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")

Unaudited condensed consolidated interim results for the six months ended 31 August 2017

HIGHLIGHTS

- Improved financial performance
- African operations contributing positively
- LTIFR improved to 0,17
- Stable order book at R1,4 billion

COMMENTARY

Introduction

The unaudited condensed consolidated results for the six months ended 31 August 2017 ("the period" or "H1") reflect a challenging H1 impacted by a deteriorating market environment with delays in both contract awards and the commencement of new projects.

Despite current market conditions, Esor demonstrated a significant improvement in financial performance for H1 compared to the losses at February 2017. Profit before tax amounted to R3,1 million after accounting for R5,8 million in restructuring costs.

Irregular timing of payments from debtors further contributed to difficult trading conditions. This necessitated a restructure of the group into a centralised construction business away from the regional structure (Inland, East and West Coast). Operationally we continue to execute contracts on a regional basis. However infrastructure and overheads in the regions have been reduced in line with the current workload.

We have continued to focus on water related projects both from a capital and maintenance perspective, as well as design and construct projects. The latter are longer term projects, requiring additional technical and financial inputs and consequently result in longer lead times in awards.

Cross-border work has increased with new contract awards in Swaziland and Zimbabwe post period end for R120 million. Focus has been on securing funded projects in these regions to ensure security of payment, particularly in Zimbabwe where payment for imported materials is a challenge due to availability of currency. The Zimbabwean funded projects provide for off-shore payments that assists with alleviating the currency risks.

The order book at period end was R1,41 billion compared to R1,40 billion at August 2016. The slightly improved order book is not reflective of the buoyant tender market. The non-awarding of tenders to contractors is currently frustrating and problematic, largely due to funding constraints in government infrastructure budget allocations. Consistent with previous reporting periods, we have included a two-year view on the Diepsloot Integrated Housing Development. The order book excludes the Department of Water and Sanitation projects, where Esor was lowest but awaiting appointment.

Financial results

Revenue decreased 17% to R553 million from R666 million in the comparative period. Profitability was impacted by the challenging market conditions and continued remedial work on the Northern and Western Aqueduct projects resulting in a small profit for the first half. Profit before tax was down 74% to R3,1 million (2016: R11,9 million).

No goodwill impairment testing was performed as this is addressed annually at year-end, consistent with previous interim reporting periods. At February 2017 goodwill totalled R65,4 million.

Cash flow and liquidity

Liquidity remains a challenge, balancing growth and expansion into SADC regions while incurring further repair costs on the Northern and Western Aqueduct projects in KwaZulu-Natal, pending insurance settlements. Cash was further negatively impacted by delayed payments from clients, continuing to put pressure on Esor's cash flow. In response to the status of the current depressed construction industry, the company has implemented further restructuring initiatives. The restructure resulted in a once-off retrenchment cost of R5,8 million for the period with a further R2,9 million incurred post period end. Employee numbers reduced from 2 495 at February 2017 to 2 056 at period end. In order to retain key skills, where possible, the reduction was implemented by not renewing LDC contracts which had terminated. In order to improve the company's working capital, Esor's majority shareholder, Geomer Investments (Pty) Ltd has advanced R10 million for working capital purposes. This loan is repayable in February 2018.

Northern Aqueduct

The insurance claim with regards to the weld repairs on the Northern Aqueduct project is in an advanced stage of negotiation and finalisation is expected in the second half of this financial year. As reported at February 2017, R20 million has been received to date as an interim payment.

Safety

Health and safety remains a priority and the group is committed to a Zero Harm approach. The Lost Time Injury Frequency Ratio ("LTIFR") improved to 0,17 (February 2017: 0,29). This reflects a substantial decrease in terms of targets as a result of the successful implementation of an integrated SHEQ system throughout the group. The accreditation renewal audit by ISOQAR was successfully completed and the ISO 9001, 14001 and OHSAS18001 accreditations have all been renewed and are in place for the next three years.

