York Timber Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number:
1916/004890/06)
JSE share code: YRK ISIN: ZAE000133450
("York", "the Company" or "the Group")
www.york.co.za

30 March 2015

Unaudited condensed consolidated interim financial results for the six months ended 31 December 2014

Highlights

- Revenue up 14%
- Adjusted tangible net asset value per share up 4% from 696 cents to 733 cents
- Operating profit up 62%
- Biological asset value increased by 2% to R2 161,7 million
- Cash from operating activities down by R50 million after investing a net R38 million in strategic stock and R86,7 million in the plywood plant upgrade

Commentary

Introduction

York delivered promising results for the first six months of the 2015 financial year. Various business process initiatives embarked on over the last two years are contributing to the sustained profit generating ability of York. This is underpinned by the consistent improvement of our biological asset and vast enhancement in processing efficiencies and cost optimisation.

Group performance and financial review

A 14% increase in revenue translated into improved profitability, which resulted in a 40% increase in EBITDA over the comparable period. Despite a 10 day industrial action that impacted production and a challenging fire season, an increase in profitability was achieved. Supported by higher average selling prices and continued cost optimisation efforts, overall profitability at sawmills improved by 818% over the comparative period.
A sustainable turnaround at the Wholesale division, made up in part by the business acquired in the previous year, contributed R3,7 million to profit during the period.
Forestry contributed 29% less over the comparative period, mainly as a result of increased external log purchase volumes.

Processing division

Total sawmilling production for the six-month period was up ca 0,8% compared to the same period last year. Industrial action resulted in almost 10 lost production days. Load shedding contributed to a further loss of production time and York is liaising directly with Eskom to find a suitable solution to limit the impact on our facilities. The ongoing capital investments improved both sawmilling and plywood profitability. York had started with a capital intensive investment programme during this reporting period that will further enhance the Company's EBITDA generating ability over the next 18 months.

Forestry division

The Forestry division achieved EBITDA of R34,9 million for the period. The division experienced the worst fire season since 2007 with a total of 2 180 hectares lost. The affected plantations were of different age classes

and the process to clearfell these are almost complete.
York has claimed R11,3 million from its self-insurance fund, which is not reflected in EBITDA since it represents a cash recovery only. The fire damage resulted in unplanted areas at period-end being 13,5% higher than the comparative period. External purchases were 28% more than during the comparative period, impacting EBITDA by R18,1 million.
Indications are that external log prices will increase at almost double the consumer price index (CPI) of 5,5% in the immediate future. This is underpinned by demand for timber-related products as reflected in an average 12-month rolling increase in industry lumber sales of 7,4%.

Wholesale division

The turnaround strategy yielded positive results, with the division contributing R3,7 million EBITDA compared to a loss in the previous financial year. The Remanufacturing division at Roodekop continues to improve its product offering and market penetration.

Biological asset

The biological asset is valued on a discounted cash flow (DCF) basis using the key assumptions described in note 5 to the unaudited condensed consolidated interim financial results on a basis consistent with previous years.
The temporary unplanted area (TUP) increased at the end of the reporting period. As areas above the TUP norm are replanted it will increase the value of the biological asset. York continues to improve the genetic profile of its planting material and forestry management practices that will further improve the quality of the biological asset. The investment cycle and growth in York is of a long term nature and the growth in underlying asset of the Company confirms the stability of the biological asset.

Balance sheet movements

The Company continued the investment in the self-insurance fund and contributed another R4,6 million towards the fund. The total value of the fund at period end was R31,7 million. Working capital grew considerably during the year due to an increase in imported stock at the Wholesale division. Overall stock value increased by R38 million as a result of a decision to improve market share in certain product categories.
York commenced the expansion of its plywood plant and the project has been funded from operating cash flow for the interim to the extent of R86,9 million to date. A capital loan of R280 million for the project was approved during February 2015.

Adjusted tangible net asset value

Adjusted tangible net asset value (TNAV) represents the physical net asset value including property, plant and equipment, biological assets, all other assets and all liabilities, but excluding intangible items such as goodwill and deferred tax. As at 31 December 2014, York's TNAV was 733 cents against a closing share price of 300 cents. In light of same the Board approved a share repurchase programme.

