BIZCOMMUNITY

Freight helps Transnet's profit balloon

State-owned rail and logistics group Transnet has reported a 230% increase in net profit to R3.48bn for the hal year to 30 September 2017.

Transnet said it achieved the result with a 13.8% increase in revenue to R37.1bn from R32.6bn in the previous period, du mainly to 7.9% higher general freight volumes.

Among these, export-coal railed volumes rose 6.5% and 11.4% in railed containers and automotive volumes. Chrome and manganese volumes increased 19.2% to 3.1-million tonnes and 25.9% to 6.8-million tonnes, respectively.

Reservations about Transnet's profit

However, Mike Schussler, an economist at economists.co.za, said earlier this week he had some reservations about Transnet's profit, in which cost containment had played a big part.

"This comes at a cost to other parties. At the harbours, for instance, where Transnet has a monopoly, the delays are getti longer and longer. Ships now wait up to 30 hours before they can start offloading."

Costs were managed by limiting overtime, cutting professional and consulting fees and imposing a limit on discretionary costs, Transnet said.

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But Schussler said Transnet's infrastructure spending programme was behind schedule, which meant freight transport wa transferred to the roads.

Transnet spent R8.9bn on capital investments, taking its investment under the group's market-demand strategy to R153bn over the past five years.

The group planned to invest a further R229.2bn over the next seven years.

Transnet's 10-year expectation was capital expenditure of R340bn to R380bn, among which was R20bn earmarked for mergers and acquisitions in Southern Africa.

In September, Zimbabwe cancelled a tender awarded to Transnet and its partner Diaspora Investment and Development Group to revive the National Railways of Zimbabwe.

Its key measure of profitability - earnings before interest, taxation, depreciation, derecognition and amortisation - had increased 17.7% to R16.3bn, Transnet said.

Costs contained

Operating costs had been contained at R20.8bn. This represented a saving of R2.2bn in planned costs, Transnet said.

The group's gearing ratio increased to 44.4% following the launch of its capital expenditure programme. This was less thar the triggers in its loan covenants.

The gearing ratio was not expected to exceed 50% in the medium term.

Earlier, S&P Global Ratings's reviewed the group's foreign currency rating to BB+ from BBB- and the local currency to BI from BBB, each with a negative outlook. This came after a similar review of the country's sovereign debt rating.

S&P, however, maintained Transnet's stand-alone credit profile at BBB (estimate), which meant that it had an adequate capacity to meet its commitments but that the group was vulnerable to adverse economic conditions.

Transnet said that while the economic environment was still under pressure, the group's strategy to move "rail-friendly" car from road to rail was beginning to pay dividends.

Source: Business Day