

BSI Steel Limited
(Incorporated in the Republic of South Africa)
(Registration number 2001/023164/06)
(JSE code: BSS ISIN: ZAE000125134)
("BSI" or "the Company" or "the Group")

Salient features

- Decrease in NPAT of 66%
- HEPS 1.6 cents per share
- NTAV 105 cents per share

CONSOLIDATED CONDENSED FINANCIAL RESULTS
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

Consolidated condensed statement of profit and loss

	Reviewed 6 months ended 30 September 2017 R'000	Unaudited 6 months ended 30 September 2016 R'000	Audited 12 months ended 31 March 2017 R'000
Revenue	1 433 615	1 248 044	2 376 821
Gross profit	111 959	168 890	271 372
Other costs	(87 323)	(100 817)	(212 802)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	24 636	68 073	58 570
Depreciation and Amortisation	(8 966)	(11 380)	(17 443)
Profit before interest and taxation	15 670	56 693	41 129
Profit/(Loss) on disposal of assets	9	(106)	(2)
Interest received	9 990	5 991	14 187
Interest paid	(14 957)	(16 841)	(33 849)
Impairment of iron ore	-	-	(13 083)
Profit on disposal of subsidiaries	-	-	10 127
Profit before taxation	10 712	45 737	18 509
Taxation	275	(8 674)	(2 223)
Profit for the period from continuing operations	10 987	37 063	16 286
(Loss)/Profit from discontinued operations (*)	(1 085)	(8 123)	39 926
Profit for the period	9 902	28 940	56 212
Profit attributable to ordinary shareholders	9 508	28 940	56 212
Earnings attributable to non-controlling Shareholders	394	-	-
Earnings per share (cents) - continued operations	1.6	5.3	2.4
Earnings per share (cents) - discontinued operations	(0.2)	(1.1)	5.7
Total earnings per share (cents)	1.4	4.2	8.1
Reconciliation of headline earnings:			
Earnings attributable to ordinary shareholders	9 508	28 940	56 212
(Profit)/Loss on disposal of property, plant and equipment	(9)	33	(2)
Impairment of intangible and			

Financial assets	-	-	6 480
Impairment of plant and machinery	1 550	-	3 767
Impairment of goodwill	-	-	5 716
Tax impact of adjustments	(431)	(9)	(4 469)
Profit on sales of subsidiaries	-	-	(10 127)
Realisation of foreign currency translation reserve on discontinued operations	-	-	(47 681)
Headline earnings attributable to ordinary shareholders (basic and diluted)	10 618	28 964	9 896
Weighted average shares in issue on which earnings are based (000)	676 362	696 871	695 653
Headline earnings per share (cents) (basic and diluted)	1.6	4.2	1.4

(*) This represents the result of the discontinuation of the Ghanaian operation during the 2014 year as well as the sale of the DRC operation in 2017.

Consolidated condensed statement of other comprehensive income

	Reviewed 30 September 2017 R'000	Unaudited 30 September 2016 R'000	Audited 31 March 2017 R'000
Profit for the period	9 902	28 940	56 212
Other comprehensive income			
Foreign currency translation reserve	1 040	(23 079)	(83 506)
Cash flow hedge	834	(3 205)	5 200
Total comprehensive income/(loss)	11 776	2 656	(22 094)

Consolidated condensed statement of financial position

	Reviewed 30 September 2017 R'000	Unaudited 30 September 2016 R'000	Audited 31 March 2017 R'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	262 100	321 352	299 547
Goodwill	8 990	14 706	8 990
Intangible assets	2 074	7 050	4 095
Investments in joint ventures	11 909	12 362	11 912
Loans to group companies	201 942	223 932	195 257
Deferred taxation	16 786	16 077	16 164
	503 801	595 479	535 965
Current Assets			
Inventories	278 565	438 056	333 659
Trade and other receivables	600 309	542 026	520 106
Current tax receivable	11 792	8 726	10 077
Other financial assets	9 627	4 250	9 000
Loans to group companies	141	163	24 368
Cash and cash equivalents	19 216	32 804	31 072
	919 650	1 026 025	928 282
Non-current assets held for sale	52 686	28 698	29 195
Total assets	1 476 137	1 650 202	1 493 442
EQUITY AND LIABILITIES			
Equity			
Total shareholders' equity	716 061	733 021	699 875
Non-controlling interest	251	(143)	(143)
	716 312	732 878	699 732
Liabilities			

