

HULISANI EARNINGS ANNOUNCEMENT

KEY FEATURES FOR THE SIX MONTHS ENDED 31 AUGUST 2020

Operational

- Improved efficiencies by streamlining processes
- Improved dividend and interest income from investments
- Increase in fair value gains relating to investment of approximately R5,6m million led by improved short-term energy production and cashflows.

Financial

- Revenue grew by 23% in the current period due largely to stronger operational performance from our investments. This was driven by increased utilization of the power plants in response to higher demand for electricity during the period.
- Operating expenses for the period under review amounted to R37.6 million (2019: R45.5 million). The prior period operating expenses included a credit loss of R17 million, which was not incurred in the current year
- Earnings per share increased by 141% to 4 cents per share, from a loss of 17 cents per share in the prior corresponding period. This was largely due to a fair value gain of underlying investments amounting to R14.2 million (2019: R8.6 million). The increase in the fair value gain was driven by higher energy production activities (R9 million), as well as favourable mark-to-market movement in the investment in derivatives (R5.2 million).
- Net cash from investing activities for the group amounted to R24.4 million for the current period compared to R11.7 million last year, while net cash movement for the period amounted to a cash inflow of R5.5 million (2019: -R5.4 million). This was underpinned by improved dividends from our investments, as well as timing differences relating to the receipt of dividends.

EXECUTIVE REVIEW OF PERFORMANCE

The period under review was characterised by keeping costs under control, strengthening the balance sheet and building capacity for growth. In addition, the underlying investments are performing ahead of expectations.

We are pleased to report an inaugural profit after tax of R2,9 million in a challenging macroeconomic environment while cashflow remains strong, driven by higher-than-expected dividend and interest income from our investments.

Transactions

In keeping with the Hulisani strategy of deploying capital to high quality investment opportunities, a pipeline of prospects have been identified in the new deal register across the full spectrum of the project lifecycle.

This has resulted in an expanded pipeline of over 37 potential projects and partnerships across the full spectrum of technologies and translates into potential exposure in excess of 2.6GW of power.

The assessment of potential transactions, which are aligned with our strategic intent, typically takes 12 to 18 months and requires technical, legal and financial due diligence. Against this backdrop, there are advanced negotiations underway which, if successfully concluded, will provide significantly greater scale in line with our long-term growth strategy.

Performance of our investments during COVID-19

As producers of energy, our investments have been designated as essential services during the period of National Disaster. Accordingly, they have continued to produce electricity throughout the pandemic, with relatively minimal disruption.

Strategy and investment case

Our purpose is clear: we invest in quality energy assets that yield sustainable, predictable and inflation linked long-term returns.

During the period under review, we expanded the scope of our investment policy to include energy infrastructure, rather than a primary focus on energy production, which we envisage being our medium-term focus given the breadth of opportunity within the sector.

The portfolio thus far demonstrates the high yielding nature of the assets together with the building of value through diversification of the portfolio through different energy technologies, and sound cost control. We have successfully contained our costs while ensuring that we build sufficient capacity to manage a larger portfolio of projects. There is also the additional benefit of CPI-linked returns which improve with time as the senior debt is repaid and operational leverage is realised.

The upside of our long-term strategy will be realised when we achieve scale. Given the recent policy certainty and buoyant market, Hulisani can be scaled incrementally, managing more projects with largely the same resources, achieving positive operating leverage. To achieve this critical scale, we are considering consolidation options and partnering opportunities.

Despite the challenging economic environment, we remain committed to revenue growth, cost containment and improving long-term shareholder returns. Our objective of simplifying the

business, building scale through growth in the long term as well as sustaining cost containment measures remains a strategic priority.

Financial performance

Our assets continue to generate better than expected revenues and are cash generative. In difficult trading circumstances, we are pleased to report positive cashflow demonstrating the quality of our investments and execution of our strategy. This has resulted in us reporting an inaugural profit after tax for the period under review.

The underlying fundamentals of the assets we are invested in are solid. The importance of the business principle that 'cash is king' has been highlighted as we consider the impact of COVID-19 on our business.

