

Remgro Limited

Interim Results Press Release for Remgro Limited

(Remgro)

THE MAJORITY OF REMGRO'S INVESTMENTS DELIVER SOLID EARNINGS GROWTH

- Headline earnings per share (excluding the Mediclinic refinancing cost) and headline earnings per share increased by 20.5% and 126.6%, respectively to 712.5 cents
- Interim dividend per share for the period increased by 7.6% to 156 cents
- Intrinsic net asset value per share increased by 13.0% from R204.83 (30 June 2013) to R231.41 (31 December 2013)

Overview

Remgro reported a solid set of interim results for the six months ended 31 December 2013 with the majority of the platforms reporting good earnings growth. The performance by the food, liquor and homecare investments reflects the competitive trading environment and subdued economic conditions impacting these sectors.

Effective 1 July 2013, Remgro adopted IFRS 10: Consolidated Financial Statements and the revised IAS 19: Employee Benefits. Both these accounting standards have been applied retrospectively and the financial results for both the periods ended 30 June 2013 and 31 December 2012, have been restated.

For the period under review headline earnings increased by 126.2% from R1 617 million to R3 657 million, while headline earnings per share increased by 126.6% from 314.5 cents to 712.5 cents.

However, excluding the effect of the once-off items relating to Mediclinic's refinancing transaction, headline earnings increased by 20.3% from R3 040 million to R3 657 million, whereas headline earnings per share increased by 20.5% from 591.3 cents to 712.5 cents, as presented in the table below.

	Six months 31 December 2013	Change %	Six months 31 December 2012 Restated	Year ended 30 June 2013 Restated
	(R'million)		(R'million)	(R'million)
Contribution to headline earnings:				
Food, liquor and home care	839	(3.6)	870	1 123
Banking	1 200	22.0	984	2 077
Healthcare	622	154.9	(1 132)	(491)
Insurance	426	25.3	340	666
Industrial	446	43.9	310	548
Infrastructure	69	(14.8)	81	196
Media and sport	55	5.8	52	119
Other investments	35	34.6	26	57
Central treasury	36	(70.0)	120	3
Other net corporate costs	(71)	(108.8)	(34)	(102)
Headline earnings	3 657	126.2	1 617	4 196
Mediclinic refinancing cost	-	-	1 423	1 312
Headline earnings (excl Mediclinic refinance cost)	3 657	20.3	3 040	5 508

Remgro's intrinsic net asset value per share increased by 13.0% to R231.41 at 31 December 2013 (30 June 2013: R204.83).

Cash at the centre increased by R183 million to R2 916 million at 31 December 2013. The new investments made, amounting to R302 million, were mainly in the Milestone China Opportunities Fund III of R201 million, the PGSI rights offer of R19 million and smaller investments in various unlisted investments of R82 million.

Commentary on reporting platforms' performance

Food, liquor and home care

The contribution from food, liquor and home care to Remgro's headline earnings amounted to R839 million (2012: R870 million), representing a decrease of 3.6%. This decrease is mainly the result of lower contributions from RCL Foods and TSB. In the case of RCL Foods, which contributed R10 million to headline earnings (2012: R39 million), cheap competitive chicken imports and high input costs are continuing to impact its results negatively. Foodcorp's contribution to RCL Foods' operating profit for the period under review amounted to R249 million, but its earnings were, however, materially affected by a corresponding R249 million adjustment to the value of its euro denominated debt and related hedges resulting from the weakening of the rand. TSB's contribution to headline earnings amounted to R192 million (2012: R263 million). TSB's results were negatively influenced by lower domestic sales volumes and lower margins realised due to the negative impact of increased sugar imports. Unilever's contribution to Remgro's headline earnings increased by 1.1% to R280 million (2012: R277 million). Distell's contribution to headline earnings, which includes the investment in Capevin Holdings, amounted to R357 million (2012: R291 million). During April 2013, Distell acquired Burn Stewart Distillers Limited and its results for the six months to December 2013 include a favourable remeasurement of R159 million to the contingent consideration payable on the acquisition. Excluding this remeasurement, Distell's contribution to Remgro's headline earnings would have increased by 4.5% to R304 million.

