Raubex Group Limited

UNAUDITED INTERIM RESULTS

for the six months ended 31 August 2019

Raubex Group Limited
(Incorporated in the Republic of South Africa)
Registration number 2006/023666/06
Share Code: RBX
ISIN Code: ZAE000093183
("Raubex" or "the group")

Unaudited interim results

Financial highlights

- Revenue decreased **1,9%** to **R4,40 billion** (H1 2019: R4,48 billion)
- Operating profit increased **37,0%** to **R216,3 million** (H1 2019: R157,8 million)
- Headline earnings per share increased **64,1%** to **58,6** cents per share (H1 2019: 35,7 cents per share)
- Earnings per share increased **81,0%** to **64,6** cents per share (H1 2019: 35,7 cents per share)
- Cash generated from operations increased **41,4%** to **R414,8 million** (H1 2019: R293,3 million)
- Net asset value increased to **R4,40 billion** (H1 2019: R4,29 billion)
- Capital expenditure decreased to **R145,0 million** (H1 2019: R197,5 million)
- Order book increased to **R9,08 billion** (H1 2019: R8,41 billion)
- Interim dividend declared of **22** cents per share (H1 2019: 12 cents per share)

Rudolf Fourie, CEO of Raubex Group, said:

"Following a very difficult 2019 financial year in which a number of rightsizing initiatives were undertaken, we have managed to stop the bleeding and the group is now better positioned to manage the lower volume of construction work on hand, while it has maintained sufficient capacity to participate in an anticipated improvement in the sector.

"Although softer results were reported by the materials division, the infrastructure division has experienced strong growth during the first half of the year, mainly as a result of work related to the division's participation in the Renewable Energy Independent Power Producer Procurement Programme, where a number of contracts are currently in progress.

"We are encouraged by a substantial increase in tender activity that has been observed in recent months which now needs to materialise into contract awards."

Commentary

Financial overview

Revenue decreased 1,9% to R4,40 billion while operating profit increased 37,0% to R216,3 million from the corresponding prior period.

Profit before tax increased 40,4% to R200,8 million (H1 2019: R143,0 million) with the effective tax rate decreasing to 30,1% (H1 2019: 33,0%).

Group operating margin increased to 4,9% (H1 2019: 3,5%).

Earnings per share increased 81,0% to 64,6 cents (H1 2019: 35,7 cents) with headline earnings per share increasing 64,1% to 58,6 cents (H1 2019: 35,7 cents).

Cash generated from operations increased 41,4% to R414,8 million (H1 2019: R293,3 million) before finance charges and taxation.

Net finance costs increased to R16,3 million (H1 2019: R14,0 million). Included in finance costs is R11,4 million interest attributable to lease payments accounted for in terms of IFRS 16 leases. Total non-cash finance costs decreased to R5,2 million (H1 2019: R6,8 million).

The group has maintained a strong balance sheet during the period with continued focus on working capital management and cash generation.

Trade and other receivables decreased by 27,4% to R1,33 billion (H1 2019: R1,84 billion) while contract assets increased by 34,2% to R446,6 million (H1 2019: R332,9 million) as a result of increased construction work in progress, which is mainly related to milestone work on the Renewable Energy Independent Power Producer Procurement Programme ("REIPPPP") projects as well as the Douala Mall in Cameroon.

Inventories increased by 28,9% to R729,0 million (H1 2019: R565,6 million) which was mainly attributable to an increase in property development stock of R111,6 million accounted for under investments in associates in the prior period.

Trade and other payables decreased 9,1% to R1,36 billion (H1 2019: R1,49 billion), while contract liabilities increased 12,8% to R278,8 million (H1 2019: R247,1 million).

Capital expenditure on property, plant and equipment decreased 26,6% to R145,0 million (H1 2019: R197,5 million), while net capital expenditure decreased to R57,8 million (H1 2019: R174,4 million) due to the disposal of surplus plant and equipment.

Borrowings decreased 19,3% to R590,1 million (H1 2019: R730,9 million).

The group had a net cash inflow for the period of R75,2 million and total cash and cash equivalents at the end of the period of R1,04 billion.

Operational review

Materials Division

The materials division comprises three main disciplines including: (i) commercial quarries; (ii) contract crushing; and (iii) materials handling and processing services for the mining industry.

The materials division has continued to diversify the group from the construction industry and despite softer earnings being reported in the first half of the year, it was still the main contributor to group operating profit with 66,6% of group operating profit generated by this division.

A combination of factors have impacted the performance of the division during the period including: (i) community unrest, which has affected a number of commercial quarry operations across the country; (ii) completion of certain material handling contracts in the diamond mining sector in Namibia; and (iii) establishment costs and lower initial production volumes achieved on the transition to new material handling contracts in the coal mining sector in South Africa.

Revenue for the division decreased 10,8% to R1,36 billion (H1 2019: R1,52 billion) and operating profit decreased by 24,9% to R144,1 million (H1 2019: R191,8 million).

The divisional operating profit margin decreased to 10,6% (H1 2019: 12,6%).

