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TRANSPORT SECTOR REPORT 2021



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Introduction

South Africa's commercial activity and economic performance are closely linked to its ability to transport goods both within and beyond its borders. Although South Africa's transport infrastructure is among the best on the continent, lack of investment in recent years has led to high usage costs. This sample of companies represent a mix of industrial transport and general retailers, all operating in the transport sector. We have added government-owned Transnet.

In this sector, our sample includes five companies listed on the Johannesburg Stock Exchange. These companies are:

ACSA (Airports Company South Africa)

Grindrod

Imperial Holdings (now Imperial Logistics)

Super Group

Transnet

A recent estimate of the South African Department of Transport¹ indicates that the transport, storage, and communication sector contributes 9.3% to South Africa's GDP, while transport alone contributes about 6.5%. The six companies in our sample employed over 100,000 people in the 2020 financial year. This makes it a key industry for the LRS to monitor.

Firstly, this report looks at the significant effect the COVID 19 pandemic has had on the sector. The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the last seven years. We also analyse the remuneration packages received by directors in this sector.

¹ https://www.transport.gov.za/documents/11623/39906/4_EconomicStatus2017.pdf/c47470b7-90f4-48cf-bd96-b82878d651fa

The Sector

South Africa's transport sector has been (and continues to be) severely affected by the Covid-19 pandemic – initially in terms of restrictions on operations and subsequently as the country emerged from lockdown. Under initial lockdown, the government shut down airports, buses, and train services to prevent large congregations in stations and vehicles. At the same time, minimal movements were allowed for logistics and transport of essential commodities. But, as economic pressure was mounted within the country, so was the pressure to relax operating restrictions of the sector.

At the start of the pandemic in March 2020, South Africa's state-owned airport operator ACSA reported that profit had risen sharply from ZAR 224 million in the previous financial year to ZAR 1.2 billion. However, the impact of the coronavirus pandemic has been severe, and cost-cutting has had to be ramped up as huge losses were incurred in the latter part of the year. ACSA reported a loss of ZAR 2.6 billion in the year through March 2021, compared with a profit of ZAR 1.2 billion a year earlier. The company got through months of almost no traffic by selling a 10% stake in Mumbai airport, issuing ZAR 2.3 billion of preference shares to the government, and taking a ZAR 810 million loan from the Development Bank of Southern Africa. A recent report estimates that in South Africa, ACSA's passenger figures fell by 78.2%, from 21 million to 4.6 million and total air traffic movements declined by 60%.²

Even though some big companies have managed to stand firm and weather the impact of the Covid-19, the state-owned freight and logistics company, Transnet, is laying off workers. The company is in the process of issuing out voluntary severance packages (VSP) that will see 2,919 employees exit the company in 2021 at a cost of about R2.3 billion. The company maintained that Transnet's fixed labour cost accounted for 67% of total costs and that the lay-off is important in a bid to reduce costs on the business and ensure long-term sustainability. However, the United

² <https://businesstech.co.za/news/business/530384/south-african-airports-expect-good-news-for-december-holidays/>

National Transport Union (UNTU) argues that the exercise would only save about 7% of Transnet's wage bill, which was little compared to what was being lost³.

The freight forwarding and customs clearance operations of major industry players such as Grindrod and Imperial Logistics contribute significantly to international trade in South Africa and co-ordinates over 80% of the country's international trade. These companies reported substantially lower services and revenue in 2020.

Financials

Revenue

The state-owned company Transnet is the biggest company in terms of revenue in the sample sector with a revenue of ZAR 75 billion, as shown in *Figure 1* below. This is closely followed by Imperial holdings (now Imperial Logistics) with a ZAR 46 billion revenue for the 2020 financial year. While Super Group and Grindrod recorded 6.2% and 12% increases in revenue in 2019, in 2020 the revenue decreased by 8.7% and 2.2% respectively.

The revenue of Imperial holdings plummeted by 61% in 2019 due to the unbundling of Motus Holdings Limited from the company. In December 2018, Imperial Holdings Limited changed its name to Imperial Logistics. In the 2020 financial report, the company reported a 6.7% decrease in its revenue. On average, the five companies in this report reported a 3.2% decrease in revenue in what could be termed the worst year of the Covid-19 pandemic. From the graph below (see *Figure 4*), we see that the 2020 average revenue is the lowest in nine years.