Key risks

The risk of policy uncertainty was significantly reduced this year.

However, the COVID-19 pandemic has resulted in several uncertainties and brought new risk factors in terms of business interruption. It has also significantly slowed transaction activity.

Our business model is currently being tested by COVID-19 and indications so far are that the model is resilient enough to survive and thrive in a post-COVID-19 world. Our view is decidedly long-term and therefore we can look beyond this extremely difficult time given our 20-year investment horizons. We have reasonable certainty that the underlying sovereign contracts in our investments will be honoured.

Outlook

During the period under review, the Integrated Resource Plan 2019 was gazetted and the Eskom Roadmap has provided certainty in the market. The IRP 2019 sets out a plan to build 25 000 to 30 000MW of new energy generation capacity power by 2030, mainly from renewable energy.

Post period-end, we noted with optimism government's comments regarding the energy sector in their Reconstruction and Recovery Plan, which aims to achieve sufficient, secure and reliable energy supply in the country within the next two years. More specifically, it refers to rapidly expanding generation capacity through a diverse energy mix through the following directives:

- The 2019 Integrated Resource Plan (IRP) will be implemented without delay to provide a substantial increase in the contribution of renewable energy sources by 2030.
- This will include an additional 6,000 MW of solar photovoltaic power and 14,400 MW of wind-based generation capacity.
- In the immediate term, agreements will be finalised with Independent Power Producers (IPPs) to connect over 2,000 MW of additional capacity from existing projects as well as from projects concluded under bid window 4 of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) by June 2021.

This is likely to position the independent power producer sector as a key driver for economic growth. As lower renewable energy tariffs are blended with Eskom tariffs this, will in our view, result in a lower cost of doing business, whilst achieving price certainty and scalability.

Our pipeline remains robust with prospects likely to materialise the next financial year. With a team able to manage significantly more transactions than currently held, we expect to further reduce costs per asset under management and deliver the benefits of focus and simplicity to our stakeholders. We remain committed to identifying and exploring large scale consolidation and acquisition opportunities to achieve scale in the business

CONDENSED CONSOLIDATED INCOME STATEMENT

	Unaudited August 2020 R '000	Unaudited August 2019 R '000	Audited February 2020 R '000
Revenue	31,248	25,388	69,438
Other operating income	-	1,000	1,000
Other operating gains	14,250	8,615	7,843
Other operating expenses	(37,614)	(45,453)	(73,609)
Financial assets write-off	-	-	(25,737)
Operating profit/ (loss)	7,884	(10,450)	(21,065)
Finance income	698	6,680	3,807
Finance costs	(6,990)	(7,441)	(13,760)
Share of the profit from equity accounted investment	3,273	3,552	7,608
Profit/(loss) before taxation	4,865	(7,659)	(23,410)
Taxation	(1,934)	748	(3,523)
Profit/(loss) for the year	2,931	(6,911)	(26,933)
Other comprehensive income	-	-	-
Total comprehensive income/(loss) for the year	2,931	(6,911)	(26,933)
Profit/(loss) for the year attributable to:			
Owners of the parent	1,846	(8,734)	(29,414)
Non-controlling interest	1,085	1,823	2,481
	2,931	(6,911)	(26,933)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited August 2019 R '000	Unaudited August 2020 R '000	Audited February 2020 R '000
Assets			
Non-current asset			
Property, plant and equipment	116,434	124,877	121,462
Intangible assets	135,667	142,532	139,099
Investment in associate	95,392	107,112	103,337
Investment at fair value through profit and loss	90,586	83,218	81,609
Derivatives	75,567	69,509	70,347
Loans receivable	-	7,473	7,552
Investment at amortised cost	-	10,087	-
	513,646	544,808	523,376

