

Ellies earnings drop as demand weakens

Headline earnings at the electronic products manufacturer, Ellies were down by 68.3%, to 23.46c per share.



Ellies Holdings' Wayne Samson says group performance was hurt by delays in the roll-out of digital terrestrial television. Image: Ellies Holdings.

The manufacturer of satellite dishes and other electrical goods attributed the decline to weak demand in its consumer and services unit, and margin pressure.

"This has been a tough year for the group. We are pleased with revenue but margins were a problem," said Chief Executive Wayne Samson.

"There was a lot of margin squeeze with the rand-dollar exchange rate, but Ellies managed not to pass on the price increases to consumers," he said.

The group's performance was hit by the delays in the roll-out of digital terrestrial television, it said. Ellies was also affected by the "slower than expected" sales of satellite free-to-air broadcasting service OpenView HD, owned by e.tv, and longer lead times due to larger projects in the infrastructure division.

The absence of Eskom's residential mass roll-out programme, which contributed substantially to the prior year's earnings, also dragged down the group's performance.

The consumer goods and services division reported a 62.7% decline in operating profit to R92.9m, while revenue increased 6% R1.37bn.

Ellies revenue grew 5.5% to R2.1bn, but net profit dropped 68.2% to R71.5m.

Weak balance sheet

A small and medium cap analyst at Vunani Securities, Anthony Clark, said the company's balance sheet was weak and it would have to raise money. "I am concerned about the balance sheet, it needs to be strengthened," Clark said.

In a report released last week Clark wrote that he believed a R300m infusion for working capital was needed. Ellies's net working capital declined by R236m during the year to April.

It said the infrastructure projects were causing funding pressures. Ellies is in discussions with banks and advisers in a bid to restructure its funding. "We are looking at funding options or ring-fencing funding on the large projects," said Samson.

"The infrastructure division under-performed in the period as the billings did not match expectations," Ellies said. The division contributes about one-third of the group's profits.

The infrastructure division showed a slight increase in revenue of 5.5% to R726.8m largely attributed to the acquisition of Botjheng Water, which contributed R72m towards revenue. Operating profit decreased 36.8% to R51.9m.

Ellies has signed contracts worth R4.1bn, of which 75% are still not completed. These projects are stretched out across key markets such as the Democratic Republic of Congo, Ghana, Mozambique and Côte d'Ivoire.

"The revenue is there. We are not losing market share. It's a matter of rectifying and lifting up the margins," said Samson.



Vunani Securities, Anthony Clark says Ellies has a weak balance sheet, which is a cause for concern. Image: Twitter

Source: Business Day via I-Net Bridge

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