The division incurred capital expenditure of R87,0 million during the period (H1 2019: R149,0 million).

The division has a secured order book of R1,95 billion (H1 2019: R1,76 billion).

Roads and Earthworks Division

This division specialises in road construction and earthworks as well as road surfacing and rehabilitation which includes the manufacturing and laying of asphalt, chip and spray, surface dressing, enrichments, slurry seals and the manufacture and distribution of value added bituminous products throughout southern Africa.

The division is primarily dependent on the South African road construction sector through its construction capacity, as well as through asphalt and bitumen supply operations, and is directly and indirectly exposed to government expenditure on road construction and maintenance in the country.

The division has continued to experience weak trading conditions in the South African road construction sector during the period and is still carrying some excess capacity to that which is required for the current volume of work on hand. The division has continued to replace its order book with work on roads operated by private concessionaires, while public sector spend has remained low.

Rightsizing initiatives undertaken in the prior year have substantially curtailed the losses reported in the previous corresponding period and the division is now better positioned to manage the lower volume of work while it has maintained sufficient capacity to participate in an expected improvement in the sector.

During the period, a further 61 employees were retrenched at a cost of R1,8 million, while a loss making contract, related to the special maintenance of the N2 near Butterworth, resulted in an operating loss of R15,5 million being reported for the period. This contract has subsequently been completed.

Revenue for the division decreased by 7,7% to R1,76 billion (H1 2019: R1,90 billion) while the operating loss decreased by 91,5% to an operating loss of R5,1 million (H1 2019: R60,8 million operating loss).

The divisional operating margin improved to an operating loss margin of 0,3% (H1 2019: 3,2% operating loss margin).

The division incurred capital expenditure of R7,7 million during the period (H1 2019: R31,5 million).

The division has a secured order book of R4,06 billion (H1 2019: R3,80 billion).

Infrastructure Division

The infrastructure division specialises in disciplines outside of the road construction sector, including energy (with a specific focus on renewable energy), rail, telecommunications, pipeline construction and housing infrastructure and commercial building projects.

The infrastructure division has experienced strong growth during the first half of the year compared to the previous corresponding period, mainly as a result of work related to the division's participation in the REIPPPP where a number of contracts are in progress.

Consistent results were reported from the affordable housing and commercial building operations in the division.

Internationally, work in Cameroon has continued to progress well and the Onomo hotel in Douala, Cameroon was successfully completed during the period. Consistent results were also reported from Westforce Construction in Western Australia.

Revenue for the division increased 21,4% to R1,28 billion (H1 2019: R1,06 billion) and operating profit increased 187,8% to R77,3 million (H1 2019: R26,9 million).

The divisional operating profit margin increased to 6,0% (H1 2019: 2,5%).

The division incurred capital expenditure of R50,3 million during the period (H1 2019: R17,1 million).

The division has a secured order book of R3,07 billion (H1 2019: R2,86 billion), of which R502 million relates to REIPPPP projects and R419 million to Westforce Construction in Australia.

International

The group's international operations consist of materials supply and mining services as well as construction activities. These operations are located in the African jurisdictions of Botswana, Cameroon, Namibia, Zambia and Zimbabwe. A footprint has also been established in Western Australia.

Activities in Botswana have reported consistent results for the period and include commercial quarry operations in Gaborone, as well as bitumen and asphalt supply operations.

In Cameroon, the Onomo hotel in Douala was successfully completed during the period while good progress has been made towards the completion of the Douala Grand Mall, which has R134,2 million order book remaining and is estimated to be completed by 31 March 2020.

The decrease in the international operating margin is mainly related to activities in Namibia where certain material handling contracts in the diamond mining sector were completed in the prior year and replaced with work in the South African coal sector at lower margins. The materials division has continued to service the copper mining operations of the Tschudi mine near Tsumeb, while bitumen supply operations through Tosas are ongoing in the country.

In Western Australia, consistent results have been reported and the group will continue with a cautious approach to this geographical expansion, while exploring synergies and transferring skills between its South African and Australian operations.

International revenue decreased 1,1% to R853,6 million (H1 2019: R863,5 million) and operating profit decreased 28,1% to R87,6 million (H1 2019: R121,9 million).

Operating profit margins decreased to 10,3% (H1 2019: 14,1%).

The international order book stands at R1,13 billion (H1 2019: R2,0 billion) and is included in the individual divisional order books.

Prospects

The group's secured order book has increased 8,0% to R9,08 billion (2019 H1: R8,41 billion) with 12,5% consisting of contracts outside of South Africa in the rest of Africa and Western Australia.

In the materials division, margins are expected to improve in the second half of the year as production efficiencies are achieved on new mining contracts, while any increase in activity in the South African construction sector should benefit the materials division through its commercial aggregate supply and contract crushing capabilities.

While conditions in the South African construction sector are expected to remain challenging in the second half of the financial year, due to excess capacity being carried and low margin contracts in the order book, the outlook over the medium term is improving and a substantial increase in tender activity has been observed.