Cash flow

Cash from operating activities decreased by R50 million as a result of the net investment in inventory of R38 million together with an increase in accounts receivable of R26,6 million due to increased sales. Available cash was applied to capital expenditure of R86,9 million, of which only R6,8 million was funded through an increase in borrowings. York has sufficient capacity in its general banking facility until the capital loan comes into effect.

Outlook

The expansion of the plywood plant constitutes the first step in diversifying our earnings base and introducing new technology as well as extracting more value from our raw material. Execution of this project is planned with minimal disruption to current production. After achieving a successful turnaround at the Wholesale division, this division is now set to trade in a wider product range by providing a diversified and expanded market offering.

In addition York has started a programme of "Best-in-Class" practice where the design of processes will be streamlined and enhanced to reduce cost, overheads and improve productivity of assets and efficiencies. This structured approach adopted by York will ensure a measurable payback and sustain York's competitiveness locally and internationally.

York has observed the comments made during the State of the Nation Address regarding land ownership and is considering the possible impact on the business.

Consolidated statement of financial position

	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Assets			
Non-current assets			
Biological asset (note 5)	1 802 706	1 816 337	1 834 963
Investment property	21 876	22 842	21 866
Property, plant and equipment	525 332	449 261	463 645
Goodwill	565 442	565 442	565 442
Intangible assets	2 027	2 077	2 439
Deferred tax	8 030	9 126	8 495
Other financial assets	31 711	23 074	38 464
Total non-current assets	2 957 124	2 888 159	2 935 314
Current assets			
Biological asset (note 5)	359 013	294 246	268 129
Inventories	272 108	188 058	234 032
Trade and other receivables	198 474	153 657	171 893
Cash and cash equivalents	40 391	152 425	110 464
Total current assets	869 986	788 386	784 518
Total assets	3 827 110	3 676 545	3 719 832
Equity and liabilities			
Equity			
Share capital	16 562	16 562	16 562
Share premium	1 505 352	1 505 352	1 505 352
Reserves	(668)	-	(668)
Retained income	875 902	768 519	805 856
Total equity	2 397 148	2 290 433	2 327 102
Liabilities			
Non-current liabilities			
Cash-settled share-based payments	14 657	12 472	12 363
Deferred tax	601 015	563 653	574 879
Loans and borrowings	522 647	542 615	528 459
Provisions	11 671	18 927	11 671
Retirement benefit obligations	24 670	22 583	24 313
Total non-current liabilities	1 174 660	1 160 250	1 151 685
Current liabilities			
Current tax payable	2	2	2
Loans and borrowings	46 976	31 547	34 157

Cash-settled share-based payments	3 617	13 399	13 785
Operating lease liabilities	454	138	358
Trade and other payables	204 245	180 776	192 743
Bank overdraft	8	-	-
Total current liabilities	255 302	225 862	241 045
Total liabilities	1 429 962	1 386 112	1 392 730
Total equity and liabilities	3 827 110	3 676 545	3 719 832

Consolidated statement of comprehensive income

	Six months ended 31 Dec 2014 Unaudited R'000	Six months ended 31 Dec 2013 Unaudited R'000	Year ended 30 Jun 2014 Audited R'000
Revenue	763 036	671 934	1 323 976
Cost of sales	(541 946)	(468 453)	(892 018)
Gross profit	221 090	203 481	431 958
Other operating income	9 892	8 306	17 215
Selling, general and administration expenses	(169 342)	(173 823)	(332 362)
Operating profit	61 640	37 964	116 811
Fair value adjustments	62 537	5 241	(2 084)
Bargain purchase on acquisition	-	-	2 984
Profit before finance costs	124 177	43 205	117 711
Investment income	2 040	2 646	5 820
Finance costs	(29 569)	(28 212)	(56 440)
Profit before taxation	96 648	17 639	67 091
Taxation	(26 602)	(3 982)	(16 097)
Profit for the period	70 046	13 657	50 994
Other comprehensive income/(loss)			
Available-for-sale financial asset adjustments	-	(569)	(569)
Remeasurement of defined benefit liability	-	-	(668)
Other comprehensive income for the period net on taxation (subtotal)	-	(569)	(1 237)
Total comprehensive income	70 046	13 088	49 757
Basic earnings per share (cents) (note 7)	21	4	15
Headline earnings per share (cents) (note 8)	21	4	14