Review of operations

For the period under review the group reported in two divisions: Esor Construction and Esor Developments.

Esor Construction

The Northern and Western Aqueduct projects continued to prove challenging with environmental factors including rain, vandalism and community unrest resulting in further delays. At the Western Aqueduct the non-relocation of electrical and communication services, which is out of the group's control, resulted in additional delays. The project is expected to be concluded in March 2018, with additional costs of R30 million accounted for in H1. The Northern Aqueduct project is substantially complete with primary testing of the lines being undertaken. The full anticipated losses were provided for at February 2017 but certain anticipated concessions under negotiations at February 2017 were not awarded by the client and resulted in a further loss of R5 million incurred in this reported period.

Losses incurred on both projects were offset by the continued strong performance in the Inland region and geotechnical divisions. This includes Tuboseal which post period completed the largest lining project in South Africa to date at Black Mac where a total of 3 434 m lining was installed over a nine-month period.

In line with Esor's strategy, we have continued to focus on water projects, submitting three bids to the City of Cape Town in response to the design, construct and operating tenders for Salt Water Reverse Osmosis plants ("SWRO"), commonly known as desalination projects. In addition, a number of design and construct opportunities have arisen including a mining project in Zimbabwe, student accommodation in Gauteng and a salmon farm in the Western Cape.

We continued to finalise ongoing claims on the Kusile project and have post period received an on-account payment for the first tranche.

Africa

Esor continued to make progress in Africa with revenue increasing from 3% outside South Africa at February 2017 to approximately 5,4% for the period. As these projects are all in a start-up phase, a conservative approach to revenue recognition has been followed in the first half. An improved performance in the second half is anticipated.

The work on hand in the SADC region has increased to 34% of the total order book. These include the Swaziland joint venture on the LUSIP II project funded by African Development Bank and ZINWA projects in Zimbabwe funded by World Bank.

Esor Developments

The developments division has focused on project feasibilities and consequently the group remains in a low revenue phase as current projects move toward the development phases of their life cycles. The Diepsloot and Khayelitsha projects continued to be delayed by government administrative procedures, with Khayelitsha kick-off awaiting land transfer before the project can commence. The development will encompass 368 top structures which will be available for immediate development and a further 1 100 opportunities in the second phase. Diepsloot remains a medium to long-term development with a total project potential of over R4 billion revenue and potential of over 10 000 units.

The Uitvlugt development is currently in the environmental approval and ROD phase, which is expected to take another 12 months. Township development planning and feasibility studies were conducted and finalised. This development may include 1 ha smallholdings, mixed use and integrated developments. Demand for housing in the Vaal region is currently low and we are taking a more conservative approach towards the development with phasing over a longer period.

The group commenced a small residential development in Boksburg (Gauteng) which is set to be completed by mid-2018.

CAPEX

Capital expenditure for the period totalled R2,2 million (2016: R7,8 million) with a further R20 million expected to be spent in the second half. The current average age of certain core fleet items is above group targets and is being reviewed. In the next six months we will focus on refurbishing and renewing critical equipment in line with supplier specifications and group targets.

Transformation

Esor is currently Level 3 B-BBEE accredited in terms of the revised Codes of Good Practice. The group's black ownership stands at 68,52%. We are currently in the process of an evaluation of our accreditation and hope to improve our level going forward. The Esor Broad-Based Share Ownership Scheme ("EBBSOS") holds 4,25%.

Directorate

Heather Sonn resigned from the board effective 27 October 2017. We thank her for her valuable and critical contribution over the years as an independent non-executive director and chair of the audit and risk committee and wish her well in her future endeavours.

A suitable replacement for Ms Sonn is being sought and will be announced in due course.

Chairman Bernie Krone has now been classified as independent, as he meets the requirements in terms of King IV.

Competition Commission/CIDB

Esor was not party to the Competition Commission's settlement reached in October 2016 between government and seven other South African construction companies. Esor settled amicably in a negotiated manner with the company concerned where Esor was found guilty of the offence under the fast track settlement that related to a Franki matter. 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 and we continue to follow the legal process and timelines. The final hearing is expected in April 2018.

