

Interim Results Press Release

INVICTA REPORTS ROBUST INTERIM RESULTS

Offshore operations now contribute over 40% to Group profits

Highlights:

- Revenue of R3.8 billion, an increase of 7% on the comparative period
- Basic earnings per share from continuing operations up 29% to 272 cents.
- Headline earnings up 35% to R278 million
- Headline earnings per share (HEPS) up 43% to 268 cents
- Cash of R469 million generated from operations before working capital changes

28 November 2022: Investment holding and management company Invicta Holdings Limited (Invicta) today reported a commendable set of results for the six months ended 30 September 2022, increasing HEPs by 43% to 268 cents.

CEO Steven Joffe said that Invicta again produced a robust performance in light of prevailing market conditions. *“The Ukraine war has resulted in a volatile world economic environment, causing both logistical issues and higher energy prices, effecting all aspects of business. The Group strategically increased its inventory levels to deal with these factors as well Covid-19 restrictions and, was able to keep on supplying its customers at a high level, a mantra we have consistently followed.”*

Headline earnings increased by 35% to R278 million, with Joffe adding that the strong performance, particularly from Invicta’s offshore operations which was further enhanced by the weaker Rand, meant that these operations contributed more than 40% to the Group’s profits.

“The cost reduction measures enforced by the Covid-19 pandemic also remain embedded in the operations and have further contributed to the performance of the Group, assisting in offsetting inflationary pressures,” said Joffe.

Gross profit margin was 1.9% higher at 32.5%. A net foreign exchange gain of R33 million and equity accounted earnings from Kian Ann Group (KAG) of R90 million boosted operating results, producing a profit from continuing operations for the period of R330 million.

Cash generated from operations before working capital changes amounted to R469 million, compared to R456 million in the comparative period. Higher working capital requirements given the weaker Rand, strategic increases in inventory holdings and supply chain issues absorbed R178 million.

The Group repurchased approximately 4.7% of its ordinary and 5% of its preference shares in issue in the period to the value of R167 million.

While the net interest bearing debt to equity ratio remains a healthy 23%, the Invicta board intends paying dividends on an annual basis by applying a cover ratio between 2.75 and 3.25 times on sustainable earnings. Joffe advised that *“Due to the share repurchase undertaken during the period, the board has recommended that no dividend be declared at the interim period.”*

Operational performance

Replacement Parts Services and Solutions: Earthmoving equipment (RPE) supplies after-market replacement spare parts, ground engaging tools and undercarriage parts for earthmoving equipment and other capital equipment, with operations in South Africa, the United Kingdom and the United States of America.

Revenue increased by 137.7% to R470 million from R198 million, well above previous revenue levels. The revenue increase is mainly due to the acquisition of KMP on 1 January 2022. Further, additional increases in the inventory value are attributable to the KMP acquisition, with KMP being the primary contributor to the R278 million added to inventory at 30 September 2022. Operating profit before interest on financing transactions and foreign exchange movements increased by 49.2% from R40 million to R60 million.

Kian Ann Group (KAG) supplies and manufactures parts for heavy machinery and the automotive industry. This business has expanded regionally and globally with subsidiary and related companies in China, Indonesia, Malaysia, India and the United Kingdom, with further distribution businesses in the United States of America and Canada.

KAG contributed R90 million to Group earnings for the current period compared to R35 million – excluding the re-measurement gain on fair value of investment of R372 million – in the comparative period, successfully overcoming difficult conditions in China where Covid-19 lockdowns of over five weeks disrupted operations.

“In particular we are pleased with the contribution from the Kunshen Kensetsu Buhin Co. Ltd roller manufacturing business,” said Joffe

Replacement Parts Services and Solutions: Industrial (RPI) is an importer and local manufacturer of industrial consumable products, services, and solutions for all industries in southern Africa, offering world-class solutions and products, with the aim of improving the efficiency of Invicta’s customers and ensuring that they remain globally competitive.

Revenue increased by 3.4% from R2.2 billion to R2.3 billion, tempered by the floods in Kwazulu-Natal, that affected certain customers and branches. Operating profit before interest on financing transactions and foreign exchange movements remained flat at R172 million, as once-off profits on the sale of certain businesses in the comparative period was not repeated in the current period and, certain provisions have been made for expected bonuses.

Strong foreign exchange gains boosted profit before tax.

Replacement Parts Services and Solutions: Auto Agri (RPA) operates in South Africa and certain European countries, focusing on the importation and distribution of automotive aftermarket parts and Original Equipment Manufacturer (OEM) kits, as well as driveshaft parts and other replacement parts for the agricultural industry.

Revenue increased by 9.5% from R255 million to R280 million. Joffe explains: *“While the war in Ukraine has affected our Ukrainian business negatively, we have secured our assets and previous impairments have been reversed. Business in Poland remains strong, with RPA’s operating profit before interest on financing transactions and foreign exchange movements increasing by 26.7 % from R52 million to R66 million.”*

Capital Equipment and related parts and services (CE) sells capital equipment, spare parts and provides related services to the earthmoving, construction, mining and logistics industries.

Revenue in the CE segment increased by 4% from R559 million to R581 million, while operating profit before interest on financing transactions and foreign exchange movements decreased by 4.6% from R50 million to R49.6 million. This was largely due to higher freight costs and dealer commissions, according to Joffe.

Outlook

In looking ahead, Joffe advised that while the Group remains committed to developing a diversified and sustainable replacement parts group, it is vigilant of monitoring prevailing economic conditions to secure above market returns for its stakeholders.

“Our ambition of building a Group that is geographically diverse – with 50% of earnings outside South Africa – and diverse across sectors by 2026 will be tempered by the careful evaluation of opportunities. We are constantly reviewing and restructuring existing businesses to ensure they achieve the desired returns. Further, Group services will be leveraged to optimise delivery and structure,” said Joffe

In line with this, post the results period, Invicta announced to investors via SENS on 15 November 2022 that it is in the process of restructuring in order to simplify the Group’s structure. This will involve, among other things, the deregistration of Invicta Finance Proprietary Limited (after the assets it holds are transferred to other Group companies) while maintaining the current B-BBEE status of Invicta Holdings Limited’s 75% held subsidiary, Invicta South Africa Holdings Proprietary Limited and its subsidiaries, Bearing Man Group Proprietary Limited and Humulani Marketing Proprietary Limited.

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