



Final Results Press Release for the year ended 31 August 2020

TWK DELIVERS RESULTS THAT MIRROR A YEAR LIKE NO OTHER

- Revenue decreased by 1% to R7.7 billion (Aug 2019: R7.8 billion)
- Operating profit decreased by 32% to R294 million (Aug 2019: R431 million)
- Headline earnings per share decreased by 20% to 385 cents (Aug 2019: 480 cents)
- NAV per share up by 5% to R42.83 (Aug 2019: R40.74)
- Total dividend per share down 28% to 65 cents (2019: 90 cents)

26 November 2020: TWK Investments Limited (TWK or the TWK Group), a diversified agriculture and forestry company that operates through the following divisions, namely Timber, Retail and Mechanisation, Financial Services, Grain and Vehicles and Tyres, reported a set of results for the year ended 31 August 2020 that reflects the tough trading conditions experienced during the year, exacerbated by the COVID-19 pandemic. André Myburgh, CEO of TWK, commented: *“The results of the TWK Group for the year under review are disappointing when compared with the record results of the previous year. The results should however be put into perspective. The past financial year was probably one of the most challenging years for most businesses. No business has escaped the widespread disruption caused by the novel coronavirus (COVID-19) pandemic.”*

During the lockdown, agriculture was classified as an essential service provider and therefore alleviated the impact on the industry in which the TWK Group operates. Although TWK is a diversified business operating in the agriculture sector, the Timber segment is the main contributor. Therefore, the biggest impact on the business of the TWK Group was the disruption in the export of fibre and the decline in demand for local lumber and fibre. Substantial losses were also incurred in the dealerships and fuel operations, directly related to the severe impact of the COVID-19 hard lockdown periods.

Revenue was down by 1.0% from R7.8 billion (2019) to R7.7 billion due to tough market conditions. There was however an improvement in the Retail and Mechanisation segment of 15.7% due to higher volumes of fertiliser sold, the additions of new branches and better trading conditions in certain areas. Revenue in the Timber segment decreased by 16.8% due to a drastic decline in demand in the international pulp paper industry.

The ability to convert revenue growth into operating profit growth is a critical measure of TWK’s success. This indicates the effectiveness of cost control, unlocking of synergies and the effectiveness of production and procurement. The focus will be to further unlock synergies within the different business units and segments. Improved cost efficiencies and strict cost controls resulted in the Group decreasing operating expenses by 0.2% when excluding the impact of the implementations of IFRS 16: Leases on operating expenses. Operating expenditure as a percentage of turnover was 12.9% (2019: 13.3%) and is in line with the Group’s commitment to maintain disciplined cost control. Operating profit, excluding discontinued operations, declined by 31.7% from R431.1 million (2019) to R294.3 million, resulting in the operating profit margin weakening to 3.8% from 5.6% (2019).

Eddie Fivaz, TWK’s Chief Financial Officer said: *“The company declared a total dividend to shareholders of 65 cents per share, a decrease of 27.8% on the previous year’s 90 cents per share. Our financial*

position remains strong with good cash flow. Net asset value per share increased by 5.1% from R40.74 as at 31 August 2019 to R42.83 as at 31 August 2020. Return on equity decreased from 13.7% to 7.8%.”

The **Timber Division** reported revenue of R1 838.6 million, a decrease of 16.8% from R2 210.8 million for the previous financial year primarily due to a sharp decline in the export of woodchips on the back of the drastic decline in demand in the international pulp paper industry. Sales volumes to the South African eucalyptus, pine and wattle markets decreased by 54%, 21% and 22%, respectively. Operating profit from continuing operations decreased by 55.0% from R244.5 million (2019) to R110.0 million (2020), resulting in the operating profit margin declining to 6.0% (2019: 11.1%). During the year, TWK increased its interest in the mine timber sawmill, BedRock, by 25% to 90% as at 31 August 2020. The acquisition of the forestry assets (23 422 ha of land, 17 900 ha of standing timber, buildings and a sawmill operation) of Peak Timbers is still subject to Competition Commission approval.

Subsequent to year end, TWK acquired 51% of Sunshine Seedlings Services (Pty) Ltd (Sunshine) and has been granted an irrevocable right to acquire a further 49% of the shares in Sunshine over the next five years at agreed terms and financial ratios. Sunshine is a large nursery business yielding some of the highest quality timber and vegetable seedlings in South Africa and produces over 50 million vegetable seedlings annually, as well as 10 million forestry clones, seven million forestry seedlings and four million essential oil seedlings and clones.

