Transnet delivers positive performance despite difficult economic environment

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- Revenue increased by 5,3% to R65,5 billion
- Automotive and container volumes on rail up 24,3%
- General freight business up 4,9%
- Operational efficiency improves by 14,9%
- EBITDA up 5% to R27,6 billion
- Capital investment of R21,4 billion, taking total expenditure during the MDS period to R145 billion
- Gearing at 44,4% and cash interest cover at 2,9 times - significantly within loan covenant requirements
- Cash generated from operations after working capital changes rose 16,4% to R32,8 billion
- B-BBEE spend of R37 billion or 103,1% of total measured procurement spend.

Transnet today delivered an impressive set of financial results for the year ended 31 March 2017, driven by strong volumes in general freight, export coal and manganese as the Company's road-to-rail strategy gathers pace. This confirms the Company's financial strength and operational endurance in a subdued economic environment.

Revenue for the year under review increased by 5,3% to R65,5 billion (2016: R62,2 billion), spurred by a 4,9% increase in general freight to 88,1 million tons (mt) (2016: 84 mt), a 2,4% increase in export coal volumes to 73,8 mt (2016: 72,1 mt) and a 24,3% jump in automotive and container volumes on rail to 9,2 mt (2016: 7,4 mt).

In addition, the Company moved a record 12,1 mt in manganese volumes, a 17,5% jump from 10,3 mt in the previous year. This was driven by significant improvements in operational efficiencies, including creation of new loading and off-loading zones and a recovery in manganese prices.

The increase in revenue was dampened by price reprieves in excess of R600 million to struggling customers in an effort to stimulate the economy.

The volumes growth is a firm indication of the Company's progress in gaining rail market share, while continuously improving operational efficiency through the deployment of new generation locomotives and technological interventions.

Volumes on the iron ore line were affected by lower demand and equipment failure at the ports.

Encouragingly, demand for Transnet Engineering's products resulted in a 19,6% increase in external revenue to R1,6 billion (2016: R1,4 billion) despite a deteriorating economic outlook both locally and in the rest of the continent. The increase in revenue is in line with Transnet's efforts to diversify sources of revenue into the rest of the African continent and beyond. The company is currently aggressively marketing its recently-launched Trans Africa locomotive which was designed, engineered and manufactured locally and is tailored for African conditions.

Port containers increased marginally by 0,7% due to weak consumer demand, while automotive export volumes went up 3%.

Management continued to proactively manage costs through limiting overtime, reducing professional and consulting fees and imposing a limit on discretionary costs. This resulted in a R2,4 billion saving in planned costs.

Transnet's key measure of profitability, earnings before interest, taxation, depreciation and amortisation (EBITDA), increased by 5% to R27,6 billion (2016: R26,3 billion), surpassing the country's economic growth rate, for the Transnet financial period, by more than seven times.

Cash generated from operations after working capital changes rose 16,4% to R32,8 billion (2016: R28,2 billion) reflecting the Company's strong cash generating capability. The Company's ability to service debt remains secure with the cash interest cover ratio at 2,9 times (2016: 3,1 times) due to an increase in net finance costs. This is, however, significantly above the triggers in loan covenants.

A well-defined and diversified funding strategy enabled the Company to raise R17 billion for the year without government guarantees. Transnet has not tapped into government guarantees since 1998.

The funds were raised from the following sources:
• Development finance institutions - R5,5 billion
• Commercial paper and call loans - R7,6 billion
• Export credit agencies - R2,9 billion
• Domestic bonds - R1 billion

The Company borrows debt on the strength of its financial position. During the year, Transnet proactively and successfully renegotiated R29,1 billion of debt to lower and relax the credit rating default triggers to below sub-investment grade, in view of expected rating agencies' downgrades.

In April 2017, Standard & Poor's reviewed the Company's foreign currency rating to BB+ from BBB- and the local currency to BBB- from BBB, both with a negative outlook. This followed a similar action on the sovereign as Transnet is viewed to be closely linked to the Government. S&P however, maintained Transnet's stand-alone credit profile at 'bbb', reflecting the company's strong financial metrics as the company executes its multi-billion rand infrastructure investment programme.