Consolidated statement of cash flows

	Six months ended 31 Dec 2014 Unaudited R'000	Six months ended 31 Dec 2013 Unaudited R'000	Year ended 30 Jun 2014 Audited R'000
Cash flows from operating activities			
Cash generated from operations	26 468	76 792	151 461
Investment income	2 040	2 646	5 820
Finance costs	(29 359)	(28 212)	(56 440)
Taxation paid	-	-	-
Net cash from operating activities	(851)	51 226	100 841
Cash flows from investing			

activities			
Purchases of property, plant and equipment	(86 897)	(36 419)	(66 169)
Purchases of intangible assets	(12)	(43)	(2 127)
Proceeds from disposal of property, plant and equipment	189	1	463
Proceeds from disposal of intangible assets	-	-	37
Acquisition of subsidiaries, net of cash acquired	-	-	(34 228)
Purchase of financial assets	(4 563)	-	(14 000)
Sale of financial assets	11 316	6 326	5 717
Purchase of biological assets	-	(4 349)	(4 206)
Harvesting of purchased plantations	3 940	-	-
Net cash from investing activities	(76 027)	(34 484)	(114 513)
Cash flows from financing activities			
Net movement in loans and borrowings	6 797	(23 011)	(34 558)
Net cash from financing activities	6 797	(23 011)	(34 558)
Total cash movement for the period	(70 081)	(6 269)	(48 230)
Cash at beginning of period	110 464	158 694	158 694
Cash at end of period	40 383	152 425	110 464

Consolidated statement of changes in equity

	Share capital R'000	Share premium R'000	Available-for-sale reserve R'000
Balance at 1 July 2013 (audited)	16 562	1 505 352	569
Profit for the year	-	-	-
Other comprehensive income			
Change in defined benefit plan, net of tax	-	-	-
Change in fair value of available-for-sale financial assets, net of tax	-	-	(569)
Total other comprehensive income	-	-	(569)
Total comprehensive income for the year and total transactions with owners	-	-	(569)
Balance at 30 June 2014 (audited)	-	-	-
Profit for the period	-	-	-
Other comprehensive income			
Change in fair value of available-for-sale financial assets, net of tax	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for			

the period and total transactions with owners	-	-	-
Balance at 31 December 2014 (unaudited)	16 562	1 505 352	-

	Defined benefit plan R'000	Retained income R'000	Total equity R'000
Balance at 1 July 2013 (audited)	-	754 862	2 277 345
Profit for the year	-	50 994	50 994
Other comprehensive income			
Change in defined benefit plan, net of tax	(668)	-	(668)
Change in fair value of available-for-sale financial assets, net of tax	-	-	(569)
Total other comprehensive income	(668)	-	(1 237)
Total comprehensive income for the year and total transactions with owners	-	50 994	-
Balance at 30 June 2014 (audited)	(668)	805 856	2 327 102
Profit for the period	-	70 046	70 046
Other comprehensive income			
Change in fair value of available-for-sale financial assets, net of tax	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the period and total transactions with owners	-	70 046	70 046
Balance at 31 December 2014 (unaudited)	(668)	875 902	2 397 148

Notes to the consolidated financial statements

1. Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the JSE Listings Requirements, the Companies Act of South Africa, 2008 (as amended), and the Companies Regulations, 2011. The Group has applied the recognition and measurement requirements of International Financial Reporting Standards (IFRS) and the AC 500 standards as issued by the Accounting Practices Board (APB), as well as the presentation and disclosure requirements of International Accounting Standard (IAS) 34 Interim Financial Reporting. The financial results have been compiled under the supervision of Pieter van Buuren CA(SA), the Chief Financial Officer.

These condensed results do not include all the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended 30 June 2014 which are available on the Company's website, www.york.co.za, or at the Company's registered office.

The financial results have not been reviewed or audited. The financial results, which have been prepared on the going-concern basis, were approved by the Board of Directors on 27 March 2015.

