South Africa - While market conditions are not buoyant, the Grindrod Group is in good shape, according to its half year results to June 2014. The revenue increased 16% to R13.9 billion and attributable profit increased 30% to R694 million. After adjustments of R373 million, headline earnings slumped to R321 million and headline earnings per share fell 32% to 52 cents. While much of the fall in headline earnings can be justified, this news caused the share price to drop 5,23%.

Highlights for the group are the success it had raising capital of R2,4 billion for its growth plan, the completion of a R1,6 billion B-BBEE consortium transaction earlier this year, and a 22% increase in revenue to R4,4 billion. Earnings per share were up 25% to 112,5 cents from 90,2 cents in 2013 but because of an increase in the number of shares to 616 million (591 million in 2013) as a result of the BEE transaction, the dividend declared was lower at 13,6 cents, down from 20c in 2013.

The earnings of the freight division declined 21% attributed to challenging market and trading conditions as a result of week commodity prices, industrial action, a decline in imports and lower fuel demand. Earnings also declined in the ports, terminals, rail and sea freight division by 18% from the previous period due to a 17% drop in coal volumes through Richards Bay brought about by an oversupply of seaborne thermal coal, fewer car imports and exports and delays and cancellations for orders within the rail business comprising locomotive construction, track construction and signaling..

The Group’s logistics business took a knock with earnings declining 37% to R38,3 million due to reduced volumes impacted by reduced imports following the weakening of the rand and extended industrial action in the platinum.

Shipping activity got off to a slow start but performance was steady following the expansion of the business into container handling operations in Durban and the extension of the feeder service into Mozambique. Earnings increased from a loss of R4.1 million in the period last year, to a profit of R18.3 million, this after stripping out profit on the BEE acquisition, negative goodwill and once-off profit in the previous period of R134.3 million after three long-term charters were cancelled.

The shipping fleet decreased to 34,8 at end-June 2014 after a medium-range products tanker and a handysize dry-bulk carrier were sold and a chartered capesize dry-bulk carrier was redelivered during the period. In May 2014, the division took delivery of a 32 768 dwt dry-bulk carrier in the recently established tripartite joint venture, being the first of 12 Japanese-built next-generation fuel- and emissions-efficient (eco) ships for which orders have been placed. In addition to the orders placed for five long-term charter Japanese-built and -owned eco supramax bulk carriers in 2013 for delivery from the end of 2014 onwards, an order was placed for the acquisition of a long-term chartered Japanese-built and –owned eco supramax dry-bulk carrier for delivery in 2016.

Pressure on dry-bulk rates is anticipated to continue in the short term; however, rates are expected to improve going forward into 2015 as the increase in global dry-bulk seaborne trade growth outstrips net fleet increases, especially in the smaller handysize sector.

In the tanker division, rates are expected to remain under pressure due to the continued uncertainty influencing trade patterns resulting from the rapid development of American shale gas allied to a large newbuilding order book.

The outlook for the marine fuels business remains stable.

The financial services division, which includes Grindrod Bank and Grindrod Asset Management, doubled its profile to R94.9 million. It is held as a discontinued operation as negotiations are underway with Bidvest to buy the operation.

It has repaid its debt of R2.7 billion and how has a positive cash balance of R92 million. Going forward much of Grindrod’s focus will be on finding large capital-intensive rail projects in Mozambique, Zimbabwe and Zambia to offset a decline in shipping.