The South African National Roads Agency SOC Limited ("SANRAL") is planning extensive upgrades to the N2/N3 road network in KwaZulu-Natal which have come to the market to tender for as well as a number of periodic maintenance contracts in the Eastern Cape, Northern Cape and Western Cape provinces. In addition, tender documents have been released by the Airports Company South Africa SOC Limited ("ACSA") for significant upgrades to the OR Tambo International Airport and the Cape Town International Airport, while a number of road maintenance contracts have also been released by various provincial government administrations.

Notwithstanding the improving outlook in the South African construction sector, the group will continue to look to the rest of Africa for growth and higher margins with some large project opportunities currently being negotiated in southern African jurisdictions, including the Beitbridge border post upgrade in Zimbabwe.

On 18 October 2019, the Minister of Mineral Resources and Energy announced the approval by cabinet of the Integrated Resource Plan 2019 ("IRP 2019") which is an electricity infrastructure development plan which identifies the preferred generation technology required to meet the expected demand growth in South Africa. The IRP 2019 has made provision for significant roll out of renewable energy up to the year 2030, providing for 6 000 MW additional capacity from photovoltaic and 14 400 MW additional capacity from wind. The group is well positioned to benefit from the roll out of work in the REIPPPP and this commitment by government to renewable energy in the electricity supply mix will further support the prospects of the infrastructure division over the medium term.

In the affordable housing sector, the Department of Human Settlements received a healthy medium-term budget allocation from National Treasury which is set to increase at an average annual rate of 4,4% from R32,2 billion in 2018/19 to R36,7 billion in 2021/22. This should support activity in the sector while providing much needed housing solutions through the department facilitating the provision of integrated human settlements, upgrading informal settlements and facilitating affordable housing finance. The group's participation in the Lufhereng Integrated Housing Development in Soweto is ongoing and its affordable housing development at Woodwind Estates in Midrand will continue to be rolled out in a phased approach.

The progress made to date in Western Australia is pleasing and the construction market in the country is buoyant, driven by activity in the mining sector. The group will continue to explore this market and look to grow its footprint in Western Australia at a measured pace.

In the period ahead, the opportunities which have now come to the market to tender on are encouraging and the group will look to participate in these opportunities from both a construction and materials supply perspective. The time taken between tender submission and award will determine when conditions are likely to improve for the South African construction sector, which is anticipated to be in the 2021 financial year. In the interim, the group will continue to focus on maintaining a strong balance sheet which will be imperative to participate in projects with milestone payment profiles and projects with large performance guarantee requirements.

Dividend declaration

The directors have declared a gross interim cash dividend from income reserves of 22 cents per share on 11 November 2019 for the six-month period ended 31 August 2019. The salient dates for the payment of the dividend are as follows:

Last day to trade *cum* dividend	Tuesday, 26 November 2019
Commence trading *ex* dividend	Wednesday, 27 November 2019
Record date	Friday, 29 November 2019
Payment date	Monday, 2 December 2019

No share certificates may be dematerialised or rematerialised between Wednesday, 27 November 2019 and Friday, 29 November 2019, both dates inclusive.

In terms of Dividends Tax ("DT"), the following additional information is disclosed:

- The local DT rate is 20%.
- The number of ordinary shares in issue at the date of this declaration is 181 750 036.
- The dividend to utilise for determining the DT due is 22 cents per share.
- The DT amounts to 4,4 cents per share.
- The net local dividend amount is 17,6 cents per share for shareholders liable to pay the DT.
- Raubex Group Limited's income tax reference number is 9370/905/151.

In terms of the DT legislation, the DT amount due will be withheld and paid over to the South African Revenue Service by a nominee company, stockbroker or Central Securities Depository Participant (collectively "Regulated Intermediary") on behalf of shareholders. All shareholders should declare their status to their Regulated Intermediary, as they may qualify for a reduced DT rate or exemption.

Group income statement

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
Revenue	**4 398 589**	4 483 609	8 519 142
Cost of sales	**(3 919 148)**	(4 052 954)	(7 792 319)
Gross profit	**479 441**	430 655	726 823
Other income	**9 764**	12 017	31 844
Other gains/(losses) – net	**9 596**	15 415	(24 580)
Administrative expenses	**(282 542)**	(300 259)	(527 042)
Operating profit	**216 259**	157 828	207 045
Finance income	**25 196**	23 742	48 612
Finance costs	**(41 453)**	(37 790)	(73 858)
Share of profit/(loss) of investments accounted for using the equity method	**784**	(758)	(1 115)
Profit before income tax	**200 786**	143 022	180 684
Income tax expense	**(60 533)**	(47 185)	(63 842)
Profit for the period	**140 253**	95 837	116 842
Profit for the period attributable to:			
Owners of the parent	**117 284**	64 855	57 957
Non-controlling interest	**22 969**	30 982	58 885
Basic earnings per share (cents)	**64,6**	35,7	31,9
Diluted earnings per share (cents)	**64,4**	35,6	31,8

