# Transnet results show increased revenue, profitability, cost savings

Announcing its results for the year ended 31 March 2011, Transnet SOC stated that revenue increased 6.6% to R38 billion, earnings before interest, taxation, depreciation and amortisation (EBITDA), its key measure of profitability, increased by 9.4% to R15.8 billion, resulting in an EBITDA margin of 41.5% and a costs savings of R2.1 billion.

These positive set of financial results were achieved, despite a challenging operating environment characterised by a three-week long industrial action, significant derailments and rising input costs.

The company has seen meaningful improvements in the port and pipeline operations, including volume growth and productivity improvements which contributed to improved profitability. However, rail operations underperformed on key elements of the company's quantum leap strategy, particularly volume growth, safety and operational efficiency.

## Freight results

Although the strike action had a negative impact on volumes for its general freight business and at the ports, overall general freight and maritime container volumes increased by 2.2% to 73.7 million tons and 12.5% to 4.1 million TEUs respectively. Iron ore volumes climbed 3.4% to 46.2 million tons in line with contractual commitments, despite severe derailments experienced during the year. Coal volumes increased by a marginal 0.6% from the prior period's 61.8 million tons to 62.2, while export coal tariffs were in line with contractual commitments with customers.

## Port, pipeline efficiencies

Overall port efficiencies improved because of across-the-board increases in moves per gross crane hour (GCH). The Durban container terminal (Pier 1) achieved a 23.8% GCH improvement. The terminal sustained a world class average of 29.5 GCH from December 2010 and is expected to maintain this throughout the year ahead. Durban container terminal (Pier 2) however achieved an average GCH of 23 for the year. This is mainly due to aged assets and to address this, the company is in the process of accelerating the acquisition of new cranes.

The Cape Town container terminal achieved an annual average GCH of 25 for the year against a target of 24, despite the terminal being under construction. The company is doubling the capacity of the Cape Town container terminal to 1.4 million tons in line with its strategy to boost its container handling capacity.

Transnet Pipelines continued to fulfil its strategic role in the economy by ensuring security of supply of petroleum products to the inland market. This was evidenced by meeting the increased demand and logistical challenges, resulting from the 2010 FIFA World Cup and growing volumes by 1.5% due to the optimal use of the constrained system.

"These achievements confirm the strides we have taken in positioning this company at the centre of our economic activity as a nation - it is more encouraging that these were achieved in a tough macro-economic environment and a severe strike over wages. It is evidence that we have pockets of excellence throughout the business and our focus will be on sustaining these," says Brian Molefe, CEO of Transnet.

## Cash flow, investment

Cash generated from operations after changes in working capital increased 13.5% to R18.3 billion compared with R16.1 billion previously, demonstrating Transnet's ability to generate strong sustainable cash flows.

The gearing ratio increased in line with expectations to 41.1% from 39.8% reflecting its capacity to fund future capital expenditure on the strength of its financial position. The gearing ratio is expected to remain below the self imposed ceiling of 50% over the medium term.

Capital investment (excluding capitalised borrowing costs) rose to R21.5 billion from R18.4 billion previously, a 16.6% increase. R11.4 billion of this was invested on expanding the current infrastructure and equipment, while R10.1 billion was allocated towards the maintenance of existing capacity.

## Five-year plan

Transnet's rolling five-year plan has been revised up to R110.6 billion from the previous five years' R93.4 billion. This is to meet the required volumes and to support the growth initiatives embarked on, especially in the later years of the programme.

Approximately 58.3% of the R110.6 billion capital investment plan will be spent on rail, which suffered from decades of underinvestment in the past and to address the negative impact of ageing rolling stock and infrastructure on productivity. The remaining 28.2% and 13.5% will be spent on ports and pipelines respectively.

Its comprehensive fleet renewal plan will improve freight rail's active wagon and locomotive fleet by 6% and 18% respectively as the company creates additional capacity on the coal line to 81.0 million tons by 2016, 110.7 million tons in general freight by 2016 and 60.7 million tons in export iron ore by 2014. This will be done through a combination of productivity improvements, efficiency gains and capital investment. Container capacity at the ports is expected to increase from 4.1 million TEUs to 5.4 million TEUs by 2016.

## PPPs to further development

"In addition to the projects identified and funded through the comprehensive funding plan, we have identified several private sector partnership opportunities as part of our medium to long-term infrastructure development plan. We are finalising the costs of these developments but it is clear that we cannot fund them on our own," says Molefe.

The New Multi-Product Pipeline (NMPP), which is under construction, will be replacing the existing Durban-Johannesburg pipeline (DJP) and is expected to increase capacity from 4.4 billion litres to 8.4 billion litres.

During the year, the company performed a thorough review of all aspects of the NMPP, its single biggest capital expenditure item. The review by a sub-committee of the executive committee concluded that the final cost estimate is R23.4

billion and that construction would be completed by December 2013.

"Given the impact these changes may have on petroleum product supply to the country's economic hub, the shareholder performed its own review of the NMPP. This review has not yet been concluded. However, we have made a commitment to deliver the pipeline within the revised budget and timeline," Molefe states.

## Debt capital review

During the period under review, it raised R18.4 billion in the debt capital markets. The funding requirement for the next five years, mainly to fund the capital investment programme, is R33.5 billion.

The local debt capital market (bonds and commercial paper) continues to be the primary source of funding under the domestic medium-term note (DMTN) programme through which the company raised R7.7 billion. Other sources included development finance institutions (DFIs); export credit agencies (ECAs); and bank loans.

## Successful funding initiatives

The highlight of the year was the inaugural $750 million drawdown from the Global Medium-Term Note (GMTN) programme.

"The success of these funding initiatives confirms the attractiveness of our portfolio of projects and the company as an investment among both our local and international investors. That we are able to raise these amounts, without government guarantees, confirms the strides we have taken in managing our financial position," concludes Molefe.

Transnet intends to increase the size of the DMTN from the current R30 billion to R60 billion. These facilities will be used to fund the R20.8 billion required during the next financial year.