³ <https://www.iol.co.za/business-report/economy/transnet-faces-off-with-union-over-voluntary-lay-offs-of-3000-staff-983b5d82-1403-413a-9bee-bef105f3052d>

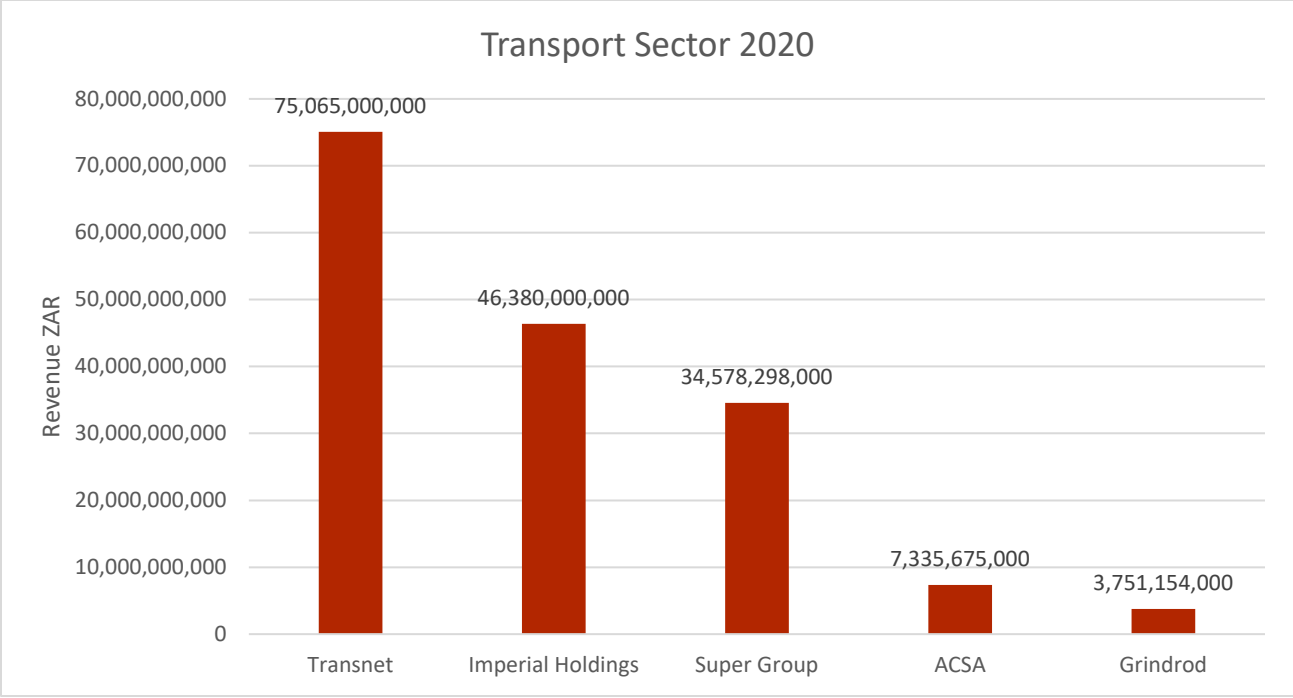


Figure 1 Transport Sector Revenue 2020

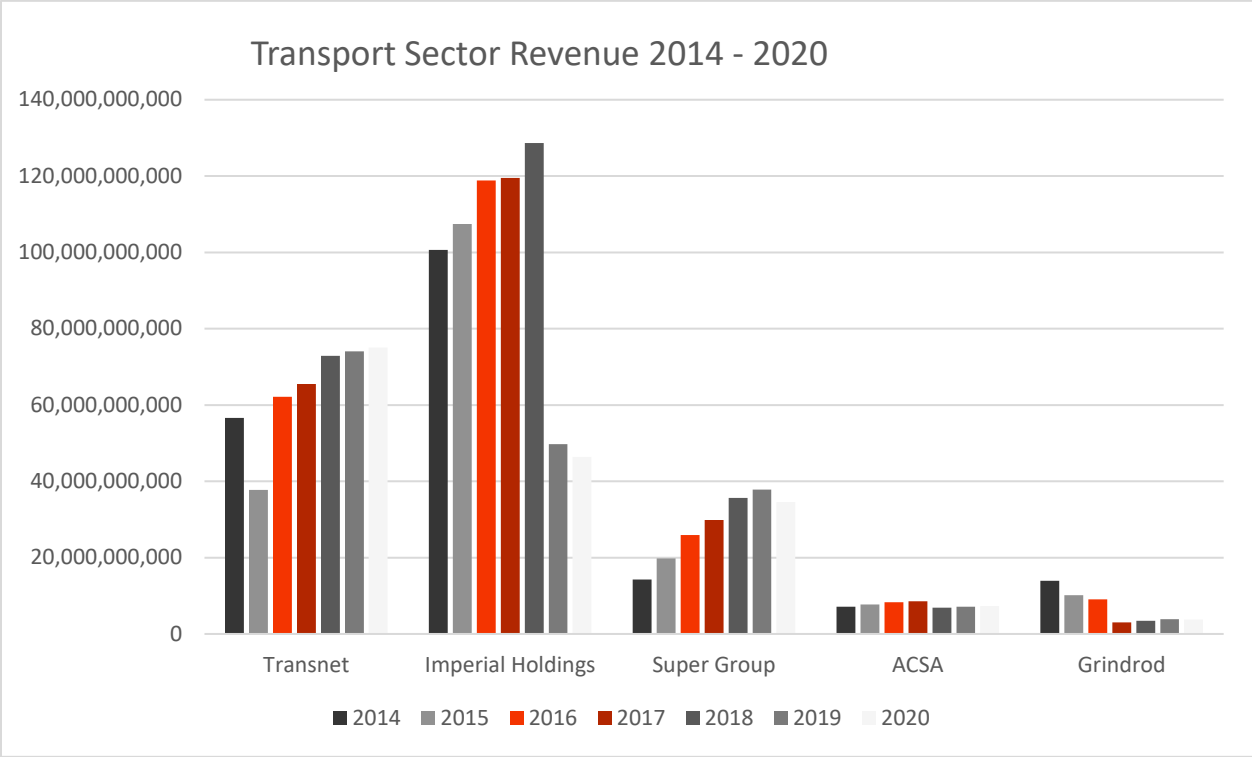


Figure 2 Transport Sector Revenue 2014 to 2020

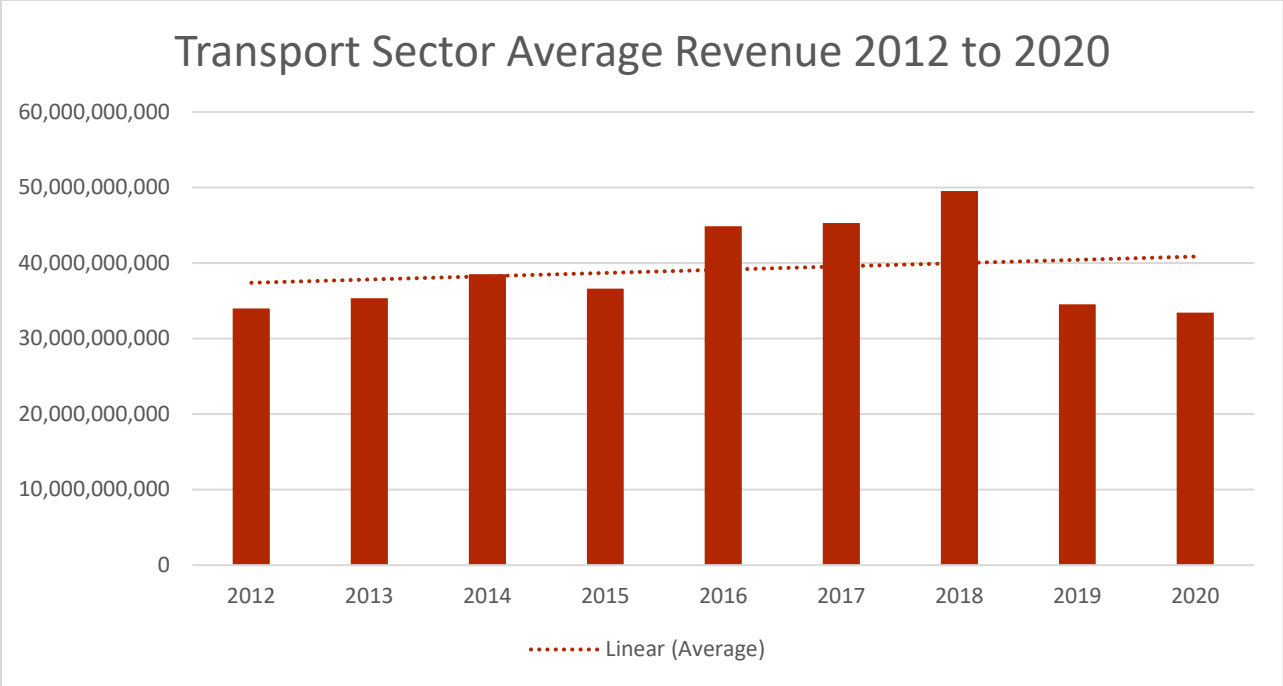


Figure 3 Transport Sector Average Revenue 2012 to 2020

Profit before Tax

In December 2020, Transnet – Africa’s largest state-owned freight rail and ports company – hit its first half-year headline loss in the wake of the Covid-19 pandemic. The group made a loss of ZAR 3 billion for the six months ending September 2020, compared to a ZAR 2.9 billion profit for its 2019 interim period. The pandemic affected all of Transnet’s operating divisions, especially rail volumes, which make up 70% of the company’s revenue. However, Transnet ended the 2020 financial year with a Profit before Tax of ZAR 6 billion (a 29.2% decrease compared to 2019).

The 2020 Profit before Tax for ACSA increased by 147.4%, compared to the previous year, while all other companies in our sample recorded decreased PBT. ACSA achieved this significant increase by taking loans and selling its stake in other investments (*see section above*). On average, reported 2020 PBT for the five companies went down by over 37.7%. This decline is partially attributed to the severe impact of the Covid-19 pandemic on the sector. From the graph below (*see Figure 8*), the average transport sector PBT increased from 2016 to 2018, however the PBT has been declining year-on-year since then.

