unaudited interim financial results
for the six months ended 30 September 2019

primeserv

integrated business support services

condensed consolidated **statement of comprehensive income**

for the six months ended 30 September 2019

	Unaudited September 2019 R'000	Unaudited September 2018 R'000	Audited March 2019 R'000
Revenue	402 926	386 982	806 735
Cost of sales	(349 400)	(333 639)	(694 451)
Gross profit	53 526	53 343	112 284
Other income	107	6	2 461
Operating expenses	(41 461)	(42 347)	(89 483)
Operating profit	12 172	11 002	25 262
Interest received	190	102	293
Interest paid	(630)	(311)	(668)
Profit before taxation	11 732	10 793	24 887
Taxation	(1 612)	(1 474)	(1 883)
Profit and total comprehensive income	10 120	9 319	23 004
Profit and total comprehensive income attributable to:			
Ordinary shareholders of the Company	10 085	9 212	22 988
Non-controlling interest	35	107	16
Profit and total comprehensive income	10 120	9 319	23 004
Basic earnings per share and diluted earnings per share (cents)	11.46	10.23	25.61

condensed consolidated **statement of financial position**
as at 30 September 2019

	Unaudited September 2019 R'000	Unaudited September 2018 R'000	Audited March 2019 R'000
ASSETS			
Non-current assets	49 016	42 669	42 244
Equipment and vehicles	4 597	4 745	5 104
Investment property	5 745	6 445	5 745
Right-of-use assets	9 001	–	–
Goodwill	21 178	21 178	21 178
Intangible assets	322	538	430
Deferred tax asset	8 173	9 763	9 787
Current assets	163 637	148 229	172 372
Inventories	120	113	132
Trade and other receivables	148 874	142 414	165 244
Cash and cash equivalents	14 643	5 702	6 996
TOTAL ASSETS	212 653	190 898	214 616
EQUITY AND LIABILITIES			
Capital and reserves	149 279	130 556	141 872
Ordinary share capital and share premium	2 672	2 672	2 672
Treasury shares	(17 793)	(16 279)	(17 292)
Retained earnings	172 462	152 169	164 589
Equity attributable to equity holders of the Company	157 341	138 562	149 969
Non-controlling interests	(8 062)	(8 006)	(8 097)
Non-current liabilities			
Finance leases: right-of-use assets	4 451	–	–
Current liabilities	58 923	60 342	72 744
Trade and other payables	50 717	49 577	53 370
Finance leases: right-of-use assets	4 647	–	–
Bank borrowings	3 559	10 765	19 374
TOTAL EQUITY AND LIABILITIES	212 653	190 898	214 616

condensed consolidated **statement of changes in equity**

for the six months ended 30 september 2019

	Unaudited September 2019 R'000	Unaudited September 2018 R'000	Audited March 2019 R'000
Balance at beginning of period	141 872	122 686	122 686
Total comprehensive income – profit	10 085	9 212	22 988
Acquisition of treasury shares	(503)	–	(1 013)
Dividends paid	(2 210)	(1 449)	(2 805)
Non-controlling interest	35	107	16
Balance at end of period	149 279	130 556	141 872

condensed consolidated **statement of cash flows**

for the six months ended 30 September 2019

	Unaudited September 2019 R'000	Unaudited September 2018 R'000	Audited March 2019 R'000
Cash flows from operations	26 986	5 313	1 213
Taxation paid	(131)	(84)	(1)
Interest received	190	102	293
Interest paid	(630)	(311)	(668)
Cash flows generated from operating activities	26 415	5 020	837
Cash flows utilised in investing activities	(240)	(13)	(776)
• purchase of equipment and vehicles	(240)	(13)	(776)
Cash flows utilised in financing activities	(2 713)	(1 449)	(3 818)
• acquisition of treasury shares	(503)	-	(1 013)
• dividends paid	(2 210)	(1 449)	(2 805)
Net increase/(decrease) in cash and cash equivalents	23 462	3 558	(3 757)
Cash and cash equivalents at beginning of period	(12 378)	(8 621)	(8 621)
Cash and cash equivalents at end of period	11 084	(5 063)	(12 378)

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the JSE Limited Listings Requirements. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards ("IFRS") and are consistent with those applied in the previous annual financial statements, except for the adoption of new standards. IFRS 16 had no material effect on the Group's results. The results were prepared by the Group Financial Director, Mr. R Sack CA (SA).

