

PSV

PSV HOLDINGS LIMITED



Unaudited condensed consolidated financial results

for the six months ended 31 August 2018



Condensed consolidated statement of comprehensive income

	Unaudited for the six months ended 31 August 2018 R'000	Unaudited for the six months ended 31 August 2017 (Restated) R'000	Audited for the 12 months ended 28 February 2018 (Restated) R'000
Revenue	120 130	82 112	175 703
Gross profit	15 075	15 586	31 510
Operating expenses	(15 520)	(16 960)	(30 860)
Operating (loss)/profit	(445)	(1 374)	650
Net finance (charges)/income	(953)	27	(880)
Loss before taxation	(1 398)	(1 347)	(230)
Taxation	389	91	(520)
(Loss) for the period from continued operations	(1 009)	(1 256)	(750)
(Loss)/profit from discontinued operations	(2 282)	4 309	(73)
(Loss)/profit for the period attributable to ordinary shareholders	(3 291)	3 053	(823)
Other comprehensive (loss)/income	(643)	(88)	127
Total comprehensive (loss)/profit for the period	(3 934)	2 965	(696)
(Loss) attributable to ordinary shareholders – continued operations	(1 009)	(1 256)	(750)
Loss on disposal of property, plant and equipment net of tax	(3)	87	100
Loss on sale of disposal group	–	–	165
Deferred tax on (loss) on disposal of assets	1	(24)	(28)
Headline (loss) – continued operations	(1 011)	(1 193)	(513)
(Loss)/profit attributable to ordinary shareholders – discontinued operations	(2 282)	4 309	(73)
(Profit) on disposal of property, plant and equipment net of tax	–	–	(20)
Deferred tax on profit on disposal of assets	–	–	4
Headline (loss)/profit – discontinued operations	(2 282)	4 309	(89)
Headline (loss)/profit	(3 293)	3 116	(602)
Basic (loss)/earnings per share (cents)	(1.25)	1.16	(0.31)
Basis (loss) per share (cents) – continued operations	(0.38)	(0.48)	(0.28)
Basis (loss)/earnings per share (cents) – discontinued operations	(0.87)	1.64	(0.03)
Headline (loss)/earnings per share (cents)	(1.25)	1.18	(0.23)
Headline (loss) per share (cents) – continued operations	(0.38)	(0.45)	(0.19)
Headline (loss)/earnings per share (cents) – discontinued operations	(0.87)	1.63	(0.03)
Actual number of shares in issue at end of the period	265 879 842	265 879 842	265 879 842
Weighted number of shares in issue at end of the period	263 810 429	263 792 329	263 810 429

* Operating expenses are net of sundry income and include depreciation and amortisation charges.

There is no dilution of earnings.

Condensed consolidated statement of financial position



	Unaudited 31 August 2018 R'000	Unaudited 31 August 2017 R'000	Audited 28 February 2018 R'000
ASSETS			
Non-current assets	38 441	43 310	42 541
Current assets	49 980	63 502	77 634
Inventory	8 432	11 019	35 703
Trade and other receivables	30 882	40 437	37 576
Taxation receivable	–	–	–
Loans receivable – short term	186	155	197
Cash and cash equivalents	10 480	11 891	4 158
Non-current assets held for sale	30 363	–	11 093
Total assets	118 784	106 812	131 268
EQUITY AND LIABILITIES			
Equity	23 868	33 897	28 529
Non-current liabilities	1 265	5 031	2 147
Current liabilities	51 401	67 884	91 190
Billings in excess of work certified	–	388	679
Current portion of long-term liabilities	250	2 022	665
Provisions	2 519	4 034	2 088
Trade and other payables	38 496	41 244	66 777
Bank overdraft	10 136	20 196	20 981
Non-current liabilities held for sale	42 250	–	9 402
Total liabilities	94 916	72 915	102 739
Total equity and liabilities	118 784	106 812	131 268