Non-Current Liabilities			
Other financial liabilities	6 306	32 336	19 120
Deferred taxation	19 152	20 090	21 081
Other liabilities	149 413	119 207	155 612
	174 871	171 633	195 813
Current Liabilities			
Trade and other payables	330 520	454 200	339 932
Current tax payable	3 368	2 426	469
Other financial liabilities	21 460	38 211	25 370
Bank overdraft	222 411	245 895	228 214
	577 759	740 732	593 985
Liabilities of disposal group	7 195	4 959	3 912
Total Liabilities	759 825	917 324	793 710
Total equity and liabilities	1 476 137	1 650 202	1 493 442
Number of shares in issue (000)	674 872	696 871	681 495
Net asset value per share (cents)	106.1	105.2	102.7
Net tangible asset value per share (cents)	104.5	102.1	100.8

Consolidated condensed statement of changes in equity

	Reviewed 30 September 2017 R'000	Unaudited 30 September 2016 R'000	Audited 31 March 2017 R'000
Equity holders' interest			
Balance at beginning of period	699 875	743 062	743 062
Profit for the period	9 508	28 940	56 212
Foreign currency translation reserve	1 040	(23 079)	(83 506)
Cash flow hedge	834	(3 205)	5 200
Share based payment provision	7 576	1 309	(1 079)
Dividends paid	-	(14 006)	(14 006)
Purchase of treasury shares	(2 772)	-	(6 008)
Balance at end of period	716 061	733 021	699 875
Non-controlling interest			
Balance at beginning of period	(143)	(143)	(143)
Profit for the period	394	-	-
Balance at end of period	251	(143)	(143)
Total equity	716 312	732 878	699 732

Consolidated condensed statement of cash flows

	Reviewed 30 September 2017 R'000	Unaudited 30 September 2016 R'000	Audited 31 March 2017 R'000
Cash flow from operations	(5 347)	(63 203)	(24,900)
Cash flows from trade and other receivables	(79 638)	(13 408)	16 689
Cash flows from trade and other payables	(9 412)	25 733	(83 469)
Cash flows from inventories	55 094	(60 058)	13 380
Other cash flows from operations	34 665	11 377	60,960
Interest and taxation	(6 056)	(26 847)	(32 460)
Investing activity cash flows	21 826	7 306	(33 378)

Financing activity cash flows	(22 412)	5 935	24 795
Total cash movement for the period	(5 933)	(49 962)	(33 483)
Cash at beginning of period	(197 142)	(161 371)	(161 371)
Effect of exchange rate movement on cash balances	(120)	(1 758)	(2 288)
Total cash at end of period	(203 195)	(213 091)	(197 142)

Consolidated condensed segment report

	Reviewed 30 September 2017 R'000	Unaudited 30 September 2016 R'000	Audited 31 March 2017 R'000
Net revenue			
SA Trading	791 372	808 344	1 573 065
Exporting	411 769	472 350	626 490
Other	230 474	35 677	177 266
	1 433 615	1 316 371	2 376 821
Profit before interest and taxation			
SA Trading	5 694	38 018	33 134
Exporting	11 763	13 634	4 553
Other	(1 778)	1 019	(9 653)
	15 679	52 671	28 044
Assets			
SA Trading	408 619	491 858	398 810
Exporting	544 363	707 816	609 732
Other	529 669	467 501	491 434
Eliminations	(6 514)	(16 973)	(6 534)
	1 476 137	1 650 202	1 493 442

OVERVIEW

The interim financial results are presented for the six months ended 30 September 2017.

The Group operates in the steel and associated industries with strategically located operations in South Africa, Mauritius, and Zambia. BSI markets through two distinct channels, being Bulk Sales and Exporting.

The six months under review reflects the Group's strategy of focusing on generating a reasonable return on capital employed.

FINANCIAL RESULTS

The pressure on gross margins continued since year end and saw a slight improvement in September, reflective of a very flat South African economy. Low margin business by Isilo Steel exerted further pressure on the group's gross margin, seeing it drop from 14% in the comparative period to 8%. Overall revenue increased by 14% despite Qinisa Steel Solutions no longer forming part of the group results, also as a result of Isilo Steel revenue added thereto.

The marked decrease in operating costs are mostly due to our continuous drive to lower costs in line with the market, along with the effect of excluding the Qnisa Steel Solutions operation. The substantial decrease in operating costs allowed for a respectable return within very tough market conditions.

Included in operating costs is a share based payment provision to the value of R8.7 million as a result of the Isilo Steel transaction referred to below.

The substantial drop in Interest paid is a direct result of a vast improvement in working capital, more specifically inventory levels dropping by 36%.

The loss of R1.1 million from discontinued operations relates to Trade receivables in Ghana provided for in full, thereby clearing the operation's balance sheet.