The Group evaluated the potential impact of the credit ratings downgrade on its financial position, liquidity and solvency and expects no significant negative effect compared to previous estimates, as the probability of a credit ratings downgrade had already been considered.

The gearing ratio increased marginally to 44,4% (2016: 43,1%) due to the execution of the capital expenditure programme. This level is significantly below the triggers in loan covenants, reflecting available capacity for the Company to continue with its investment strategy. The gearing ratio is not expected to exceed 50% over the medium term.

The Company continued to execute its infrastructure investment programme, spending R21,4 billion in the year under review. This takes total investment under the Market Demand Strategy (MDS) to R145 billion in the past five years. Transnet expects to invest a further R229,2 billion, including R20 billion earmarked for mergers and acquisitions to diversify revenue streams through geographic expansion over the next seven years to 2023/24. The ten-year expectation, dependant on validated demand, is capital expenditure of between R340 billion and R380 billion.

Among the Company's significant investments is the acquisition of locomotives to modernise its fleet in anticipation of a rise in general freight volumes in the coming years. Transnet concluded locomotive acquisition contracts in 2014, which resulted in the acquisition of approximately 1 319 new locomotives for the general freight business and coal business over the MDS period. Overall, 452 locomotives have been accepted and contracts have been concluded as follows:

- 95 class 20E electric locomotives;
- 60 class 43 diesel locomotives;
- 100 21E electric locomotives; and
- 197 locomotives from the 1 064 locomotive programme have been accepted into operations, whilst four are currently undergoing acceptance testing.

Other infrastructure investment highlights for the year include:

- R2 billion invested in rail infrastructure
- R2,3 billion invested in the wagon build programme
- R137 million invested in expanding capacity for manganese beyond 5,5 mt, taking total investment to R811 million so far.
- R145 million invested in the coal line expansion to 81 mt, including the upgrade of yards, lines and electrical equipment.
- R28 million investment in the Waterberg upgrade Stage II to grow rail capacity to 6 mt through incremental upgrades of the existing rail networks and yards using additional loops, while maintaining the existing axle loads, electrical upgrades and improved train control systems.
- R1,5 billion investment in the New Multi-Product Pipeline. The 24" main pipeline and 16" inland pipelines have been fully commissioned and are operational, having transported 15 billion litres of diesel from Durban to the inland region since commissioning.
- R1 billion in the maintenance and acquisition of cranes, tipplers, dredgers, tugs, straddle carriers and other port equipment.

Transnet uses its capital investment programme to advance South Africa's developmental objectives which include Broad-Based Black Economic Empowerment, supplier and enterprise development and skills development.

In the year under review, Transnet's total recognised B-BBEE spend was R37 billion or 103,1% of Total Measured Procurement Spend of R35,8 billion (2016: R43,5 billion or 100,6% of R43,2 billion).

Sadly, the Company lost 15 colleagues to road vehicle accidents, train-related incidents mainly due to adverse weather conditions and non-adherence to internal operating procedures. Management has heightened its oversight role of operational performance - and safety performance in particular, to ensure the various levels of safety performance are clearly understood and adhered to within the organisation.

Regarding corporate social investment, R234 million was committed to sustainable community development programmes across the rural and needy communities of South Africa, in areas such as health, education, rural sports development and through grants and donations. More than 438 000 individuals benefitted from the health programme.

The Company spent 3,1% of its labour cost on training during the year, focusing on artisans, engineers and engineering technicians. Overall, 173 full-time engineering bursaries were awarded in various disciplines and 229 engineering technician trainees were given workplace experience opportunities. Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 1 813 learners participating in these programmes.

Going forward, management has adopted a new business model, Transnet 4.0, designed to reinvent the Company's existing business model and operational philosophy to include expansion into the rest of Africa, Middle East and South Asia; to grow into a fully integrated logistics service provider with integrated solutions; and to strengthen manufacturing capability, while positioning Transnet as an Original Equipment Manufacturer in Africa.

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