Condensed consolidated statement of changes in equity

	Unaudited for the six months ended 31 August 2018 R'000	Unaudited for the six months ended 31 August 2017 R'000	Audited for the 12 months ended 28 February 2018 R'000
Balance at beginning of the period (February 2018 – restated)	28 529	30 932	29 225
Comprehensive (loss)/profit from trading for the period	(3 291)	3 053	(823)
(Costs) relating to specific shares issue	(726)	–	–
Revaluation surplus reversed	(623)	–	623
Comprehensive (loss) from foreign currency fluctuations arising for the period	(21)	(88)	(496)
Balance at end of the period	23 868	33 897	28 529

Condensed consolidated statement of cash flows



	Unaudited for the six months ended 31 August 2018 R'000	Unaudited for the six months ended 31 August 2017 R'000	Audited for the 12 months ended 28 February 2018 R'000
Net cash generated from/(used in) operating activities	9 862	5 209	(2 174)
Cash generated from/(used in) operations – continued operations	2 228	5 209	(3 837)
Cash generated from operations – discontinued operations	7 634	–	1 663
Net cash generated from investing activities	4 009	1 238	4 586
Cash generated from investing activities – continued operations	4 009	1 238	4 496
Cash generated from investing activities – discontinued operations	–	–	90
Net cash (used in) financing activities	(5 529)	(510)	(7 019)
Cash (used in) financing activities – continued operations	1 859	(510)	(4 985)
Cash (used in) financing activities – discontinued operations	(7 388)	–	(2 034)
Net movement in cash and cash equivalents	8 342	5 937	(4 607)
Net cash generated from/(used in) operations – continued operations	8 096	5 937	(4 326)
Net cash generated/(used in) operations – discontinued operations	246	–	(281)
Net cash and cash equivalents moved to assets/liabilities held for sale	8 824	–	2 027
(Cash balance) transferred to non-current assets held for sale	(514)	–	(244)
Bank overdraft transferred to non-current liabilities held for sale	9 338	–	2 271
Cash and cash equivalents at beginning of the period	(16 822)	(14 242)	(14 242)
Cash and cash equivalents at end of the period	344	(8 305)	(16 822)
Analysis of cash flow from operating activities			
Cash (used in) generated from operations after adjusting for non-cash flow expenditure and income	(1 546)	8 683	3 517
Changes in working capital			
Decrease/(increase) in inventories	(1 666)	(429)	(16 766)
Decrease/(increase) in trade and other receivables	19 188	(611)	(459)
(Decrease)/increase in trade and other payables	(6 114)	(2 491)	11 479
	9 862	5 152	(2 228)
Taxation paid	–	57	54
Cash generated from/(used in) operations	9 862	5 209	(2 174)

Condensed consolidated segmental information

	Industrial Supplies R'000	Specialised Services R'000	Shared Services and Other R'000	Total R'000
For the six months ended 31 August 2018				
Reportable revenue	85 216	34 914	–	120 130
Gross profit	10 934	4 095	46	15 075
Operating expenses	(4 514)	(3 909)	(7 096)	(15 520)
Profit/(loss) before tax	6 381	(375)	(7 404)	(1 398)
Profit/(loss) after tax	4 595	(296)	(5 307)	(1 009)
Capital expenditure	–	–	8	8
Gross assets	32 256	41 057	45 471	118 784
Continued operations	19 696	23 254	45 471	88 421
Discontinued operations	12 560	17 803	–	30 363
Gross liabilities	(27 050)	(48 716)	(19 150)	(94 916)
Continued operations	(18 196)	(16 161)	(18 309)	(52 666)
Discontinued operations	(8 854)	(32 555)	(841)	(42 250)
For the six months ended 31 August 2017				
(Restated)				
Reportable revenue	46 789	35 323	–	82 112
Gross profit	8 544	6 578	464	15 586
Operating expenses	(4 343)	(3 534)	(9 083)	(16 960)
Profit/(loss) before tax	4 171	3 140	(8 658)	(1 347)
Profit/(loss) after tax	3 003	2 400	(6 659)	(1 256)
Capital expenditure	–	126	616	742
Gross assets	30 748	37 533	38 531	106 812
Continued operations	30 748	37 533	38 531	106 812
Discontinued operations	–	–	–	–
Gross liabilities	(23 170)	(44 054)	(5 691)	(72 915)
Continued operations	(23 170)	(44 054)	(5 691)	(72 915)
Discontinued operations	–	–	–	–

