

Aso - Austro Group Limited - Audited Financial Results For The Year Ended

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31 August 2011

AUSTRO GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2001/029771/06)

Share code: ASO ISIN: ZAE000090882

("the Group")

AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 AUGUST 2011

SUMMARY

Revenue

R387,1 million

Net profit for the year

R6,4 million

Cash generated from operations

R66,0 million

Cash dividends and capital distributions per share

4,0 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited	Audited
31 August 2011	31 August 2010	

	R`000	R`000
Revenue	387,102	401,943
Cost of sales	(258,271)	(242,655)
Gross profit	128,831	159,288
Operating income	1,877	6,430
Operating expenses	(133,479)	(129,082)
(Loss)/profit from operations	(2,771)	36,636
Interest received	6,804	8,559
Interest paid	(3,942)	(11,538)
Profit before taxation	91	33,657
Taxation income/(expense)	6,348	(10,527)
Net profit for the year	6,439	23,130
Other comprehensive income for the year	-	-
Total comprehensive income for the year	6,439	23,130
Earnings per share (cents)	1.5	5.4
Headline earnings per share (cents)	1.6	5.2
Dividends per share (cents)	2.0	4.0
Capital distribution declared out of share premium (cents)	2.0	-
Reconciliation of earnings to headline earnings:		
Net profit for the year	6,439	23,130
Net loss/(profit) on disposal of plant and equipment	239	(1,047)
Tax effect thereon	(33)	147
Headline earnings	6,645	22,230

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited	Audited
	31 August 2011	31 August 2010
	R`000	R`000
Assets		
Non-current assets	276,959	273,403
Plant and equipment	38,018	43,597
Goodwill	229,742	229,742
Loans receivable	482	-
Deferred taxation	8,717	64
Current assets	304,347	372,160
Inventories	177,869	254,053
Trade and other receivables	76,025	75,160
Taxation receivable	1,465	557
Cash and cash equivalents	48,988	42,390
Total assets	581,306	645,563
Equity and liabilities		
Capital and reserves	517,110	545,705
Share capital	4	4
Share premium	295,697	322,103
Accumulated profits	221,409	223,598
Non-current liabilities	-	3,805
Interest free liabilities	-	3,426
Deferred taxation	-	379
Current liabilities	64,196	96,053
Current portion of interest free liabilities	3,426	3,426

Trade and other payables	60,662	62,730
Taxation payable	108	4,629
Bank overdraft	-	25,268
Total equity and liabilities	581,306	645,563
Number of shares in issue	395,693,678	431,413,384
Weighted average number of shares	419,758,013	431,413,384
Net asset value per share (cents)	130.7	126.5
Tangible net asset value per share (cents)	72.6	73.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	31 August 2011	31 August 2010
	R'000	R'000
Cash flows from operating activities	65,980	120,894
Cash generated by operations	79,859	150,392
Interest received	6,804	8,559
Interest paid	(3,942)	(11,538)
Dividends paid	(8,628)	(17,257)
Taxation paid	(8,113)	(9,262)
Cash flows from investing activities	(4,282)	(965)
Cash flows from financing activities	(29,832)	(5,395)
Net increase in cash and cash equivalents	31,866	114,534
Cash and cash equivalents at beginning of year	17,122	(97,412)
Cash and cash equivalents at end of year	48,988	17,122

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Audited	Audited
	31 August 2011	31 August 2010
R'000	R'000	
Share capital and share premium	295,701	322,107
Balance at beginning of year	322,107	322,107
Share premium reduction due to share buy back	(18,492)	-
Share premium reduction due to capital distribution declared out of share premium	(7,914)	-
Accumulated profits	221,409	223,598
Balance at beginning of year	223,598	217,725
Total comprehensive income for the year	6,439	23,130
Dividends declared	(8,628)	(17,257)
Total capital and reserves	517,110	545,705

CONDENSED SEGMENTAL ANALYSIS

	Audited	Audited	Audited
	Revenue	Revenue	Profit/(loss)
before tax			
	31 August 2011	31 August 2010	31 August 2011
	R'000	R'000	R'000
Power	250,904	268,427	9,175
Gross	251,199	285,632	9,470
Intersegment	(295)	(17,205)	(295)
Wood	136,198	133,516	(9,084)
Gross	136,198	143,237	(9,084)
Intersegment	-	(9,721)	-
Total	387,102	401,943	91
	Audited	Audited	Audited
	Profit before tax	Net assets	Net assets
31 August 2010	31 August 2011	31 August 2010	
	R'000	R'000	R'000
Power	32,102	427,171	439,490
Gross	49,307	-	-
Intersegment	(17,205)	-	-
Wood	1,555	89,939	106,215
Gross	11,276	-	-
Intersegment	(9,721)	-	-
Total	33,657	517,110	545,705

COMMENTARY

INTRODUCTION

Austro Group Limited is listed in the Industrial Engineering sector and Industrial Machinery subsector of the JSE Limited. The Group's core strategy is to offer leading and established global brands to large manufacturing, commercial, construction, mining and other groups in the infrastructural sector. This offering is complemented by unsurpassed service and technical support.

The Group has two distinct and focused businesses:

- the production, supply, installation and rental of generators and related components such as industrial engines, marine engines, alternators, switchgear and components to the market, including the generator manufacture and supply industry; and

- the distribution of industrial aluminium, plastics and woodworking machinery, tooling and edging together with the relevant after-sales and technical services.

Group structure:

New Way Power (Pty) Limited ("Power") housing the energy and power related interests of the Group.

Austro Wood (Pty) Limited ("Wood") housing the woodworking and related interests of the Group.

The core of these businesses has been in existence for over 30 years. The entities are wholly owned.

