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Transnet grabs market share despite weak economy

- 12,8% increase in railed containers and automotive volumes
- Revenue up 1,2% to R32,6 billion
- Operating expenses contained at R18,7 billion, with R1,8 billion in savings
- R9,4 billion spent on capital investment, R133 billion invested since MDS inception
- Ebitda at R13,9 billion
- R628 million in reprieves to struggling customers to preserve jobs
- Gearing at 43,8% and cash interest cover at 2,8 times
- The company maintained an investment grade credit rating, confirming its solid stand-alone credit profile

State-owned freight and logistics company Transnet today reported a steady rise in revenue and maintained profitability as the company continues with its infrastructure investment programme, despite depressed economic conditions, weak demand for commodities and manufactured products, which continued to hamper growth in volumes.

Revenue for the six months to 30 September 2016 rose 1,2% to R32,6 billion (2015: R32,2 billion), driven by a 12,8% increase in railed containers and automotive volumes and an increase in coal volumes of 1,8%. The increase in containers on rail confirms the success of the company's road-to-rail drive, while at the same time validating the inroads Transnet has made in grabbing market share for rail-friendly cargo.

The company spent R9,4 billion on its infrastructure investment programme despite the weak economy, taking overall spend on the Market Demand Strategy over the past five years to R133 billion. The bulk of the investment (R7,1 billion) was on sustaining capital and the remainder on new infrastructure and equipment.

Transnet's key measure of profitability – earnings before interest, taxation, depreciation and amortisation (Ebitda), remained flat at R13,9 billion. As expected, and in line with the capital investment programme, profit from operations after depreciation and amortisation decreased by 16,6% to R5,9 billion (2015: R7 billion). This is due to a 16,3% increase in depreciation, derecognition and amortisation of assets driven by capital investments and depreciation on the revalued port and pipelines assets. This trend is expected to continue in line with the execution of the infrastructure investment programme.

The company's profits were dampened by R628 million in price reprieves to some of its key customers in distress, thereby saving thousands of jobs. Job preservation is a key element of the company's mandate from its shareholder.

A focus on cost containment resulted in a below inflation increase of 2,3% in operating expenses to R18,7 billion (2015: R18,3 billion) despite an 8,6% and 7,6% hike in electricity and personnel costs, respectively. In addition, the company realised a R1,8 billion saving in planned costs.

Operationally, coal volumes increased to 45,2 million tons (mt) (2015: 44,4mt) despite various operational challenges, including equipment failures, security challenges, community unrest, unfavourable weather conditions and adverse market conditions.

Manganese export volumes went up 7,5% to 5,7 mt from 5,3 mt previously, as commodity prices in that sector began to recover.

Transnet's efforts to diversify sources of external revenue are gradually bearing fruit, with Transnet Engineering recording a 13,7% increase in external revenue to R688 million (2015: R605 million), including sales to the rest of Africa. Transnet Engineering is spearheading the company's foray into the continent. This entails offering various services, including maintenance and manufacturing of coaches and wagons.

In addition, Transnet has appointed a Chief Operating Officer to create a uniform operating culture and address operational challenges, while developing an integrated operating philosophy across its operating divisions.

Continued focus on operational improvements resulted in the Group operational efficiency increasing by 13,7%. At the ports, average moves per ship working hour - the primary measure of operational efficiency, reflected varied performance across the container terminals. The Ngqura Container Terminal increased productivity from 62 to 63 moves, while the Cape Town Container Terminal improved from 53 to 56 moves. However, operational and management challenges affected performance at the Durban Container Terminal - Pier 1 recorded 45 moves from 50, while Pier 2's output declined from 62 to 55 moves.

Lower market demand for refined fuel products resulted in a 4,1% decrease in petroleum volumes to 8 575 billion litres (2015: 8 940 billion litres). The decrease is in line with benign economic conditions.

The gearing ratio increased marginally to 43,8% (March 2016: 43,1%), but remains comfortably below the Group's target range of 50%. This reflects Transnet's capacity to fund future capital expenditure on the strength of its balance sheet and without government guarantees. The gearing ratio is not expected to exceed the target ratio over the medium term.

The cash interest cover ratio, was at 2,8 times (2015: 3,0 times) due to the significant increase in net finance costs resulting from increased borrowings to fund the capital investment programme. This is however higher than the triggers in loan covenants.

The company's investment grade credit rating and solid stand-alone credit profile enabled it to continue raising funds through debt capital markets. R11,8 billion was raised through various sources of funding, including:

- R4,4 billion from development finance institutions;
- R5,6 billion of commercial paper and call loans;
- R1,4 billion from export credit agencies; and
- R0,4 billion in domestic bonds.

Transnet repaid R17,2 billion of debt during the period. In addition, the company has a healthy liquidity position, with R9,6 billion in cash and cash equivalents and R16,85 billion of committed facilities secured with financial institutions. The facilities are available within 24 hours.

The company is on track with its infrastructure investment programme. Capital investment highlights during the period include:

- R2,9 billion spent on the locomotives acquisition programme, taking total spend on the programme to R28,9 billion. To date, 373 locomotives have been delivered and accepted into operations. Progress regarding the remaining diesel and electric locomotives for the general freight business is as follows:

  - 359 class 22E electric locomotives –59 locomotives have been accepted into operations
  - 233 class 44 diesel locomotives –59 locomotives have been accepted into operations, with an additional 18 locomotives undergoing acceptance testing.
  - 232 class 45 diesel locomotives – two locomotives have been delivered and are undergoing acceptance testing
  - 240 class 23E electric locomotives – nine car bodies have been completed.

- R2,6 billion invested in sustaining current capacity, with R1,1 billion spent on rail infrastructure, and R1,5 billion on rolling stock
- R85 million invested in the export coal line expansion for upgrading yards, lines and electrical equipment, taking total spend to R2,6 billion to date
- R350 million in the maintenance and acquisition of cranes, tipplers, dredgers, tugs, and straddle carriers
- R76 million invested in the New Multi-Products Pipeline (NMPP). The NMPP trunk line is fully commissioned and operational. The multi-product capability is expected to be delivered in November 2017.

Transnet continued to contribute towards government's transformation agenda through its supplier and enterprise development programme, with spend equating to 3,9% of net profit after taxation, exceeding the requirements set by the DTI Codes.

Sadly, the company lost 10 colleagues during the period. Of the 10, four fatalities were as a result of road vehicle accidents, three were due to train accidents and the remaining three were caused by non-adherence to standard operating procedures at our ports.

On behalf of the Board, members of the Group Leadership Team and all Transnet colleagues, management wishes to convey its deepest condolences to the families and friends of colleagues who lost their lives.

The company remains committed to ensuring that its capital investment objectives are met, in line with market demand, while prioritising safety, efficiencies and aggressively pursuing innovative ways of growing the business.

Issued on behalf of Mr Siyabonga Gama, Group Chief Executive.

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