BASIS OF PREPARATION

The unaudited condensed consolidated financial results for the six months ended 31 August 2018 ("the interim results") have been prepared in accordance with the framework concepts, the recognition and measurement requirements of International Financial Reporting Standards ("IFRS"), the disclosure and presentation requirements of IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited ("JSE Listings Requirements") and the South African Companies Act, 2008 (Act 71 of 2008), as amended. The accounting policies and method of computation applied in preparation of these financial statements are in accordance with IFRS and are consistent with those applied in the annual financial statements for the 12 months ended 28 February 2018.

The interim results have been prepared under the supervision of the Financial Director, Tony Dreisstock CA(SA), and have not been audited or reviewed by the Group's auditors.

Any forecast financial information contained in the interim results has not been reviewed or reported on by the Group's auditors in accordance with paragraph 8.40(a) of the JSE Listings Requirements.

NATURE OF BUSINESS

PSV is an industrial engineering holding company comprising two operating business segments, namely:

- Industrial Supplies (including steel, piping, industrial tools and consumable supplies); and
- Specialised Services (including comprehensive cryogenic and gas systems).

INTRODUCTION

The business was detrimentally impacted by the following factors during the interim period:

- The dire financial state of the civil construction industry;
- The freeze on capex spend by the gas companies;
- The absence of suitable B-BBEE credentials; and
- The lack of working capital.

FINANCIAL RESULTS

Total loss after tax from continued operations was R1 million (August 2017 restated: loss after tax of R1.26 million). Engineered Linings has been defined as a disposal group in terms of IFRS 5 and has been reclassified as a discontinued operation. This has necessitated a restatement of the August 2017 and February 2018 comparatives respectively. Headline loss per share was 1.25 cents per share ("cps") (August 2017 restated: Headline earnings per share of 1.18 cps).

Total cash flow from operating activities remained positive at R9.86 million (August 2017: R5.2 million). The Company's net cash increased to R0.34 million compared to R8.30 million overdraft in the previous year. This improvement was partially attributable to substantial prepayments received from customers, but mainly due to the transfer of the net overdraft pertaining to Engineered Linings of R8.82 million to non-current liabilities held for sale.

As the goodwill in the statement of financial position relates to the Omnirapid cash generating unit, no impairment was considered necessary.

The Company's statement of financial position weakened because of the loss generated in the period; reversal of the revaluation surplus and the capitalisation of costs relating to the fresh subscription of shares that occurred after the interim period. Tangible net asset value per share decreased to 1.98 cps (August 2017: 6.09 cps). The fair values of the long-term financial instruments approximate their carrying values due to the variable interest rate terms of the financial instruments. The directors consider the carrying values of the current financial instruments to approximate their fair value due to their short-term nature.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("B-BBEE")

PSV's ability to grow has been significantly hampered by its inability to secure a proper B-BBEE partner. As announced on SENS on 18 September 2018 and with effect from 17 October 2018, PSV has secured a 30% B-BBEE equity partner in PSV Industrial Proprietary Limited and PSV Asset Company (Pty) Ltd, the Company's domestic operating subsidiaries. We are hopeful that this positive development will make a major difference to the Company's ability to source work in the future.

Commentary *(continued)*

OPERATIONAL REVIEW

Industrial Supplies

This segment contributed 71% (August 2017: 57%) to the Group's consolidated reportable segment revenue from continuing operations at an average gross profit margin of 13% (2017: 18%).

Omnirapid has outperformed all budgetary expectations and has grown by 67% compared to 2017. Their success remains cemented in outstanding service delivery and strong customer relationships, essential characteristics in a tough market.