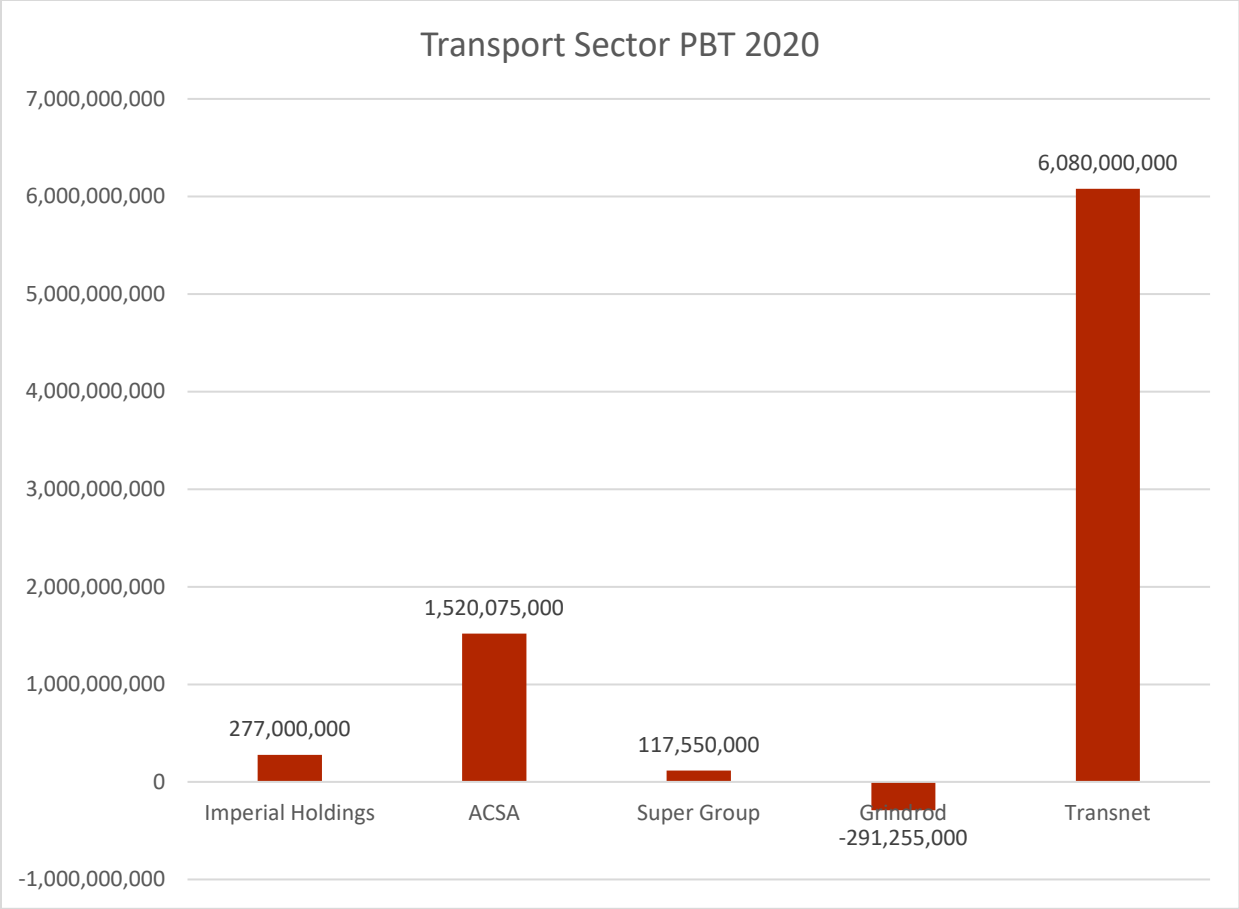


Figure 4 Transport sector Profit before Tax 2020

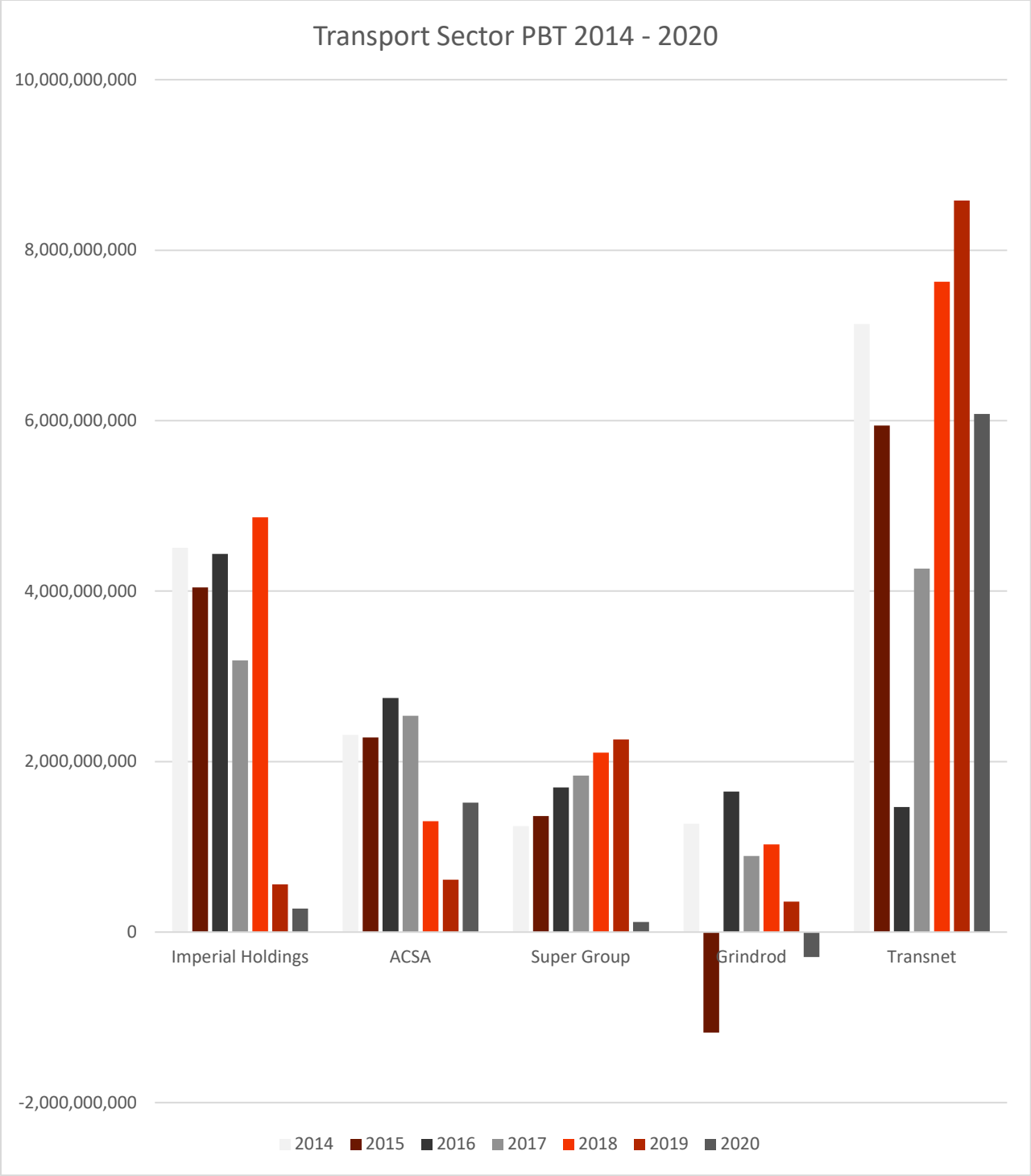


Figure 5 Transport sector Profit before Tax 2014 to 2020

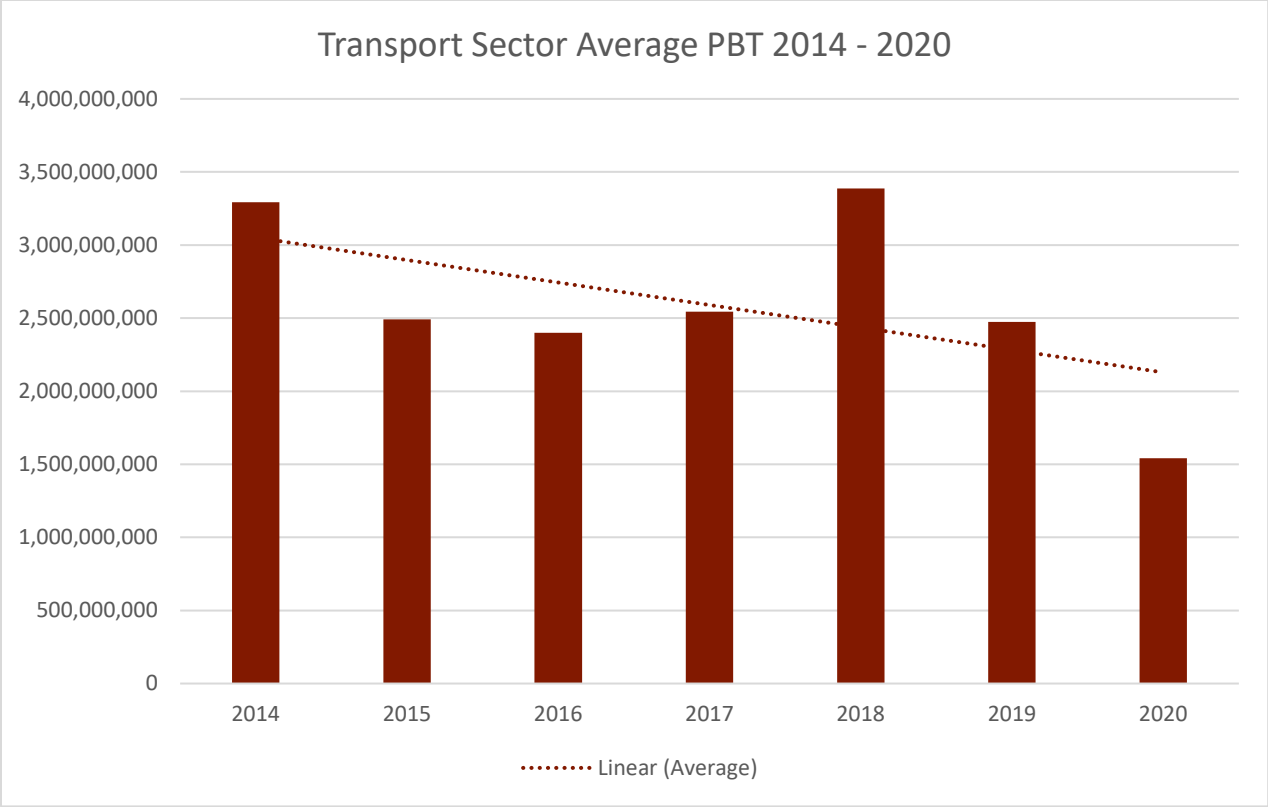


Figure 6 Transport Sector Average PBT 2014 to 2020

Directors’ Remuneration: a ten-year retrospective

We use the LRS MNC database to examine CEO remuneration over the last ten years for the five companies in our sample. When looking at *Figure 9*, we see that in 2014, 2015, and 2016 