headline earnings per share (cents)	2,15	2,01	6,8	14,4
Diluted headline earnings per share (cents)	2,07	2,01	2,8	14,4

Condensed consolidated statement of cash flows

	Reviewed six months ended 31 August 2016 R'000	Reviewed six months ended 31 August 2015 R'000	Audited year ended 29 February 2016 R'000
Cash flows from operating activities			
Profit before taxation	11 900	10 759	6 503
Adjustments for:			
Depreciation of property, plant and equipment	10 640	16 385	30 909
Impairment of goodwill	–	–	43 232
Impairment of loans and receivables	–	–	3 876
Amortisation and fair value adjustments of financial assets	–	–	(15 897)
Loss on disposal of property, plant and equipment	531	1 904	3 718
Foreign currency adjustment	(7 995)	(4 573)	771
Equity-settled share-based payment transactions	–	–	72
Net finance costs	(2 803)	–	(5 548)
Income tax refund/(paid)	4 124	(1 793)	(4 625)
	16 397	22 682	63 011
Change in inventories	(19 360)	22 152	41 299
Change in trade and other receivables	6 092	56 327	18 921
Change in trade and other payables	7 282	(68 566)	(52 559)
Change in provisions	(17 040)	1 355	5 582
Net cash (used)/generated from operations	(6 629)	33 950	76 254
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	–	26 804	35 295
Loan advanced to joint venture	(5 413)	–	–
Acquisition of property, plant and equipment	(7 757)	(2 050)	(6 663)
Net cash (used)/generated from investing activities	(13 170)	24 754	28 632
Cash flows from financing activities			
Proceeds from the issue of share capital,			

net of expenses			
Increase/(decrease) in secured borrowings	1 265	(42 657)	(83 938)
Preference shares redeemed	(5 355)	(10 500)	(12 149)
Shares acquired	–	(1 349)	(2 716)
Net cash used in financing activities	(4 090)	(54 506)	(98 803)
Net decrease in cash and cash equivalents	(23 889)	4 198	6 083
Cash and cash equivalents at beginning of period	42 422	36 339	36 339
Cash and cash equivalents at end of period	18 533	40 537	42 422

Condensed consolidated statement of changes in equity

R'000	Share capital	Share premium	Equity compen-sation reserve
Balance at 1 March 2015	374	583 356	–
Profit for the period	–	–	–
Other comprehensive income			
Foreign currency translation differences for foreign operations	–	–	–
Total other comprehensive income	–	–	–
Total comprehensive income for the period	–	–	–
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Shares acquired	(5)	(1 344)	–
Foreign currency translation differences transferred to retained earnings	–	–	–
Total contributions by and distributions to owners	(5)	(1 344)	–
Balance at 31 August 2015	369	582 012	–
Balance at 1 March 2016	365	580 649	72
Profit for the period	–	–	–
Other comprehensive income			
Foreign currency translation differences for foreign operations	–	–	–
Total other comprehensive income	–	–	–
Total comprehensive (loss)/income for the period	–	–	–
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners	–	–	–
Total contributions by and distributions to owners	–	–	–
Balance at 31 August 2016	365	580 649	72

R'000	Trans-lation reserve	Retained earnings	Total equity
Balance at 1 March 2015	27 033	56 577	667 340
Profit for the period	–	6 160	6 160
Other comprehensive income			
Foreign currency translation differences for foreign operations	1 269	–	1 269
Total other comprehensive income	1 269	–	1 269
Total comprehensive income for the period	1 269	6 160	7 429
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Shares acquired	–	–	(1 349)
Foreign currency translation differences transferred to retained earnings	(12 262)	12 262	–
Total contributions by and distributions to owners	(12 262)	12 262	(1 349)
Balance at 31 August 2015	16 040	74 999	673 420
Balance at 1 March 2016	27 756	60 260	669 102
Profit for the period	–	7 497	7 497
Other comprehensive income			
Foreign currency translation differences for foreign operations	(8 188)	–	(8 188)
Total other comprehensive income	(8 188)	–	(8 188)
Total comprehensive (loss)/income for the period	(8 188)	7 497	(691)
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners	–	–	–
Total contributions by and distributions to owners	–	–	–
Balance at 31 August 2016	19 568	67 757	668 411

Information about reportable segments
for the six months ended 31 August/twelve months ended 29 February 2016

R'000	August 2016	August 2015	February 2016

Construction			
Segment revenues	665 687	726 869	1 350 102
Reportable segment profit before income tax	5 464	16 632	20 221
Reportable segment assets	174 203	659 664	282 261
Developments			
Segment revenues	2 781	47 883	94 739
Reportable segment profit before income tax	747	5 446	21 555
Reportable segment assets	111 804	121 213	139 683
Corporate and eliminations			
Segment revenues	(2 182)	(2 201)	(8 940)
Reportable segment profit/(loss) before income tax	5 689	(11 319)	(35 273)
Reportable segment assets	796 426	332 364	678 981
Consolidated			
Segment revenues	666 286	772 551	1 435 901
Reportable segment profit before income tax	11 900	10 759	6 503
Reportable segment assets	1 082 433	1 113 241	1 100 925

R'000	August 2016	August 2015	February 2016
Geographical information			
South Africa			
Total revenue	640 204	772 551	1 333 827
Reportable segment profit before income tax	7 192	9 164	77
Total assets	1 058 124	1 097 725	190 209
Other regions			
Total revenue	26 082	17 845	43 950
Reportable segment profit before income tax	4 708	1 595	6 426
Total assets	24 309	15 516	1 239
Consolidated			
Total revenue	666 286	772 551	1 377 777
Reportable segment profit before income tax	11 900	10 759	6 503
Total assets	1 082 433	1 113 241	191 448

Financial asset at fair value through profit or loss

Level 3: The contingent consideration receivable arose from the disposal of the discontinued operation in the 2014 financial year, which included a clause that entitles the seller to an amount of R150 million if the discontinued operation's cumulative EBITDA over the next three years exceeds a threshold. The fair value is determined considering the estimated receivable, discounted to present value. The fair value is based on key unobservable inputs of EBITDA growth of the business of 12% in the year ending December 2016 and a discount factor of 10,5%. The fair value was determined by the group finance department. Scenarios on EBITDA growth were developed by the management together with management of the discontinued operation, considering the economy generally and their knowledge of the geotechnical business. The estimated fair value increases the higher the annual EBITDA growth rate, the higher the EBITDA margin and the lower the discount rate. Management considers that changing the above-mentioned unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in estimated fair value.

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BW Atkinson (CFO)
Dr OW Franks* (Lead independent)
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