There have been no material changes to judgements or estimates of amounts reported in prior reporting periods.
The Group financial results are presented in Rand, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand.
The significant accounting policies and methods of computation are consistent in all material respects with those applied in the year ended 30 June 2014.

2. Additional disclosure items

	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Authorised capital commitments:			
- Contracted, but not provided	135 351	16 457	5 068
- Not contracted	46 248	3 611	290 160
Capital expenditure	86 909	28 317	68 296
Depreciation of property, plant and equipment	24 970	17 054	38 206
Amortisation of intangible assets	424	223	924
Impairment of trade receivables	-	12	(6 866)

- A claim against one of the subsidiaries was concluded during the reporting period with no material effect on the financial position of the Group.
- The Group participates in a pooled banking facility of R145,2 million granted by FirstRand Bank Limited. Group companies have provided cross suretyships of R5 million in favour of FirstRand Bank Limited in respect of their obligations to the bank. The Group did not have any other contingent liabilities at the reporting date.
- The Group did not have any covenant defaults or breaches of its loan agreements during the period under review or at the reporting date.
- No events have occurred between the reporting date and the date of release of these results which require adjustment of or disclosure in these results.
- No movement occurred in the number of shares issued during the period under review.

3. Comparative figures
The unaudited condensed consolidated interim financial results are for the six months ended 31 December 2014. The comparative unaudited condensed consolidated interim financial results for the six months ended 31 December 2013, and the annual financial statements for the year ended 30 June 2014, are presented as published and have not been restated.

4. Operating segments
The Group has three reportable segments which are the Group's strategic divisions. The Group operates in one geographic segment, namely countries within the Southern Africa Development Community (SADC).

The segmental analysis is as follows:

		Sawmills	
	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Revenue: external sales	527 982	651 055	996 886

Revenue: inter-segment sales	105 452	-	177 133
Total revenue	633 434	651 055	1 174 019
Depreciation and amortisation	(20 936)	(15 210)	(31 761)
Reportable segment profit*	36 365	4 442	54 331
Fair value adjustment	-	-	-
Capital expenditure	81 991	25 516	52 872

	Wholesale		
	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Revenue: external sales	203 130	-	278 568
Revenue: inter-segment sales	-	-	
Total revenue	203 130	-	278 568
Depreciation and amortisation	(712)	-	(1 154)
Reportable segment profit*	3 682	-	(5 289)
Fair value adjustment	-	-	-
Capital expenditure	89	-	3 482

*Being earnings before interest, taxation, depreciation, amortisation, impairment and fair value adjustments (EBITDA).

	Forestry		
	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Revenue: external sales	31 549	20 527	47 822
Revenue: inter-segment sales	288 968	285 193	572 946
Total revenue	320 517	305 720	620 768
Depreciation and amortisation	(2 416)	(1 711)	(3 693)
Reportable segment profit*	34 873	49 171	118 478
Fair value adjustment	62 567	5 365	(1 984)
Capital expenditure	3 322	534	7 993

	Total		
	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Revenue: external sales	762 661	671 582	1 323 276
Revenue: inter-segment sales	394 420	285 193	750 079
Total revenue	1 157 081	956 775	2 073 355
Depreciation and amortisation	(24 064)	(16 921)	(36 608)
Reportable segment profit*	74 921	53 613	167 520
Fair value adjustment	62 567	5 365	(1 984)
Capital expenditure	85 402	26 050	64 347

*Being earnings before interest, taxation, depreciation, amortisation, impairment and fair value adjustments (EBITDA).

	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Reconciliation of reportable segment profit or loss			
Total EBITDA for reportable segments	74 921	53 613	167 520
Depreciation, amortisation and impairments	(25 395)	(17 296)	(36 608)
Unallocated amounts	12 114	1 647	(14 101)
Operating profit	61 640	37 964	116 811