Esor received a formal inquiry letter in December 2016 related to the CIDB intending to institute a formal inquiry in terms of Regulation 29 against the construction firms that were not a party to the voluntary rebuild programme agreement. We are in ongoing negotiations to reach an amicable settlement.

Prospects

While we expect challenging conditions to prevail there are several opportunities being pursued as detailed above. Imminent awards totalling in excess of R2 billion, mainly in the bulk water supply, is being awaited. We will continue focusing on water projects such as the desalination projects. In particular, we will focus more on turnkey projects and working with strategic partners to provide a competent and competitive bid for successful implementation.

We believe the group remains stable in challenging conditions.

Dividend declaration

In line with group policy, no dividend has been declared (2016: 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

There were no significant events after the reporting date.

Basis of preparation

The unaudited 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 the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the Listings Requirements of the JSE Limited. 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 company is continuing its assessment of new accounting standards and amendments to standards, including IFRS 9, 15 and 16. Further information on the potential impact of these standards will be presented in the annual financial statements for the year ending 28 February 2018.

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

These unaudited condensed consolidated interim financial statements have not been reviewed or audited by Esor's independent external auditors.

Appreciation

We thank our management and staff for their continued hard work and loyalty. Our appreciation also to our fellow directors for their guidance and wise counsel as well as our business partners, suppliers, advisors and valued clients and shareholders for your loyal support.

On behalf of the board

Bernie Krone   Wessel van Zyl
Chairman   CEO

2 November 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2017 R'000	Reviewed 31 August 2016 R'000	Audited 28 February 2017 R'000
ASSETS			
Non-current assets	303 618	409 135	337 556
Property, plant and equipment	185 846	174 774	197 624
Goodwill	65 447	112 091	65 447
Financial assets at fair value through profit or loss	-	51 228	-

Deferred tax asset	11 499	10 173	31 044
Investment and loan to joint venture	40 065	60 108	42 680
Loans and long-term receivables	761	761	761
Current assets	620 453	673 298	680 421
Loans and receivables	42 998	37 428	40 578
Inventories	103 275	127 435	98 557
Non-current assets held for sale	-	9 500	-
Taxation	14 484	8 928	13 840
Trade and other receivables	446 706	471 474	522 086
Cash and cash equivalents	12 990	18 533	5 360
Total assets	924 071	1 082 433	1 017 977
EQUITY AND LIABILITIES			
Share capital and reserves	569 276	668 411	566 794
Share capital and premium	617 236	581 014	617 236
Equity compensation reserve	989	72	557
Foreign currency translation reserve	28 514	19 568	28 497
Retained earnings	(77 463)	67 757	(79 496)
Non-current liabilities	44 823	74 422	71 136
Secured borrowings*	35 678	44 576	38 814
Deferred tax liabilities	9 145	29 846	32 322
Current liabilities	309 972	339 600	380 047
Current portion of secured borrowings*	45 255	57 508	31 869
Current portion of preference shares*	-	5 250	-
Bank overdraft*	15 789	-	27 487
Taxation	5 306	-	146
Trade and other payables	243 622	276 842	320 545
Total equity and liabilities	924 071	1 082 433	1 017 977
Net asset value per share (cents)	122,4	183,2	122,2
Tangible net asset value per share (cents)**	112,3	161,0	112,1

