

29 October 2015

Transnet surges ahead as infrastructure spend gains traction

- Revenue up 6,4% to R32,2 billion.
- Infrastructure investment at R16,1 billion, bringing the total MDS spend to R108,9 billion.
- EBITDA increased by 9% to R13,9 billion.
- Gearing at 41,4%, well below 50% ceiling.
- Cash interest cover ratio at 3 times in line with target.
- Cash generated from operations increased by 11,6% to R15,2 billion.

Transnet continues to grow revenue and strengthen its financial position while maintaining its record-breaking infrastructure investment programme, despite the impact of a sharp downturn in global and domestic economic activity hampering its major customers.

The company grew revenue by 6,4% to R32,2 billion during the six months ended 30 September 2015, driven by an impressive growth in export iron ore and Containers and Automotive Business volumes (CAB).

Export iron ore volumes increased 7,5% to 30 million tonnes (mt) from 27,9mt, while the container and automotive business increased volumes by 4,2% to 7,5mt. The growth in market share for CAB is evidence of the success of Transnet's efforts to shift rail friendly cargo from road to rail.

The rise in revenue was also driven by higher volumes at ports, particularly in the bulk and break-bulk sectors, which increased by 11,8% to 50,3mt. Automotive volumes increased by 23% to 389 203 units, while container volumes at our port terminals rose 2,3% to 2 341 711 twenty foot equivalent units (TEUs).

Transnet Pipelines increased petroleum volumes by 6% to 8,940 billion litres due to higher crude oil transported as refineries boosted inland production to ensure security of supply.

The volumes performance was bolstered by a comprehensive efficiency drive, especially at the ports. Average moves per ship working hour (SWH) – an internationally recognised measure of terminal productivity – recorded significant gains as management focused on turning vessels around quicker. The Ngqura Container Terminal led with a jump from an average 42 moves to 62, Durban's Pier 1 increased from 47 to 50 moves, while Pier 2 improved from 59 to 62.

The company bore the full impact of muted global economic activity on several of its lines, including export coal, which declined by 3% to 35,4mt as mines reduced demand for trains. The biggest decline was in steel and cement, also on the back of lower prices which culminated in the business rescue effort of one of our biggest customers in the sector. Manganese, minerals and chrome volumes were flat.

To mitigate the impact of declining volumes on revenue, Freight Rail prioritised high-yield commodities.

The company's focus on managing costs, which included a significant reduction in discretionary and non-essential spend, yielded a R3,1 billion saving in planned costs. The efforts limited the increase in operating costs to 4,6% across the company, matching inflation, despite higher personnel and electricity costs.

As a result of the volumes performance, growing revenue and focus on costs, Transnet's key measure of profitability – earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by an impressive 9% to R13,9 billion from the previous period's R12,8 billion. This compared to a GDP growth rate of 1,5%.

Transnet powered ahead with its ground-breaking infrastructure investment programme, spending R16,1 billion as it confirms its commitment to the Market Demand Strategy (MDS). This year's investment takes the total since 2012 to an unprecedented R108,9 billion. Transnet continues to ensure that its spend matches validated demand.

Highlights include:

Locomotives

- 35 diesel locomotives delivered to Freight Rail.
- 66 electric locomotives accepted into the coal line.
- 1 064 programme:
 - 23 electric locomotives of 359 delivered, ahead of schedule;
 - 6 diesel locomotives of 233 have been delivered, ahead of schedule; and
 - Achieved design freeze on 232 diesel and 240 electric locomotives.

Wagons

- 1 353 wagons built at Transnet Engineering.

Manganese expansion to 16mtpa

- R131 million invested on engineering and construction planning for the rail and port.

Coal line expansion

- R212 million invested on the expansion of the coal line to 81mt (upgrading yards, lines and electrical equipment).

New Multi-Product Pipeline (NMPP)

- R551 million invested in the NMPP project.

The infrastructure investment plan is buttressed by a comprehensive funding programme on the strength of the company's financial position. In the six months under review, Transnet raised R12,5 billion from various funding sources, including R6,33 billion from China Development Bank and KFW Development bank; R2,33 billion of commercial paper issuance; and a domestic bond issue of R2,83 billion. This confirms the bankability and attractiveness of South Africa, Transnet and its infrastructure projects.

The cash interest cover ratio, one of the key considerations for investors, is still within the target range of 3,0 times despite a significant increase in net finance costs. This resulted from increased funding to meet the cash flow requirements of the capital investment programme.

Another key consideration, the gearing ratio, is at 41,4% and firmly below the company's self-imposed ceiling of 50%. The gearing ratio is not expected to exceed the target ratio over the medium-term.

This confirms that Transnet has the capacity to continue funding the MDS.

The disabling injury frequency rate (DIFR) - an internationally accepted standard of measuring safety in operations- remained at 0,65 against the target of 0,75. Sadly, the company lost three colleagues to motor accidents during the course of their duties. Transnet conveys its deepest sympathies and condolences to families, colleagues and friends. The company will continue with its efforts and campaign towards zero fatalities in its operations.

Transnet remains committed to delivering on its mandate and the MDS in a responsible manner. The Board and executive management will continue to manage risks effectively in order to navigate through the challenging economic conditions, thereby ensuring that capacity is created ahead of validated demand.

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

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