Group statement of comprehensive income

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
Profit for the period	**140 253**	95 837	116 842
Other comprehensive income for the period, net of tax			
Currency translation differences	**8 208**	22 727	14 670
Actuarial gain on post-employment benefit obligations	**–**	–	461
Total comprehensive income for the period	**148 461**	118 564	131 973
Comprehensive income for the period attributable to:			
Owners of the parent	**124 752**	86 310	73 045
Non-controlling interest	**23 709**	32 254	58 928
Total comprehensive income for the period	**148 461**	118 564	131 973

Calculation of diluted earnings per share

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
Profit attributable to owners of the parent entity	**117 284**	64 855	57 957
Weighted average number of ordinary shares in issue ('000)	**181 660**	181 680	181 680
Adjustments for:			
Shares deemed issued for no consideration (share options) ('000)	**573**	471	508
Weighted average number of ordinary shares for diluted earnings per share ('000)	**182 233**	182 151	182 188
Diluted earnings per share (cents)	**64,4**	35,6	31,8

Calculation of headline earnings per share

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
Profit attributable to owners of the parent entity	**117 284**	64 855	57 957
Adjustments for:			
Profit on sale of property, plant and equipment	**(15 054)**	(60)	(9 930)
Goodwill written off	**–**	–	51 477
Add back: Non-controlling interests' portion of profit on sale of property, plant and equipment	**107**	–	1 758
Total tax effects of adjustments	**4 185**	17	2 288
Basic headline earnings	**106 522**	64 812	103 550
Weighted average number of shares ('000)	**181 660**	181 680	181 680
Headline earnings per share (cents)	**58,6**	35,7	57,0
Diluted headline earnings per share (cents)	**58,5**	35,6	56,8

Group statement of financial position

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**2 427 902**	2 507 223	2 535 579
Right-of-use assets	**263 202**	–	–
Intangible assets	**1 033 193**	1 098 372	1 037 605
Investment in associates and joint ventures	**44 656**	129 850	42 566
Deferred income tax assets	**112 544**	57 765	94 684
Inventories	**62 667**	59 314	67 474
Trade and other receivables	**41 180**	65 871	53 978
Total non-current assets	**3 985 344**	3 918 395	3 831 886
Current assets			
Inventories	**666 365**	506 312	698 178
Contract assets	**446 567**	332 852	293 993
Trade and other receivables	**1 292 930**	1 772 130	1 448 393
Current income tax receivable	**31 021**	31 475	30 541
Cash and cash equivalents	**1 043 961**	894 554	962 611
Total current assets	**3 480 844**	3 537 323	3 433 716
Total assets	**7 466 188**	7 455 718	7 265 602
EQUITY			
Share capital	**1 817**	1 817	1 817
Share premium	**2 059 688**	2 059 688	2 059 688
Treasury shares	**(13 807)**	(1 218)	(1 218)
Other reserves	**(1 162 613)**	(1 224 689)	(1 177 135)
Retained earnings	**3 250 253**	3 209 939	3 181 700
Equity attributable to owners of the parent	**4 135 338**	4 045 537	4 064 852
Non-controlling interest	**264 914**	243 726	262 272
Total equity	**4 400 252**	4 289 263	4 327 124
LIABILITIES			
Non-current liabilities			
Borrowings	**325 992**	396 594	362 989
Lease liabilities	**185 375**	–	–
Provisions for liabilities and charges	**109 366**	102 879	105 625
Deferred income tax liabilities	**279 526**	326 017	292 389
Other financial liabilities	**110 095**	114 441	119 868
Total non-current liabilities	**1 010 354**	939 931	880 871
Current liabilities			
Trade and other payables	**1 356 804**	1 492 977	1 366 715
Contract liabilities	**278 818**	247 102	326 852
Borrowings	**264 149**	334 263	298 758
Lease liabilities	**83 415**	–	–
Current income tax liabilities	**51 409**	65 382	38 923
Provisions for liabilities and charges	**5 987**	10 160	11 359
Other financial liabilities	**15 000**	76 640	15 000
Total current liabilities	**2 055 582**	2 226 524	2 057 607
Total liabilities	**3 065 936**	3 166 455	2 938 478
Total equity and liabilities	**7 466 188**	7 455 718	7 265 602

Group statement of cash flows

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
Cash flows from operating activities			
Cash generated from operations	**414 815**	293 324	788 924
Interest received	**25 196**	23 742	48 612
Interest paid	**(36 226)**	(30 990)	(57 782)
Income tax paid	**(79 576)**	(68 495)	(163 926)
Net cash generated from operating activities	**324 209**	217 581	615 828
Cash flows from investing activities			
Purchases of property, plant and equipment	**(144 975)**	(197 509)	(420 865)
Proceeds from sale of property, plant and equipment	**87 205**	23 064	60 142
Acquisition of subsidiaries	**–**	(99 270)	(115 434)
Loans granted to associates and joint ventures	**(1 306)**	(17 019)	(36 919)
Net cash used in investing activities	**(59 076)**	(290 734)	(513 076)
Cash flows from financing activities			
Proceeds from borrowings	**148 120**	204 272	341 286
Repayment of borrowings	**(219 726)**	(274 551)	(481 625)
Repayment of lease liabilities	**(35 945)**	–	–
Dividends paid to owners of the parent	**(39 985)**	(59 954)	(81 756)
Dividends paid to non-controlling interests	**(16 413)**	(4 811)	(12 758)
Acquisition of interest in a subsidiary	**(13 400)**	(1 700)	(1 700)
Acquisition of treasury shares	**(12 589)**	–	–
Net cash used in financing activities	**(189 938)**	(136 744)	(236 553)
Net increase/(decrease) in cash and cash equivalents	**75 195**	(209 897)	(133 801)
Cash and cash equivalents at the beginning of the period	**962 611**	1 084 088	1 084 088
Effects of exchange rates on cash and cash equivalents	**6 155**	20 363	12 324
Cash and cash equivalents at the end of the period	**1 043 961**	894 554	962 611