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 August 2017 R'000	Reviewed six months ended 31 August 2016 R'000	Change %	Audited year ended 28 February 2017 R'000
Revenue	553 075	666 286	(17,0)	1 373 048
Cost of sales	(522 696)	(645 038)	(19,0)	(1 358 591)
Gross profit	30 379	21 248	43,0	14 457
Other income	3 789	20 601	(81,6)	28 807
Operating expenses	(16 277)	(18 731)	13,1	(131 141)
Profit/(loss) before interest, tax, amortisation, impairments and depreciation	17 891	23 118	(22,6)	(87 877)
Depreciation, impairments and amortisation	(14 096)	(10 640)	(32,5)	(72 967)
Results from operating activities	3 795	12 478	(69,6)	(160 844)
Finance income	3 796	1 451	161,6	13 670
Finance costs	(4 445)	(2 029)	(119,1)	(8 248)
Profit/(loss) before tax	3 146	11 900	(73,6)	(155 422)
Taxation	(1 113)	(4 403)	74,7	15 666
Profit/(loss) for the period	2 033	7 497	(72,9)	(139 756)
Other comprehensive income:				
Foreign currency translation differences for foreign operations	(17)	10 497	(100,16)	741
Income tax on other comprehensive income	-	(2 309)	100,00	-
Other comprehensive income for the period, net of tax	(17)	8 188	(100,21)	741
Total comprehensive income attributable to:				
Owners of the company	2 016	15 685	(87,1)	(139 015)
Basic earnings per share (cents)	0,44	2,05	(78,54)	(38,1)
Diluted earnings per share (cents)	0,43	1,98	(78,28)	(36,7)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months ended 31 August 2017 R'000	Reviewed six months ended 31 August 2016 R'000	Audited year ended 28 February 2017 R'000
Cash flows from operating activities			
Profit/(loss) before taxation	3 146	11 900	(155 422)
Adjustments for:			
Depreciation of property, plant and equipment	14 096	10 640	22 693
Impairment of goodwill	-	-	50 274
Reversal of impairment of loans and receivables	-	-	(3 876)
Amortisation and fair value adjustments			

of financial assets	–	–	51 228
(Profit)/loss on disposal of property, plant and equipment	(113)	531	118
Foreign currency adjustment	24	(7 995)	4 009
Equity-settled share-based payment transactions	432	–	485
Net finance costs	195	(2 803)	(5 308)
Income tax (paid)/refund	(229)	4 124	(2 953)
	17 551	16 397	(38 752)
Change in inventories	(4 718)	(19 360)	14 085
Change in trade and other receivables	75 380	6 092	(21 981)
Change in trade and other payables	(76 923)	7 282	37 829
Change in provisions	–	(17 040)	(15 127)
Net cash generated/(used) from operations	11 290	(6 629)	(23 946)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	–	–	10 473
Loan advanced to joint venture	–	(5 413)	15 000
Acquisition of property, plant and equipment	(2 212)	(7 757)	(20 373)
Acquisition through business combination	–	–	(36 387)
Net cash used in investing activities	(2 212)	(13 170)	(31 287)
Cash flows from financing activities			
Proceeds from the issue of share capital, net of expenses	–	–	36 222
Increase/(decrease) in secured borrowings	10 250	1 265	(33 179)
Preference shares redeemed	–	(5 355)	(12 359)
Net cash generated in financing activities	10 250	(4 090)	(9 316)
Net increase/(decrease) in cash and cash equivalents	19 328	(23 889)	(64 549)
Cash and cash equivalents at beginning of period	(22 127)	42 422	42 422
Cash and cash equivalents at end of period	(2 799)	18 533	(22 127)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital	Share premium	Equity compen-sation reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance at 1 March 2016	365	580 649	72	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 income/(loss) for the period	–	–	–	(8 188)	7 497	(691)
Total contributions by and distributions to owners	–	–	–	–	–	–
Balance at 31 August 2016	365	580 649	72	19 568	67 757	668 411
Balance at 1 March 2017	463	616 773	557	28 497	(79 496)	566 794
Profit for the period	–	–	–	–	2 033	2 033
Other comprehensive income						
Foreign currency translation differences for foreign operations	–	–	–	17	–	17
Total other comprehensive income	–	–	–	17	–	17
Total comprehensive income for the period	–	–	–	17	2 033	2 050
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payments	–	–	432	–	–	432
Total contributions by and distributions to owners	–	–	–	–	–	–
Balance at 31 August 2017	463	616 773	989	28 514	(77 463)	569 276