Banking

The contribution from the banking division amounted to R1 200 million (2012: R984 million), representing an increase of 22.0%. Both FirstRand and RMBH reported good headline earnings growth of 21.0% and 22.4% respectively, mainly due to strong operational performances in FNB and RMB.

Healthcare

Mediclinic's contribution to Remgro's headline earnings amounted to a profit of R622 million (2012: R1 132 million loss). This increase in profit was mainly due to the effect of the once-off items relating to Mediclinic's refinancing transaction in the comparative period referred to earlier. Excluding these once-off items, Mediclinic's contribution to Remgro's headline earnings would have increased by 113.7% from R291 million, mainly due to the positive effect of its refinancing transaction, as well as a once-off past service cost credit of R172 million relating to its retirement benefit obligations.

Insurance

RMI Holdings is the only investment being reported under insurance interests. RMI Holdings reported an increase of 25.3% in headline earnings, with all three operating platforms, Discovery, MMI Holdings and OUTsurance achieving good earnings growth of 35.2%, 28.3% and 20.0% respectively.

Industrial

Total South Africa's contribution to Remgro's headline earnings amounted to R123 million (2012: R146 million). The decrease in Total South Africa's contribution to Remgro's headline earnings is mainly attributable to an increase in its site rehabilitation provision, as well as lower favourable stock revaluations than in the comparative period. Remgro's share of the results of KTH amounted to R93million (2012: R34 million). In the comparative period, KTH's results were negatively impacted by unfavourable fair value adjustments relating to its investment in Exxaro Resources Limited. Air Products' and Wispeco's contribution to headline earnings amounted to R114 million and R53 million respectively (2012: R91 million and R29 million), while PGSI contributed R63 million to Remgro's headline earnings (2012: R10 million).

Infrastructure

Grindrod's contribution to Remgro's headline earnings amounted to R45 million (2012: R57 million). This decrease is mainly due to its trading division's performance that was negatively affected by poor results in the agricultural sector. For the period under review, the CIV group contributed R28 million to headline earnings (2012: R34 million). SEACOM reported a headline loss of R32 million for the period under review (2012: R30 million loss), with Remgro's share of this loss amounting to R8 million (2012: R7 million).

Media and sport

Media and sport interests primarily consist of the interests in Sabido and Premier Team Holdings (PTH). Sabido's contribution to Remgro's headline earnings amounted to R79 million (2012: R78 million), while PTH's contribution to headline earnings amounted to a loss of R23 million (2012: R20 million loss).

Other investments

The contribution from other investments to headline earnings amounted to R35 million (2012: R26 million), of which Business Partners' contribution was R17 million (2012: R13 million).

Central treasury and other net corporate costs

The contribution from the central treasury division amounted to R36 million (2012: R120 million). This decrease mainly resulted from foreign exchange profits of R59 million accounted for in the comparative period on the hedging of the repatriation of a portion of Remgro's offshore cash. Other net corporate costs amounted to R71 million (2012: R34 million). This increase is mainly the result of the net after-tax underwriting fee of R46 million received on the Mediclinic rights offer in the comparative period.

Interim dividend

For the six months ended 31 December 2013, an interim dividend per share of 156 cents has been declared out of income reserves in respect of both the ordinary shares of no par value and the unlisted B ordinary shares of no par value. This represents a 7.6% increase from the interim dividend declared for the six months ended 31 December 2012 of 145 cents per share.

Conclusion

Jannie Durand, CEO of Remgro, concluded that despite the challenges being faced by the majority of its investments, he is satisfied that the stated strategies and business principles of these businesses remain sound. Remgro's own strategy of realising shareholder value over the medium to long term continues to be the main focus of the group.

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