Group statement of changes in equity

	Share capital R'000	Share premium R'000	Treasury shares R'000	Other reserves R'000	Retained earnings R'000	Total attributable to owners of the parent company R'000	Non-controlling interest R'000	Total equity R'000
Balance at 28 February 2018	1 817	2 059 688	(1 218)	(1 219 859)	3 200 300	4 040 728	157 240	4 197 968
Change in accounting policy	–	–	–	–	(22 617)	(22 617)	–	(22 617)
Restated balance at 1 March 2018	1 817	2 059 688	(1 218)	(1 219 859)	3 177 683	4 018 111	157 240	4 175 351
Unutilised share option reserve reversed	–	–	–	(27 267)	27 267	–	–	–
Share option reserve	–	–	–	982	–	982	–	982
Non-controlling interest arising on business combination	–	–	–	–	(4)	(4)	60 835	60 831
Acquisition of non-controlling interest	–	–	–	–	92	92	(1 792)	(1 700)
Profit for the period	–	–	–	–	64 855	64 855	30 982	95 837
Other comprehensive income for the period	–	–	–	21 455	–	21 455	1 272	22 727
Dividends paid	–	–	–	–	(59 954)	(59 954)	(4 811)	(64 765)
Balance at 31 August 2018	1 817	2 059 688	(1 218)	(1 224 689)	3 209 939	4 045 537	243 726	4 289 263
Share option reserve	–	–	–	5 923	–	5 923	–	5 923
Unutilised put option reserve reversed	–	–	–	48 459	–	48 459	–	48 459
Non-controlling interest arising on business combination	–	–	–	–	–	–	(181)	(181)
Profit for the period	–	–	–	–	(6 898)	(6 898)	27 903	21 005
Other comprehensive income for the period	–	–	–	(6 828)	461	(6 367)	(1 229)	(7 596)
Dividends paid	–	–	–	–	(21 802)	(21 802)	(7 947)	(29 749)
Balance at 28 February 2019	1 817	2 059 688	(1 218)	(1 177 135)	3 181 700	4 064 852	262 272	4 327 124
Share option reserve	**–**	**–**	**–**	**7 054**	**–**	**7 054**	**–**	**7 054**
Acquisition of treasury shares	**–**	**–**	**(12 589)**	**–**	**–**	**(12 589)**	**–**	**(12 589)**
Acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**(8 746)**	**(8 746)**	**(4 654)**	**(13 400)**
Profit for the period	**–**	**–**	**–**	**–**	**117 284**	**117 284**	**22 969**	**140 253**
Other comprehensive income for the period	**–**	**–**	**–**	**7 468**	**–**	**7 468**	**740**	**8 208**
Dividends paid	**–**	**–**	**–**	**–**	**(39 985)**	**(39 985)**	**(16 413)**	**(56 398)**
Balance at 31 August 2019	**1 817**	**2 059 688**	**(13 807)**	**(1 162 613)**	**3 250 253**	**4 135 338**	**264 914**	**4 400 252**

Group segmental analysis

	Materials R'000	Roads and Earthworks R'000	Infrastructure R'000	Consolidated R'000
Operating segments				
31 August 2019				
Segment revenue	**1 359 389**	**1 758 266**	**1 280 934**	**4 398 589**
Operating profit/(loss)	**144 103**	**(5 142)**	**77 298**	**216 259**
Margin	**10,6%**	**(0,3%)**	**6,0%**	**4,9%**
31 August 2018				
Segment revenue	1 523 750	1 904 610	1 055 249	4 483 609
Operating profit/(loss)	191 770	(60 803)	26 861	157 828
Margin	12,6%	(3,2%)	2,5%	3,5%
28 February 2019				
Segment revenue	2 750 801	3 634 494	2 133 847	8 519 142
Operating profit/(loss)	358 543	(245 796)	94 298	207 045
Margin	13,0%	(6,8%)	4,4%	2,4%

	Local R'000	International R'000	Consolidated R'000
Geographical information			
31 August 2019			
Segment revenue	**3 544 972**	**853 617**	**4 398 589**
Operating profit	**128 637**	**87 622**	**216 259**
Margin	**3,6%**	**10,3%**	**4,9%**
31 August 2018			
Segment revenue	3 620 080	863 529	4 483 609
Operating profit	35 976	121 852	157 828
Margin	1,0%	14,1%	3,5%
28 February 2019			
Segment revenue	6 990 062	1 529 080	8 519 142
Operating profit	80 736	126 309	207 045
Margin	1,2%	8,3%	2,4%