Revenue for the **Retail and Mechanisation Division** increased by 15.7% from R2 912.2 million (2019) to R3 369.7 million mainly as a result of higher fertilizer prices and 5 015 tonnes more fertilizer sold. TWK increased its retail outlets to 29 (2019: 27) adding the New Holland Mechanisation Agency in Pietermaritzburg with effect from February 2020 and the Harding retail store. Operating profit increased by 7.3% from R32.0 million (2019) to R34.4 million with an operating profit margin of 1.0% (2019: 1.1%).

The **Financial Services Division** reported a decrease in revenue of 3.0% from R178.9 million (2019) to R173.5 million, largely attributed to the 34% decline in bridging facilities provided by the Credit Division. The Insurance Division reported a 20% growth in crop insurance and an 86% growth in its medical insurance portfolio. This contributed to operating profit increasing by 2.5% from R36.0 million (2019) to this year's R36.9 million. The overall operating profit margin increased from 20.1% (2019) to 21.2% (2020).

The **Grain Division** reported a strong set of results and was the only division unaffected by COVID-19. Contributing to the strong results was the silo capacity increase at the Rietspruit Silo to accommodate the storage of Non-Genetically Modified Organisms (NGMO) crops. Revenue decreased marginally by 2.5% to R1 311.5 million (2019: R1 346.1 million). Operating profit increased by an impressive 131.4% to R44.1 million from R19.1 million (2019). The operating profit margin recovered to 3.4% (2019:1.4%), as the results exclude the loss-making (since 2019) Mkhondo Animal Feeds operation that was closed during the year.

The **Motors and Tyres Division** experienced one of its most challenging trading periods in history. Revenue decreased by 10.8% to R979.6 million (2019: R1 097.6 million), due to declines in sales volumes across all the underlying businesses. The Toyota, Hino and Isuzu dealerships showed a 21% decline in the number of vehicles sold, a 17% decline in new tyre sales as well as a drop of 21% in petrol and diesel sales for the year ended 31 August 2020. Operating profit declined severely by 45.5% to R19.2 million from R35.2 million (2019), resulting in the operating profit margin decreasing from 3.2% in the prior year to 2.0%.

“Although a slight improvement, we project that the international markets and prices of timber fibre will continue to be under pressure into the new year. We are expecting the “loss” in volumes, due to the lower demand by the pulp paper industry, to be taken up by the increase in packaging volumes as online or e-commerce shopping as well as the demand for sanitary products increased as a direct result of COVID-19, globally. In addition, with the volume decline in recycled wastepaper, we are expecting an increase in the demand for virgin pulp, used in the manufacturing of paper, corrugated carton Board

and other paper-related products. We are also very optimistic that the rest of our business units will perform much better than the past year. We will continue to bear down on costs and improve the efficiency of our operations, including through range optimisation and lower stockholdings to deliver sustainable improvements in our cash generation and profit before tax. Our strategy is robust and the diversified nature of our business makes us resilient in the face of tough macroeconomic pressures;” concluded Myburgh.

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Contact: **TWK Investments Limited**
André Myburgh (CEO), or
Eddie Fivaz (CFO)
Tel: (017) 824 1003

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Notes to the Editor

TWK Investments Limited (TWK) is a diversified agriculture and forestry company, headquartered in Piet Retief, Mpumalanga. The Group operates over a wide geographical area of Mpumalanga, KwaZulu-Natal, Eastern Cape, Western Cape, Free State, Limpopo and Gauteng. TWK listed on the ZARX exchange on 12 June 2017 and operates through the following segments:

Timber segment

TWK markets and sells round timber and wood chips to various markets both locally and through exports.

Retail and Mechanisation segment

The Retail and Mechanisation segment produces a variety of agricultural products to producers and the general public. TWK operates 29 retail outlets that are strategically positioned in Mpumalanga, KwaZulu-Natal and eSwatini (Swaziland).

Grain segment

The Grain segment specialises in the storage, processing and marketing of grain. TWK produces its own trademark maize and animal feed that is retail, wholesale and locally marketed.

Financial services segment

The Insurance division focus on dynamic and modern insurance products to agricultural producers. The Credit division provides bridging facilities, term lending and asset financing to farmers.

Vehicles and Tyres segment

TWK owns a couple of vehicle dealerships as well as own Protea Tyres.