Eqstra long-term plan helps slash debt

By Fifi Peters

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Eqstra (EQS) CEO Jannie Serfontein had a good story to tell on Tuesday about the group's 2020 strategy that resulted in improved cash flows and a significant reduction in debt.

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The five-year strategy introduced under the tenure of Serfontein, who was barely three months into the job, saw the lease and capital equipment firm increase cash generated by operations 4.9% to R3.1bn in the year ended June. The group's debt fell from nearly R8bn last year to R7.3bn as management cut capital expenditure 23% during the year. "We see debt stabilising to about R4.5bn as part of our five-year plan," said Serfontein.

Under the 2020 strategy, the group planned to continue taking nonperforming assets off its balance sheet. In the year under review, nonrevenue generating assets declined from R1.6bn to R243m as of August 8. "We are looking at two leasing agreements in the fleet management and logistics business as well as the industrial equipment division in SA that do not generate the returns we want. We are talking to some of our partners to take this off our balance sheet. This will obviously unlock shareholder value."

Eqstra's five-year growth plan also entailed making further inroads into the UK's industrial equipment forklift businesses, after it grew market share to 8% in the year under review. The company is exploring acquisition opportunities in the Netherlands.

Market participants welcomed the better than expected results, sending the share price soaring as much as 17% on Tuesday. Avior Capital Markets analyst Mark Hodgens said the market was encouraged by the strategy of the new board. The stock closed up 15.25% at R3.25.

However, Pierre du Plessis from Independent Securities raised his concerns at the results presentation on Tuesday regarding the possibility of further write-downs, after the group impaired its yellow machine equipment in its contract mining division for R97m. "There is currently R250m of assets earning nothing. My concern is that it makes up 20% of total equity." He also expressed some grievance at the company's decision not to pay a dividend.

The board maintained it was unlikely to declare a dividend until it had achieved its medium-term target of increasing its capital adequacy ratio to 40%.

Source: BDpro