Capital expenditure and depreciation

	Unaudited six months 31 August 2019 R'000	Unaudited six months 31 August 2018 R'000	Audited 12 months 28 February 2019 R'000
Capital expenditure for the period	**144 975**	197 509	420 865
Depreciation for the period*	**225 717**	195 490	376 887
Amortisation of intangible assets for the period	**4 411**	5 662	11 188

* *Included in the depreciation for the period ended 31 August 2019 is an amount of R40,6 million that relates to depreciation on right-of-use assets that have been capitalised in terms of IFRS 16.*

Notes

Basis of preparation

These condensed consolidated interim financial statements have been prepared under the supervision of the Financial Director, JF Gibson CA(SA), in accordance with International Financial Reporting Standards ("IFRS"), 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 and the requirements of the South African Companies Act 71 of 2008 and the JSE Listings Requirements.

The principal accounting policies used in the preparation of the unaudited results for the period ended 31 August 2019 are consistent with those applied for the year ended 28 February 2019 and for the unaudited results for the six months ended 31 August 2018 in terms of IFRS, except for the adoption of IFRS 16: *Leases*. The impact of the adoption to IFRS 16: *Leases* is set out in the changes in accounting policies note.

Treasury shares

During the period the company, through its subsidiary Raubex (Pty) Ltd, acquired 727 292 of its own shares through purchases on the JSE Limited. The total amount paid to acquire the shares was R12,6 million and was deducted from shareholders' equity. The related weighted average share price at the time of purchase was R17,31. At 31 August 2019 the weighted average share price of all treasury shares held by Raubex (Pty) Ltd was R17,31.

Analysis of movement in treasury shares:

	Number of shares	Value R'000
At 1 March 2018	70 138	1 218
At 28 February 2019	70 138	1 218
At 1 March 2019	**70 138**	**1 218**
Acquisition of treasury shares by Raubex (Pty) Ltd	**727 292**	**12 589**
At 31 August 2019	**797 430**	**13 807**

Business combinations

Transactions with non-controlling shareholders

Shisalanga Construction (Pty) Ltd ("Shisalanga")

On 1 March 2019, the group restructured its asphalt operations in KwaZulu-Natal and effectively increased its interest in Shisalanga from 60% to 76% through a share subscription agreement and a share buyback agreement. The subscription for shares was based on the net asset value of Shisalanga at 28 February 2019 and was settled through the transfer of assets held by group subsidiary, National Asphalt (Pty) Ltd, valued at R49,9 million. The share buyback from the non-controlling shareholder was settled with R9,9 million in cash.

Raubex Building (Pty) Ltd ("Raubex Building")

On 1 June 2019, the group acquired an additional 5% of the issued share capital from a non-controlling shareholder of Raubex Building for R3,5 million settled in cash, increasing the group's shareholding from 77% to 82%.

Revenue disaggregation

The following disclosures are provided in terms of IAS 34.16A(l) and IFRS 15.114:

Disaggregation of revenue by activity and segment	**Materials R'000**	**Roads and Earthworks R'000**	**Infrastructure R'000**	**Consolidated R'000**
31 August 2019				
Contracting revenue	**591 167**	**1 264 547**	**1 262 807**	**3 118 521**
Commercial quarry aggregates and gypsum revenue	**564 113**	**–**	**–**	**564 113**
Bitumen and emulsion products and services	**–**	**336 985**	**–**	**336 985**
Asphalt supply revenue	**–**	**156 733**	**–**	**156 733**
Plant hire revenue	**204 109**	**–**	**–**	**204 109**
Property sales, property rentals and development fees	**–**	**–**	**18 128**	**18 128**
Total revenue	**1 359 389**	**1 758 265**	**1 280 935**	**4 398 589**
31 August 2018				
Contracting revenue	812 908	1 248 100	996 578	3 057 586
Commercial quarry aggregates and gypsum revenue	519 323	–	–	519 323
Bitumen and emulsion products and services	–	302 033	–	302 033
Asphalt supply revenue	–	354 478	–	354 478
Plant hire revenue	191 518	–	–	191 518
Property sales, property rentals and development fees	–	–	58 671	58 671
Total revenue	1 523 749	1 904 611	1 055 249	4 483 609
28 February 2019				
Contracting revenue	1 511 182	2 427 910	2 053 212	5 992 304
Commercial quarry aggregates and gypsum revenue	900 591	–	–	900 591
Bitumen and emulsion products and services	–	573 028	–	573 028
Asphalt supply revenue	–	633 556	–	633 556
Plant hire revenue	339 028	–	–	339 028
Property sales, property rentals and development fees	–	–	80 635	80 635
Total revenue	2 750 801	3 634 494	2 133 847	8 519 142