Turbo Agencies operates only in Botswana. The company is operating in an ailing Botswana economy and this has manifested in poor trading results for the first six months of this year. The board of directors of PSV ("the Board") is still exploring all options to sell this company. As a result, the operations of Turbo are being disclosed as a discontinued operation.

Specialised Services

Specialised Services contributed 29% (August 2017: 43%) to the Group's consolidated reportable segment revenue at an average gross profit margin of 12% (August 2017: 19%). The low profit margin is attributable to lower turnover levels, reducing margins to secure work, high fixed costs and a distressed economic environment.

Engineered Linings is currently operating below budget and is making a loss. Lack of B-BBEE, limited working capital and operating in the civil construction industry are all contributing factors. As a result, our Cape Town office was right sized to a small sales and contracting office whilst the Johannesburg office was simultaneously upgraded to become the main operating hub. The management of Engineered Linings has also been changed. Whilst any major restructuring takes time to gain traction, we are confident that the latest initiatives will resolve many operational issues and propel the division towards sustained profitability. Notwithstanding, considering the parlous state of the industry Engineered Linings operates in and the substantial losses incurred to date, the Board has made a decision in principle to sell the division within the next twelve months.

African Cryogenics experienced a tough six months. A full pipeline as at 28 February 2018 has yet to materialise as capex spend was suspended by the gas companies. The lack of throughput in the division's fabrication department resulted in the under-recovery of fixed costs and depressed margins. We are hopeful that the recapitalisation of the Group and the introduction of a B-BBEE partner will revive the business's fortunes.

DIVIDENDS

No dividends were declared or proposed. The Board reviews the dividend policy annually.

CHANGES TO THE BOARD

The following changes to the Board were effected after the period end:

- Ms Lerato Mosiah resigned as an independent non-executive director with effect from 2 October 2018.
- Mr Anthony de la Rue has been appointed as Chairman of the Board and has stepped down as Chairman of the Audit and Risk Committee and as Chairman of the Remuneration Committee with effect from 3 October 2018.
- Mr Eric Ratshikhopho has been appointed as Chairman of the Social and Ethics Committee and has stepped down as Chairman of the Board with effect from 3 October 2018.
- Mr Roger Pitt has been appointed as an independent non-executive director of the Board and Chairman of the Audit and Risk Committee with effect from 3 October 2018.
- Mr Carlos Fernandes has been appointed as a non-executive director of the Board and Chairman of the Remuneration Committee with effect from 3 October 2018.
- Mr Abilio da Silva has resigned as Chief Executive Officer with effect from 21 November 2018.
- Mr Carlos Fernandes has been appointed as Interim Chief Executive Officer with effect from 22 November 2018.

LITIGATION STATEMENT

There are no material matters under litigation against the Company at present.

GOING CONCERN

The directors have made an assessment of the Group's ability to continue as a going concern and have no reason to believe that it is not a going concern.

SUBSEQUENT EVENTS

Subsequent to 31 August 2018, Regis Holdings Limited ("Regis") acquired a 34.99% shareholding in PSV via a specific issue of shares to Regis at a price of 18 cps for a total consideration of R25.7 million. The subscription became unconditional on 17 September 2018 and the funds were received on 28 September 2018.

PROSPECTS

The Company's prospects were limited until the introduction of Regis and Beryl. Since 31 August 2018, the Company's balance sheet has been stabilised. The Board and management are taking the necessary steps to address core strategic elements in order to restore the group to profitability.

For and on behalf of the Board

JCP Fernandes

Interim Chief Executive Officer

AR Dreisenstock

Chief Financial Officer

Johannesburg

30 November 2018

DIRECTORS

Executive directors

JCP Fernandes (Interim Chief Executive Officer)
AR Dreisenstock (Chief Financial Officer)

Independent non-executive directors

A de la Rue (Chairman of the Board)
E Ratshikhopha (Chairman of the Social and Ethics Committee)
R Pitt (Chairman of the Audit and Risk Committee)

COMPANY SECRETARY

Merchantec Capital

DESIGNATED ADVISER

Merchantec Capital

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Certified Master Auditors Inc.

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