we can see a large gap between the average total remuneration without LTI and total remuneration including LTI. This shows that large LTIs were paid in these three years. We also see the general movement from 2016 being upwards, this continued until 2018 when the trend started downwards. The average CEO pay excluding LTI was ZAR 7.2 million in 2020, which was arguably a very difficult year for the sector.

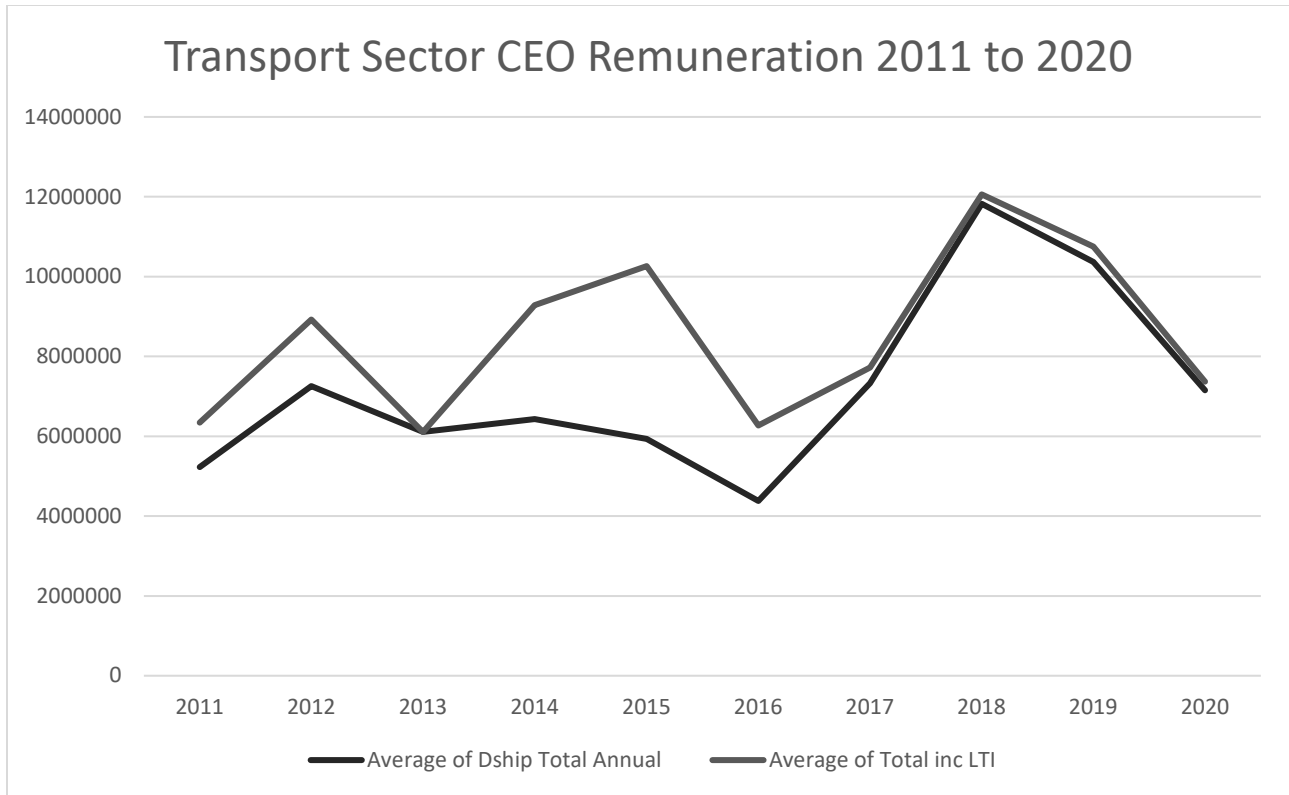


Figure 7 Transport Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

From 2019 to 2020, the average total CEO remuneration decreased by 22.9%. Grindrod paid A. G. Waller ZAR 11 million, and P. Mountford of Super Group was paid ZAR 15.3 million, despite both companies reporting low profits for the year. ACSA had four changes in its leadership over the course of 2019 and 2020 which resulted in multiple payments being made to the various CEOs. The highest earner in the sample is M. Akoojee of Imperial Logistics, with a total remuneration of ZAR 19.4 million for the 2020 financial year.