RESULTS OVERVIEW

FINANCIAL REVIEW

The Group delivered disappointing results, in part due to a number of costs discussed in more detail below.

Consolidated statement of comprehensive income

The year ended 31 August 2011 saw revenue contract by 3,7% in what was a very internally focused year for the Group. Despite the relatively small decline in revenue, the 2011 year shows a 72% decrease in earnings per share, primarily due to the costs mentioned.

A deferred tax asset of R8,7 million has been raised, primarily to recognise that the Group will benefit from the utilisation of tax losses available in the holding company and Austro Wood (Pty) Ltd. Accordingly the statement of comprehensive income incorporates a deferred tax credit of R9 million.

Consolidated statement of financial position and consolidated statement of cash flows

A continued focus on inventory levels and the tidying up of some legacy business units during the year means that the Group's statement of financial position remains robust.

A reduction of R76,2 million in inventory levels was achieved during the year, allowing the Group to utilise R18,5 million to buy back shares and over and above this to increase cash and cash equivalents by R31,9 million. The Group currently has no debt to service.

An interim cash capital distribution of 2 cents per share was paid on 18 July 2011. No final dividend or cash capital distribution has been declared.

SUBSEQUENT EVENTS

The group acquired the business of EdgePro (Pty) Limited and EdgePro Natal (Pty) Limited (without acquiring shares in either of these companies), effective 1 September 2011. The JSE issued a ruling that these acquisitions did not need to be aggregated in terms of section 9 of the listings requirements and accordingly no announcement was made on SENS. Only inventory and fixed assets were acquired. The total purchase consideration for these businesses was R10 026 198 settled in cash. These acquisitions were made in support of Austro Wood's strategy, allowing the Wood Division to supply edging to existing and new customers.

The company executed share repurchases in late August 2011 for a total of 400 755 shares. As the settlement date for each of these trades is after 26 August 2011 (the last Friday of the month and the date at which the share register used for purposes of this report was produced), these trades are disclosed as a subsequent event.

OPERATING REVIEW

Power

The division's 6,5% deterioration in revenue is largely due to the Quad activities, where revenue fell by 45,5%. The year saw the manager of this business unit leave the Group and Quad's business relocated to New Way's Alberton premises where its future direction will be determined by New Way's management team. Neptune's revenue fell by 5,5% primarily as a result of tough competition. The balance of the division saw revenue fall by 0,5%. Profit before tax in the division fell by 71% to R9,2 million (2010: R32,1 million). Inventory in the former Quad business unit was impaired by R11,1 million. This impairment alone accounts for almost half of the deterioration in performance. Other negative items include a significant bad debt provision, a warranty claim and inventory impairments in New Way, these items in aggregate amounting to R4,7 million.

Wood

Despite a 2,0% increase in revenue the Wood division saw an extensive decline in performance, reporting a loss before taxation of R9,1 million (2010: profit of R1,6 million). Much of this deterioration in performance may be explained by a relatively small number of large items, including retrenchment costs of R2 million and inventory impairments of R3,2 million. Foreign exchange gains in 2010 became foreign exchange losses in 2011, the swing amounting to almost R 1 million.

A number of the items mentioned as well as some costs not mentioned are seen as an investment in the division's future. The inventory impairments, for example, were costs incurred in recognition of the reality that some of

the division's inventory would be difficult to sell. Essentially initiatives have therefore been taken to clean up the statement of financial position. In addition costs have been incurred in consultancy fees, training, strategic workshops and other activities fundamental in developing a new strategy for this division.

PROSPECTS

The 2012 year is set to be a year of far greater external focus for both divisions. In the Power division there are firm plans to extend sales to countries outside of South Africa and strategies to generate new sales or cost savings utilising the assets of the former Quad business unit as a more integrated component of New Way.

The Wood division's edging business acquisitions mentioned under subsequent events will contribute to revenue in the coming year, without the addition of significant fixed costs. The division's key account strategy and a number of initiatives designed to increase the relative significance of the tools and service divisions are expected to create a more sustainable base for recurring revenue into future years.

It is evident from the preceding narrative that there were a number of items impacting the group's performance in 2011 that are for the most part unlikely to be repeated and certainly unlikely to be repeated at the same magnitude in 2012. The group is well positioned to take advantage of an economic recovery should one occur as there is considerable surplus operational capacity available in both divisions.

BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), Interim Financial Reporting (IAS34), AC500 Series of Interpretations, the Listing Requirements and the requirements of the Companies Act of South Africa. The accounting policies applied are consistent with those applied in the prior year. These condensed consolidated financial statements have been audited by PKF (Jhb) Inc. and their unqualified audit report is available for inspection at the companies registered office.

These condensed consolidated financial statements have been prepared by Tania Le Roux (CA) SA under the supervision of Philip Sigsworth (CA) SA.

CHANGES TO THE BOARD OF DIRECTORS

During the period RE Moss resigned from the Board of Directors and Philip Sigsworth and Charles Jacobs were appointed.

By order of the Board

AJ Phillips

Chairman

Johannesburg

14 November 2011

Non-executive directors:

AJ Phillips* (Chairman)

DS Brouze

GS Nzalo*

U Schackermann* (German)

(* Independent)

Executive directors:

JO Freed

JR Freed (Alt JO Freed)

C Jacobs

P Sigsworth

Registration number:

2001/029771/06

Business/registered address:

1125 Leader Road, Stormill Ext 4, Roodepoort, Johannesburg

Business postal address:

PO Box 1914, Florida, Johannesburg

Company secretary:

Probity Business Services (Proprietary) Limited

Transfer secretaries:

Computershare Investor Services (Proprietary) Limited

17 November 2011

Sponsor:

Java Capital

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