Comparative period Profit and loss figures were restated in line with IFRS5 as the shareholding in the Democratic Republic of the Congo operations was disposed of during March.

Isilo Steel introduced external shareholders in June, being the reason for the R394 thousand in non-controlling interest in profits for the period. Notwithstanding the fact that the majority of the shares and the majority of the board director positions are held outside of the group, the business is being consolidated in line with IFRS. This is in light of the significant sureties put forward by BSI Steel in order to allow for credit limits to be extended by vendors in the absence of sufficient trade history. The value of the sureties are very substantial compared to the group's statement of financial position. The situation will be reassessed as the business matures in future years as the reliance on the sureties are expected to decline.

The non-current assets held for sale represents both the fixed properties held in Richards Bay and Pietermaritzburg. The Richards Bay property is actively being marketed at the moment whilst the Pietermaritzburg property was sold during November.

Tower Trade Group has been restructured to reduce costs to meet tough business conditions in the UK & Europe. Performance for the H1 has been below expectations, however, the cost savings of the restructure will only be apparent in the H2. The business has developed some good products and has an excellent in-house software program to support trading transactions.

PROSPECTS

The company has continued with a cost reduction program to meet ongoing difficult market conditions. One of the key components of this restructure includes the probable closure of the Pietermaritzburg distribution facility. We are confident the reduced cost base will give BSI the best possible platform to deal with these difficult conditions.

Steel consumption is driven largely by manufacturing, construction and mining. Any meaningful uptick in the industry can only be driven by improved business confidence and resultant investment in these sectors.

DELISTING

Shareholders were advised on 29 November 2017 that the board will propose a scheme of arrangement ("Scheme"), which is subject to certain conditions, between BSI and its shareholders in terms of which, if implemented, BSI will re-acquire some of its ordinary shares for a cash consideration of 50 cents per share. Upon the Scheme becoming unconditional and being implemented, BSI will apply to the JSE to terminate the listing of BSI's share on the Alternative Exchange. A circular regarding the Scheme will be made available to shareholders in due course.

DIVIDEND DECLARATION

The policy of the company is to seek to pay dividends once a year based on year end results.

SUBSEQUENT EVENTS

No material change has taken place in the affairs of the group between the end of the financial period and the date of this report.

DIRECTORATE

Mr C Parry resigned as Chief Executive Officer on 20 October 2017 and Mr WL Battershill stepped into the role of Chief Executive Officer whilst remaining on as Chairperson.

STATEMENT ON GOING CONCERN

The financial statements have been prepared on the going-concern basis since the directors have every reason to believe that the Company has adequate resources in place to continue in operation for the foreseeable future.

BASIS OF PREPARATION

The results have been prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The results are in accordance with the Group's accounting policies set out in the Integrated Annual Report for the year ended 31 March 2017, which comply with International Financial Reporting Standards, the Companies Act, 71 of 2008 of South Africa as amended and the JSE Limited Listings Requirements. The basis of preparation is consistent with that of the prior period.

QUALIFIED REVIEW OPINION

These condensed consolidated financial statements for the period ended 30 September 2017 have been reviewed by Deloitte & Touche, who have expressed a modified review conclusion. An extract from the "Basis for Qualified Opinion" section of the review opinion is set out below.

The group's condensed statement of financial position reflects a loan receivable of R201.9million from an associate company, Tower Trade Group, for the period ended 30 September 2017. We were unable to obtain sufficient and appropriate evidence regarding the recoverability of this loan receivable as at 30 September 2017, because we were unable to independently corroborate the assumptions and estimates used by management in their recoverability assessment of this loan receivable. Consequently, we were unable to determine whether any impairment to this amount was necessary.

A copy of the auditor's ISRE 2410 review report is available for inspection at the company's registered.

The reviewed condensed consolidated financial statements were authorised for issue by the directors on 13 December 2017 for publication on 14 December 2017. The condensed consolidated financial statements for the six month period ended 30 September 2017 have been prepared by the Financial Manager, Mr JB McGrath.

Any reference to the future financial performance of the Group has not been reviewed or reported on by the Group's auditors.

By order of the Board
14 December 2017

WL Battershill
CEO

E Vermaak
CFO

CORPORATE INFORMATION

Chairman: WL Battershill

Non-executive directors: B M Khoza (Alternate - N M Anderson), N G Payne, R G Lewis

Executive directors: K Paxton, E Vermaak

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Transfer secretaries: Computershare Investor Services(Pty) Limited

Designated Adviser: Sasfin Capital (member of the Sasfin group)