Primeserv offers specialised integrated business support services, which includes the value-added services provided by the training and consulting services business. This part of the business is now considered insignificant in the context of the overall Group's operations, accounting for approximately 3% of group revenue and as such there is no meaningful reason to continue to report the results of its operations separately. With effect from the beginning of the current financial year, the Group's business is being reported in two segments, namely the trading activities housed in the Integrated Business Support Services segment, and the Shared Services segment.

2. ADOPTION OF NEW ACCOUNTING STANDARD

The new standard changes how the Group recognises operating leases. The Group, as the lessee, will now recognise a right-of-use asset, representing its right to use the respective assets, with a corresponding finance lease liability which represents the obligation to make lease payments. The effect of the change is that the Group will no longer recognise an operating lease charge, but will, instead, recognise a depreciation charge in respect of the right-to-use asset and an interest expense for the associated lease liability.

The Group elected to adopt IFRS 16 Leases prospectively from 1 April 2019 using the modified prospective approach without restating comparative figures. IFRS 16 replaces the existing standard and related interpretations.

In applying the standard for the first time, the Group used certain of the practical expedients allowed by the new standard, including applying the same discount rate to a portfolio of assets with the same or similar characteristics. The corresponding liability was measured by calculating the net present value of the expected future lease payments using the Group's incremental borrowing rate for these types of assets.

3. HEADLINE EARNINGS PER SHARE

	Unaudited September 2019 R'000	Unaudited September 2018 R'000	Audited March 2019 R'000
Attributable earnings	10 085	9 212	22 988
Headline earnings adjustments			
• Loss on disposal of equipment and vehicles	14	4	4
• Impairments	–	108	700
Attributable headline earnings before tax effect	10 099	9 324	23 692
Tax effect of adjustments	(4)	(30)	(298)
Attributable headline earnings	10 095	9 294	23 394
Headline earnings and diluted headline earnings per share (cents)	11.47	10.32	26.06
Weighted average number of shares ('000)	88 028	90 064	89 778

4. NET ASSET VALUE PER SHARE

	Unaudited September 2019 R'000	Unaudited September 2018 R'000	Audited March 2019 R'000
Number of shares in issue at end of period (net of treasury shares) ('000)	87 595	90 064	88 389
Net asset value per share (cents)	180	154	167
Tangible net asset value per share (cents)	146	119	132

5. DIVIDEND

Notice is hereby given that a gross cash dividend of 1.50 cents per share (2018 interim dividend of 1.50 cents per share) for the interim period was declared on Thursday, 21 November 2019, payable to shareholders recorded in the share register of the Company at the close of business on the record date appearing below. The salient dates pertaining to the interim dividend are as follows:

Last date to trade "*cum*" dividend	Tuesday, 14 January 2020
Date trading commences "*ex*" dividend	Wednesday, 15 January 2020
Record date	Friday, 17 January 2020
Date of payment	Monday, 20 January 2020

Ordinary share certificates may not be dematerialised or rematerialised between Wednesday, 15 January 2020 and Friday, 17 January 2020, both days inclusive.

Shareholders who are not exempt from the Dividend Withholding Tax of 20% will therefore receive a net dividend of 1.20 cents per share. The Company has 132 062 743 ordinary shares in issue and its income tax reference number is 9408/002/71/6. The dividend is being paid out of income reserves.

All times provided in this announcement are South African local times.

Where applicable, dividends in respect of certificated shares will be transferred electronically to shareholders' bank accounts on the payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders at their risk. Ordinary shareholders who hold dematerialised shares will have their accounts credited at their CSDP or broker on Monday, 20 January 2020.

6. EVENTS AFTER THE REPORTING DATE

Management is not aware of any material events that occurred subsequent to the end of the financial period under review.

7. AUDITORS RESPONSIBILITY

The results have not been reviewed or audited by the Group's external auditors, Mazars.

8. FORWARD-LOOKING STATEMENTS

Certain statements contained in the report are forward-looking statements which Primeserv believes are reasonable and which consider information up to the date of publication. These statements could differ materially due to various factors such as changes in economic and market conditions or changes in the regulatory environment. As a result, these forward-looking statements are not guarantees of future performance. Forward-looking statements have not been reviewed nor audited by the Group's external auditors, Mazars.