Current Assets			
Trade and other receivables	12,658	14,399	12,232
Cash and cash equivalents	29,230	21,218	26,923
	41,888	35,616	39,155
Total Assets	555,534	580,425	562,531
Equity and Liabilities			
Equity			
Stated capital	500,000	500,000	500,000
Other reserves	7,819	6,562	6,562
Accumulated loss	(149,673)	(130,477)	(151,519)
Equity attributable to equity holders of parent	358,146	376,085	355,043
Non-controlling interest	26,188	27,605	25,103
	384,334	403,690	380,146
Liabilities			
Non-Current Liabilities			
Long term borrowings	108,862	118,028	108,862
Lease liability	1,960	2,177	2,947
Deferred tax liability	45,073	38,868	43,139
	155,895	159,073	154,948
Current Liabilities			
Trade and other payables	8,012	12,091	9,853
Borrowings	4,356	3,876	11,743
Lease liability	1,781	1,695	1,533
Bank overdraft	1,156	-	4,308
	15,305	17,662	27,437
Total Liabilities	171,200	176,735	182,385
Total Equity and Liabilities	555,534	580,425	562,531

FINANCIAL COMMENTARY

Revenue

	Unaudited August	Unaudited August		
	2020	2019	Variance	Variance
	R'000	R'000	R'000	%
Revenue	31,248	25,388	5,860	23

Revenue for the period under review is reported at R31.2m (2019: R25.4m), an increase of 23% from the prior interim period. Revenue at Group level consists of sales of electricity at RustMo1 Solar Farm (Pty) Ltd, the subsidiary, and the interest earned in from the convertible loan from Legend Power Solutions (Pty) Ltd ("LPS"). The increase in the Group revenue is mainly attributable to improved interest income from the LPS convertible loan and which has been reclassified from investment income. The reclassification of the interest income is to best align the disclosure of the income with the management of investment portfolio and strategy of the business.

Operating expenses

	Unaudited August 2020 R'000	Unaudited August 2019 R'000	Variance R'000	Variance %
Operating expenses	(37,614)	(45,453)	7,839	17

Operating expenses are reported at R37.6m (2019: R45.5m), a decrease of 17% compared to the prior interim unaudited results. Prior period operating expenses included expected credit losses of R17m. Expected credit losses were not incurred in the current year since all the financial assets which qualify for credit loss allowances were derecognised in at the end of the prior financial period.

Share of profit/(loss) from equity accounted investments

	Unaudited August 2020 R'000	Unaudited August 2019 R'000	Variance R'000	Variance %
Share of the profit/(loss) from equity accounted investments	3,273	3,552	(279)	(9)

Hulisani's share of profit from equity accounted investments for the six months period under review is R3.3m (2019: R3.6m), a slight decrease of 9% from the prior interim period due to lower revenue as a result of interruptions on the availability of the plant.

Fair value gain

	Unaudited August 2020 R'000	Unaudited August 2019 R'000	Variance R'000	Variance %
Fair value gain	14,250	8,615	5,635	65

In the current half-year period, a fair value gain of R14.2m (2019: R8.6m) was recognised in the statement of profit or loss. This represents a year on year increase of 65%, and the increase was driven by increased energy production activities in our investments that are fair valued as well as favourable mark-to-market movement in the derivative assets.

Profit/(loss) for before tax

	Unaudited August 2020 R'000	Unaudited August 2019 R'000	Variance R'000	Variance %
Profit/(loss) before tax	4,865	(7,659)	12,524	>100

The Company has shown pleasing growth over the comparative period, reporting a profit before tax of R4.9m (2019: (R7.7m)), a significant increase in profits.

Earnings/(loss) and headline earnings/(loss) per share

	Unaudited August	Unaudited August		
	2020	2019	Variance	Variance
	ZAC	ZAC	ZAC	%
Earnings/(loss) per share	4	(17)	21	>100
Headline earnings/(loss) per share	4	(17)	21	>100

Earnings per share improved to 4 cents per share from a loss of 17 cents per share in the prior interim period, a significant increase when compared to the prior period.

Cash balances

	Unaudited August	Unaudited August		
	2020	2019	Variance	Variance
	R'000	R'000	R'000	%
Cash balances	28,074	21,218	6,856	32

Cash balances increased by 32% R28m (2019: R21m). Contributing to the improved cash balances higher than projected dividends from the investments.

ADMINISTRATION AND CORPORATE INFORMATION

CORPORATE INFORMATION

Details of Hulisani Limited
Registration number: 2015/363903/06
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