On average, from 2019 to 2020, the total executive director and non-executive director's remuneration decreased by 25% and 7.3%, respectively (see *Figure 11 and 12*).

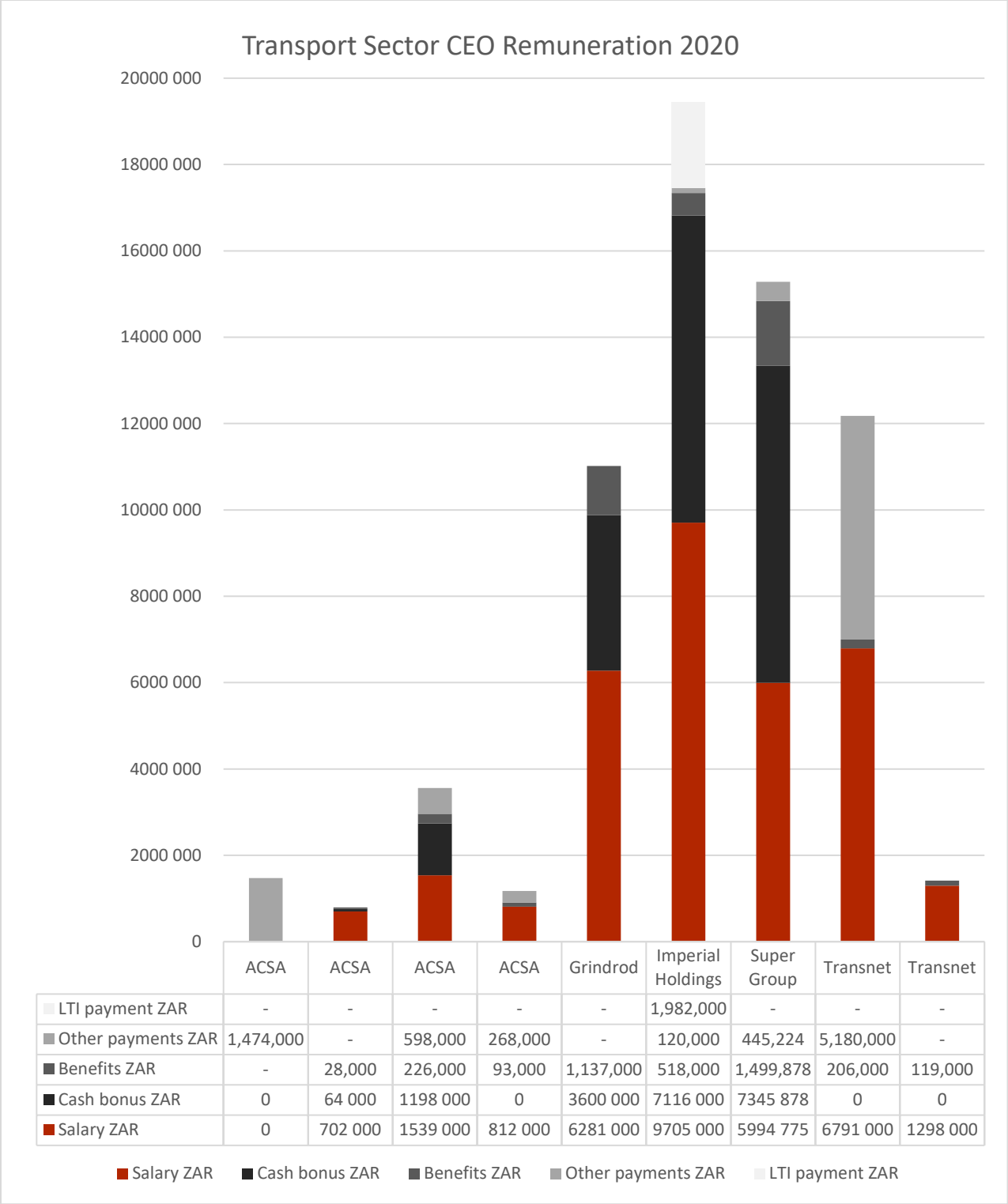


Figure 8 Transport Sector CEO Remuneration 2020