Disaggregation of revenue by activity and geography	South Africa R'000	Rest of Africa R'000	Australia R'000	Consolidated R'000
31 August 2019				
Contracting revenue	**2 486 630**	**416 572**	**215 319**	**3 118 521**
Commercial quarry aggregates and gypsum revenue	**474 954**	**89 159**	**–**	**564 113**
Bitumen and emulsion products and services	**219 750**	**117 235**	**–**	**336 985**
Asphalt supply revenue	**141 401**	**15 332**	**–**	**156 733**
Plant hire revenue	**204 109**	**–**	**–**	**204 109**
Property sales, property rentals and development fees	**18 128**	**–**	**–**	**18 128**
Total revenue	**3 544 972**	**638 298**	**215 319**	**4 398 589**
31 August 2018				
Contracting revenue	2 395 826	473 992	187 768	3 057 586
Commercial quarry aggregates and gypsum revenue	453 632	65 691	–	519 323
Bitumen and emulsion products and services	205 917	96 116	–	302 033
Asphalt supply revenue	314 950	39 528	–	354 478
Plant hire revenue	191 084	434	–	191 518
Property sales, property rentals and development fees	58 671	–	–	58 671
Total revenue	3 620 080	675 761	187 768	4 483 609
28 February 2019				
Contracting revenue	4 864 294	804 440	323 570	5 992 304
Commercial quarry aggregates and gypsum revenue	765 389	135 202	–	900 591
Bitumen and emulsion products and services	367 983	205 045	–	573 028
Asphalt supply revenue	573 167	60 389	–	633 556
Plant hire revenue	338 594	434	–	339 028
Property sales, property rentals and development fees	80 635	–	–	80 635
Total revenue	6 990 062	1 205 510	323 570	8 519 142

Disaggregation of revenue by customer sector and geography	South Africa R'000	Rest of Africa R'000	Australia R'000	Consolidated R'000
31 August 2019				
Public sector	**955 007**	**44 384**	**38 034**	**1 037 425**
Private sector	**2 589 965**	**593 914**	**177 285**	**3 361 164**
Total revenue	**3 544 972**	**638 298**	**215 319**	**4 398 589**
31 August 2018				
Public sector	857 308	8 169	42 759	908 236
Private sector	2 762 772	667 592	145 009	3 575 373
Total revenue	3 620 080	675 761	187 768	4 483 609
28 February 2019				
Public sector	1 730 985	33 161	68 389	1 832 535
Private sector	5 259 077	1 172 349	255 181	6 686 607
Total revenue	6 990 062	1 205 510	323 570	8 519 142

Reclassification of comparative figures

Reclassification of comparative figures in respect of the geographies and activities from which revenue is recognised

Disaggregation of revenue by activity and geography	Local R'000	International R'000	Australia R'000	Consolidated R'000
28 February 2019				
International revenue (activities as previously stated)				
Contracting revenue	4 943 199	1 049 105	–	5 992 304
Commercial quarry aggregates and gypsum revenue	686 484	214 107	–	900 591
Re-allocation of revenue to correct revenue activity[1]				
Contracting revenue	(78 905)	78 905	–	–
Commercial quarry aggregates and gypsum revenue	78 905	(78 905)	–	–
Re-allocation of revenue to disaggregate international geographies[2]				
Contracting revenue	–	(323 570)	323 570	–
Commercial quarry aggregates and gypsum revenue	–	–	–	–
International revenue (activities as currently stated)				
Contracting revenue	4 864 294	804 440	323 570	5 992 304
Commercial quarry aggregates and gypsum revenue	765 389	135 202	–	900 591

1. *Local commercial quarry aggregates and gypsum revenue of R78,9 million was incorrectly disclosed in the prior year as international commercial quarry aggregates and gypsum revenue. The prior year disclosures have therefore been corrected to disclose this. The reclassification has no impact on the statement of financial position or the statement of profit or loss of the current or prior year.*
2. *In order to provide further understanding of where the group's International revenue is derived from, international revenue has been disaggregated into two geographies, i.e. "Rest of Africa" and "Australia".*

Changes in accounting policies

This note explains the impact of the adoption of IFRS 16: *Leases* on the group's financial statements and discloses the new accounting policies that have been applied from 1 March 2019.

The group has adopted IFRS 16 retrospectively from 1 March 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised cumulatively in the opening balance sheet on 1 March 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17: *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 March 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 March 2019 was 8,1%. There were no leases previously classified as finance leases by the lessee within the group at 28 February 2019.

The total lease liability recognised on 1 March 2019 can be reconciled back to the operating lease commitments at 28 February 2019 as follows:

	2019 R'000
Operating lease commitments disclosed at 28 February 2019	73 285
Add: Lease commitments not disclosed at 28 February 2019*	112 750
Restated operating lease commitments at 28 February 2019	**186 035**
Restated operating lease commitments discounted using the incremental borrowing rate	172 541
Less: Short-term leases not capitalised	(4 047)
Less: Lease liabilities relating to termination options reasonably certain to be exercised	(3 431)
Add: Lease liabilities relating to extension options reasonably certain to be exercised	79 250
Lease liability recognised as at 1 March 2019	**244 313**
Current lease liabilities	**69 988**
Non-current lease liabilities	**174 325**
	244 313

* *As a result of procedures adopted to transition to IFRS 16 it was found that operating lease commitments of R112,8 million were incorrectly excluded from the operating lease commitments disclosed by the group for the year ended 28 February 2019. The misstatement had no material impact on the group's statement of financial position or statement of profit or loss.*

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by any prepaid or accrued lease payments or any onerous lease provisions relating to leases recognised in the balance sheet as at 28 February 2019 where applicable.