5. Biological assets

	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Reconciliation of biological assets			
Opening balance	2 103 092	2 100 870	2 100 870
Fair value adjustment:			
- Increase due to growth and enumerations	198 082	154 896	447 357
- Decrease due to harvesting	(161 792)	(162 788)	(326 057)
- Adjustment to standing timber values to reflect fair value at period end	22 337	13 257	(123 284)
Purchased plantation	-	4 348	4 206
Closing balance	2 161 719	2 110 583	2 103 092
Classified as non-current assets	1 802 706	1 816 337	1 834 963
Classified as current assets*	359 013	294 246	268 129
Change in discounted cash flow (DCF) value attributable to:			
Opening balance	2 103 092	2 100 870	2 100 870
Growth	3 175	18 614	131 897
Revenue and price	157 124	119 493	53 659
Operating cost	(146 663)	(24 014)	(35 314)
Discount rate	44 991	(108 728)	(152 226)
Purchased plantations	-	4 348	4 206
Closing balance	2 161 719	2 110 583	2 103 092

	31 Dec 2014 Unaudited Cubic metres	31 Dec 2013 Unaudited Cubic metres	30 Jun 2014 Audited Cubic metres
Reconciliation of standing volume			
Opening balance	5 596 094	5 325 421	5 325 421
Increase due to growth and enumerations	419 624	328 138	961 402
Decrease due to harvesting	(342 746)	(344 855)	(690 730)
Closing balance	5 672 972	5 308 704	5 596 093

*Being the biological assets to be harvested and sold in the 12 months after the reporting date.

The additional key assumptions underlying the discounted cash flow valuation are updated as follows:

- Volumes: Forecast volumes were updated at the reporting date using a merchandising model.
- Log prices: The price per cubic metre is based on current and expected market prices per log class. It was assumed that log prices will increase at 5,85% and 6,25% over the next two years respectively and at 6% over the long term* (2013: 7% and 7% over the next two years and 6% over the long term).
- Operating costs: The costs are based on the unit costs of the forest management activities required to enable the trees to reach the age of felling. The costs include the current and expected costs of harvesting, maintenance and risk management, as well as an appropriate amount of fixed overhead costs. A contributory asset charge takes into account the cost of fixed assets utilised to generate cash flows from the biological asset over the valuation period. The operating costs exclude the transport costs necessary to get the asset to market. These costs have been reviewed and updated to current actual costs. An inflation rate of 5,5% for the next year and 6% over the long term* (2013: 5,5%) was used.

*Management believes that as a result of the anticipated deficit between local log supply and forecast long-term demand, long-term revenue inflation will be greater than cost inflation.

6. Related parties

The Group's related parties are its subsidiaries and key management, including directors. No change in control occurred in the Company's subsidiaries from the prior period. No businesses were acquired or disposed of during the period.

7. Earnings per share

The calculation of basic earnings per share is based on:

	31 Dec 2014 Unaudited	31 Dec 2013 Unaudited	30 Jun 2014 Audited
Basic earnings attributable to ordinary shareholders (R'000)	70 046	13 657	50 994
Weighted average number of ordinary shares in issue (R'000)	331 241	331 241	331 241
Earnings per share (cents)	21	4	15

No change occurred in the number of shares in issue and no instruments had a dilutive effect.

8. Headline earnings per share

The calculation of headline earnings per share is based on:

	31 Dec 2014 Unaudited R'000	31 Dec 2013 Unaudited R'000	30 Jun 2014 Audited R'000
Reconciliation of basic earnings to headline earnings			
Basic earnings attributable to ordinary shareholders	70 046	13 657	50 994
Loss/(profit) on sale of assets and liabilities (net of tax)	8	57	(402)
Fair value adjustment on investment property (net of tax)	24	101	81

(Reversal)/impairment of plant, equipment and vehicles (net of tax)	–	13	229
Bargain purchase on acquisition	–	–	(2 984)
Headline earnings for the period	70 078	13 828	47 918
Weighted average number of ordinary shares ('000)	331 241	331 241	331 241
Headline earnings per share (cents)	21	4	14

Company information
Executive directors: Pieter van Zyl (CEO), Pieter van Buuren (CFO)
Non-executive directors: Dr Jim Myers* (Non-executive Chairman, USA), Paul Botha, Dr Azar Jammine*, Shakeel Meer, Dinga Mncube*, Thabo Mokgatlha*, Gavin Tipper*
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Company secretary: Sue Hsieh
Sponsor: One Capital
Transfer secretaries: Computershare Investor Services Proprietary Limited