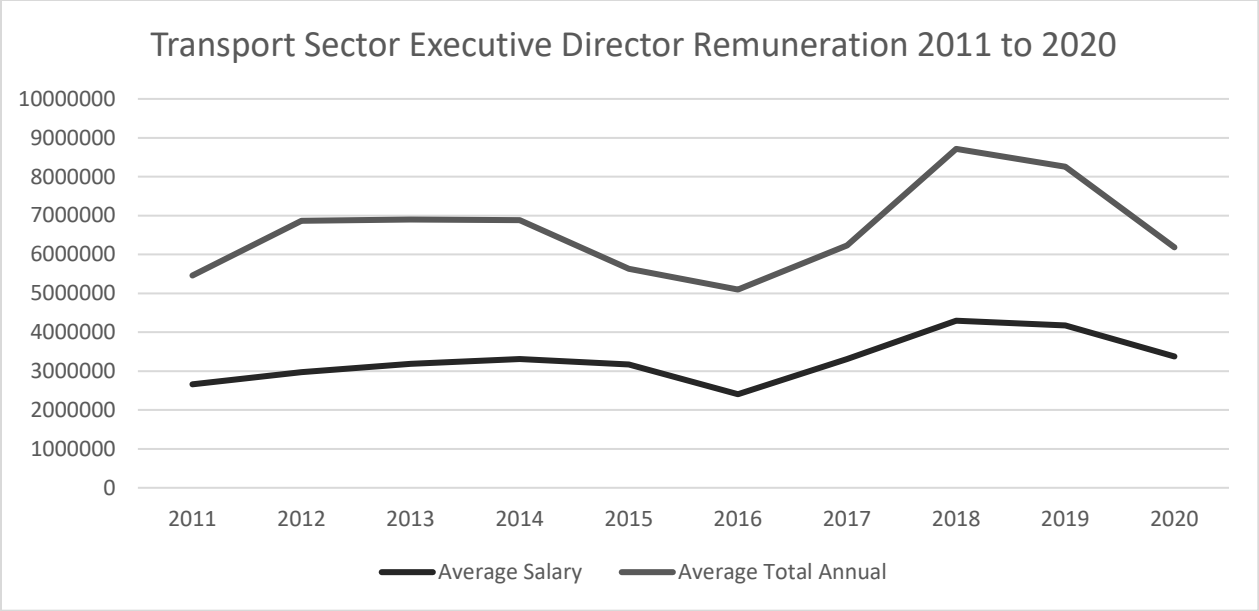


Figure 9 Transport Sector Executive Director Remuneration 2012 to 2020

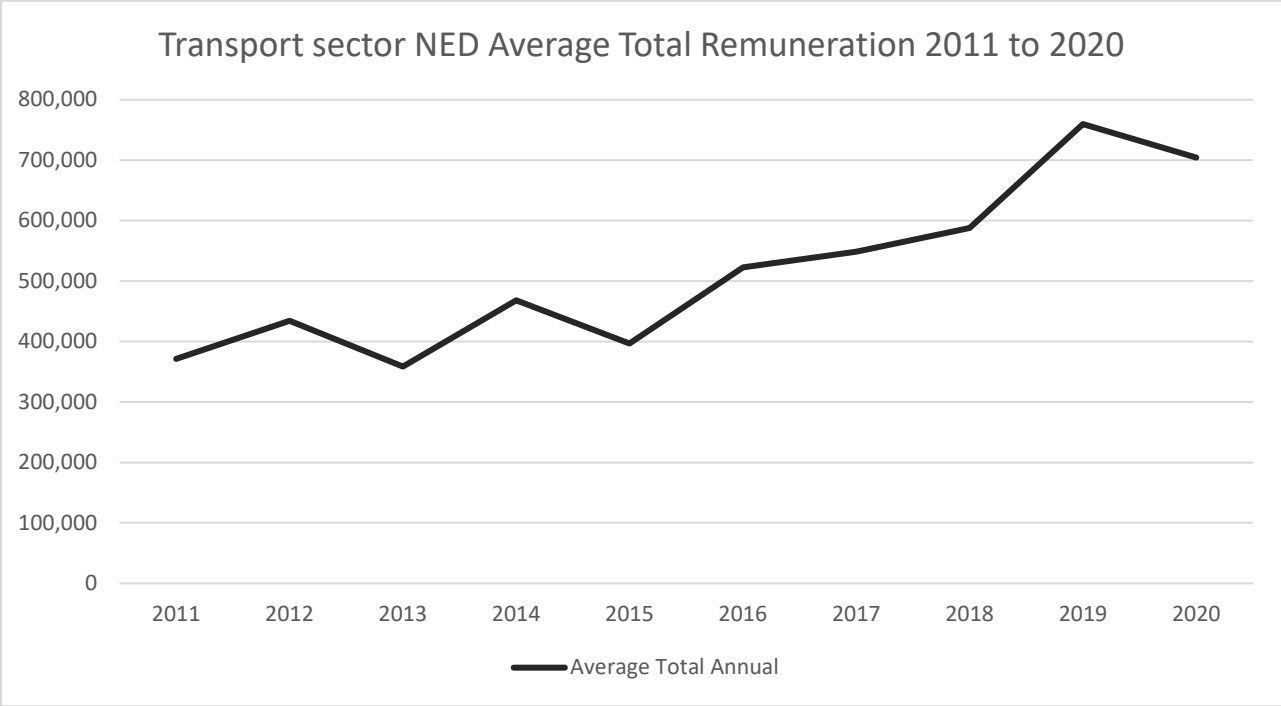


Figure 10 Transport sector NED Average Total Remuneration 2011 to 2020