INFORMATION ABOUT REPORTABLE SEGMENTS FOR THE SIX MONTHS ENDED 31 AUGUST/TWELVE MONTHS ENDED 28 FEBRUARY

	Unaudited August 2017 R'000	Reviewed August 2016 R'000	Audited February 2017 R'000
Construction			
Segment revenues	556 326	665 687	1 342 296
Reportable segment profit/(loss) before income tax	10 533	5 464	(68 564)
Reportable segment assets	118 496	174 203	132 842
Developments			
Segment revenues	479	2 781	66 263
Reportable segment profit before income tax	(1 498)	747	2 891
Reportable segment assets	85 505	111 804	91 944
Corporate & Eliminations			
Segment revenues	(3 730)	(2 182)	(35 511)
Reportable segment profit/(loss) before income tax	(5 889)	5 689	(89 749)

Reportable segment assets	720 070	796 426	793 191
Consolidated			
Segment revenues	553 075	666 376	1 373 048
Reportable segment profit/(loss) before income tax	3 146	11 900	(155 422)
Reportable segment assets	924 071	1 082 433	1 017 977

	Unaudited August 2017 R'000	Reviewed August 2016 R'000	Audited February 2017 R'000
Geographical information			
South Africa			
Total revenue	523 135	640 204	1 331 735
Reportable segment profit/(loss) before income tax	3 687	7 192	(153 261)
Total assets	908 155	1 058 124	987 466
Other regions			
Total revenue	29 940	26 082	41 313
Reportable segment profit/(loss) before income tax	(541)	4 708	(2 161)
Total assets	15 916	24 309	30 511
Consolidated			
Total revenue	553 075	666 286	1 373 048
Reportable segment profit/(loss) before income tax	3 146	11 900	(155 422)
Total assets	924 071	1 082 433	1 017 977

RECONCILIATION OF HEADLINE EARNINGS

	Unaudited six months ended 31 August 2017 R'000	Reviewed six months ended 31 August 2016 R'000	Change %	Audited year ended 28 February 2017 R'000
Profit attributable to ordinary shareholders	2 033	7 497	(73)	(139 756)
Adjusted for:				
Loss/(profit) on disposal of property, plant and equipment	(146)	337	(143)	85
Impairment of property, plant and equipment, investments and goodwill	–	–	–	50 274
Headline earnings attributable to ordinary shareholders	1 887	7 834	(76)	(89 397)
Number of ordinary shares in issue ('000)	493 982	395 185	25,0	493 982
Diluted weighted average	473 080	378 730	24,9	380 889
Weighted average	463 737	364 941	27,1	367 101
Headline earnings per share (cents)	0,41	2,15	(80,9)	(24,4)
Diluted headline earnings per share (cents)	0,40	2,07	(80,7)	(23,5)

Directors
B Krone (Chairman)*
WC van Zyl (CEO)
BW Atkinson (CFO)
Dr OSW Franks* (Lead Independent)
R Masemene*

* Independent non-executive

Company secretary
iThemba Governance and Statutory Solutions (Pty) Limited
R21 Corporate Park, 72 Regency Drive
Block A, Irene, 0157

PO Box 25160, Monumentpark, 0181

Registered office
30 Activia Road, Activia Park, Germiston, 1401
PO Box 6478, Dunswart, 1508
Telephone: +27 11 776 8700
Fax: +27 11 822 1158

Sponsor
Vunani Corporate Finance
Vunani House, Vunani Office Park
151 Katherine Street, Sandton, 2196

PO Box 652419, Benmore, 2010

Transfer secretaries
Computershare Investor Services (Pty) Limited
Rosebank Towers
15 Biermann Avenue, Rosebank

PO Box 61051, Marshalltown, 2107

Investor relations
Singular Systems IR
28 Fort Street, Birnam, Johannesburg, 2196

PO Box 785261, Sandton, 2146

www.esor.co.za