The recognised right-of-use assets relate to the following types of assets:

	31 August 2019 R'000	1 March 2019 R'000
Land and buildings	**37 087**	41 408
Plant and machinery	**226 115**	201 959
Total right-of-use assets	**263 202**	243 367

The change in accounting policy affected the following items in the balance sheet on 1 March 2019:

Statement of financial position at transition*

	Balance at 28 February 2019 R'000	IFRS 16 Effect R'000	Balance at 1 March 2019 R'000
Assets			
Non-current assets			
Right-of-use assets	–	243 367	243 367
Liabilities			
Non-current liabilities			
Lease liabilities	–	174 325	174 325
Current liabilities			
Trade payables	1 366 715	(945)	1 365 770
Lease liabilities	–	69 988	69 988

** Only those line items affected by IFRS 16 have been included above.*

There was no impact on retained earnings from the adoption of IFRS 16 on 1 March 2019.

Impact on segment disclosures and earnings per share

Segment assets, segment liabilities and earnings before interest and tax all increased as a result of the change in accounting policy, while an increase in finance costs resulted in a net decrease in profit before tax.

The net financial effect of the change at 31 August 2019 is as follows:

	Materials R'000	Roads and Earthworks R'000	Infrastructure R'000	Total R'000
Statement of financial position effects				
Segment assets	**242 811**	**18 953**	**1 438**	**263 202**
Segment liabilities	**247 047**	**20 280**	**1 463**	**268 790**
Income statement effects				
Segment lease expenses reversed	**43 498**	**3 290**	**619**	**47 407**
Additional segment depreciation	**(37 176)**	**(2 839)**	**(572)**	**(40 587)**
Segment earnings before interest and tax	**6 322**	**451**	**47**	**6 820**
Segment finance costs	**(10 558)**	**(832)**	**(72)**	**(11 462)**
Segment profit before tax	**(4 236)**	**(381)**	**(25)**	**(4 642)**

Earnings per share decreased 1,8 cents per share for the six months ended 31 August 2019 as a result of the adoption of IFRS 16.

Practical expedients applied

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 March 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4: *Determining whether an Arrangement contains a Lease*.

The group's leasing activities and how these are accounted for

The group leases various offices, land for construction site offices, land for quarrying activities, residential units for site accommodation, plant and machinery and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions as well as extension and termination options. Rental contracts vary in length, and range from month to month agreements up to 10 years.

The lease agreements do not impose any covenants on the group.

Until 28 February 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit and loss on a straight-line basis over the period of the lease.

From 1 March 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any incentives receivable;
- variable lease payments that are based on an index or rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs if applicable.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less at commencement date. Low-value asset leases comprise small items of office equipment.

Extension and termination options

Extension and termination options are included in the majority of leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option such as current market lease rates, availability and cost of similar assets. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Potential future cash outflows of R2,1 million have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, there has been no effect of revising lease terms to reflect the effect of exercising extension and termination options since the adoption of IFRS 16 on 1 March 2019.

Events after the reporting period

Early termination of leases relating to plant and equipment

Subsequent to 31 August 2019, a number of leases relating to plant and equipment were settled with suppliers in order to terminate the respective lease agreements and take ownership of the underlying assets. The total settlement price paid for the plant and equipment was R168,8 million which was capitalised under property, plant and equipment. These transactions resulted in the derecognition of right-of-use assets to the value of R152,6 million and lease liabilities to the value of R158,2 million.

No other material events after the reporting period occurred up to the date of preparation of these group financial statements.

On behalf of the board

F Kenney	**RJ Fourie**	**JF Gibson**
Chairman	*Chief Executive Officer*	*Financial Director*

11 November 2019

Notes

Company information

Directors

RJ Fourie

JF Gibson

NF Msiza

F Kenney#

LA Maxwell*

BH Kent*

SR Bogatsu*

Non-executive Chairman

* *Independent non-executive*

Company secretary

GM Chemaly

Registered office

Building No 1

Highgrove Office Park

50 Tegel Avenue

Centurion

South Africa

Transfer secretaries

Computershare Investor Services (Pty) Ltd

Rosebank Towers

15 Biermann Ave

Rosebank

Johannesburg

2196

Auditors

PricewaterhouseCoopers Inc.

Sponsor

Investec Bank Limited

www.raubex.com

Raubex Group Limited

www.raubex.com

Contacts

Raubex Group

Rudolf Fourie

+27 (0) 51 406 2000

James Gibson

+27 (0) 12 648 9400

Investor relations

investor.relations@raubex.com