On behalf of the Board

DL Rose
Chairman

M Abel
CEO

R Sack
FD

21 November 2019, Illovo

commentary

Primeserv delivered a solid set of results for the six months ended 30 September 2019. Revenue increased by 4% from R387.0 million for the six months ended 30 September 2018 to R402.9 million for the current reporting period. Difficult trading conditions across all the sectors in which the Group operates saw operating margins come under pressure, however, effective cost containment measures have mitigated the impact of these lower margins with the result that the Group's operating profit has increased by 11% from R11.0 million for the comparable period to R12.2 million for the period under review. Net interest costs are somewhat higher for the period, a combination of slower than optimal collections, particularly towards the beginning of the financial year, as well as the effect of the implementation of IFRS 16. Profit before taxation has increased by 9% from R10.8 million to R11.7 million. Earnings per share has improved by 12% from 10.23 cents per share to 11.46 cents per share, with headline earnings per share increasing by 11% from 10.32 cents per share to 11.47 cents per share. The Group's balance sheet has further strengthened with the net asset value increasing by 17% from 154 cents per share to 180 cents per share. The tangible net asset value has also improved, rising by 23% from 119 cents per share to 146 cents per share. Cash flows from operations were strong, climbing from R5.3 million for the comparable six months to R27.0 million for the current review period, a net inflow of R23.5 million. This resulted in the Group moving from a geared position of 8.7% to an ungeared position at the end of the reporting period.

With effect from the beginning of the current financial year Primeserv has altered its internal reporting of operations to better reflect its strategic repositioning as a Group that provides specialised Integrated Business Support Services to its clients. As a consequence thereof, the training and consulting services business unit, previously reported separately, should be considered as an integrated value-added service within Primeserv's Integrated Business Support Services offering, and is now effectively merged into the overall trading operations. The training and consulting services unit accounts for approximately 3% of Group revenue and as such there is no meaningful reason to continue to report the results of its operations separately. The combined trading activities will therefore now be reported as the Integrated Business Support Services segment, whilst still being supported by the Group's Shared Services segment.

The operating profit attributable to the Integrated Business Support Services segment for the six months under review has increased by 15% from R15.6 million to R17.8 million, with its EBITDA improving by 12% from R16.1 million to R18.1 million. The operating costs of the Shared Services segment increased from R4.6 million to R5.7 million for the current six month period.

IFRS 16 has had a notable effect on the presentation of the results albeit that the net effect on earnings has been immaterial. The new standard requires that operating leases for both property and equipment be brought onto the balance sheet (shown as right-of-use assets) with corresponding finance lease liabilities, apportioned between short- and long-term liabilities (shown as finance lease liabilities: right-of-use assets). Arising from this revised treatment is that the right-of-use assets are subject to a depreciation charge with the liability components attracting interest while there are no longer any lease or rental charges in relation to these right-of-use assets.

Against the backdrop of a severely constrained South African economy, Primeserv's Integrated Business Support Services operational segment delivered a sound performance for the period under review. The specialised staffing services' business units delivered a satisfactory set of overall results despite challenging market dynamics. Revenue growth was muted, with certain of the staffing services operating units experiencing reduced headcount volumes as well as a reduction in hours worked, particularly within the unit servicing the logistics, distribution and warehousing industry, as well as the retail, production and manufacturing sectors. The construction industry experienced ongoing job losses, however, this unit remains well positioned to react to any upturn in demand. The professional draughting and engineering staffing services unit remained stable given no sign of any major uptick in the large-scale projects arena. The project mining services unit performed well. The blue-collar staffing services unit supporting the power generation and petrochem sectors experienced erratic volumes and substantial margin pressure and performance remains unpredictable and dependent on extraneous factors outside the Group's control. The training and consulting services unit made a positive contribution to earnings and remains a key strategic enabler within the service offering of the Group. The Shared Services segment provides support to the operational activities of the Group and is focused on driving efficiency improvements across the organisation.

Ongoing transformation initiatives are at the forefront of the Group's strategic imperatives with emphasis on the growth and development of internal capability and capacity and the appointment of suitably qualified black female candidates to the Primeserv Board.

Given the prevailing economic climate, the Group is cautiously optimistic regarding its financial performance for the second half of the year. Primeserv continues to invest in its people, systems and services so as to continuously improve its service offering and deliver service excellence to all its clients.

corporate information

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