

SHOPRITE



IFRS 16 BRIEFING
18 FEBRUARY 2020

SHOPRITE 
HOLDINGS LTD



IFRS 16 - BASIC PRINCIPLES

- The Group has adopted IFRS 16 retrospectively on 1 July 2019 in order to provide greater comparability.
- The results for the year ended 30 June 2019 have been restated with an opening retained earnings adjustment on 2 July 2018.
- IFRS 16 recognises lease obligations in the financial statements therefore aligning the accounting of operating leased assets with those of owned and finance leased assets.
- An explanation of the required restatements have been provided in the SENS announcement dated 14 February 2020.





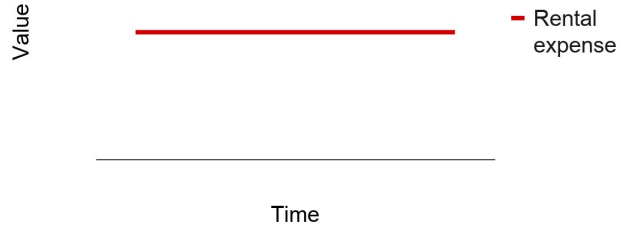
IAS 17 VERSUS IFRS 16

Example:
Statement of comprehensive
income

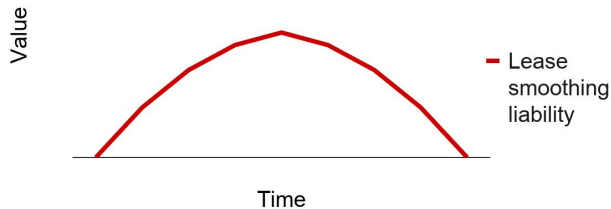
Example:
Statement of financial
position

IAS 17

IAS 17: Rent expense recognised on straight-line basis

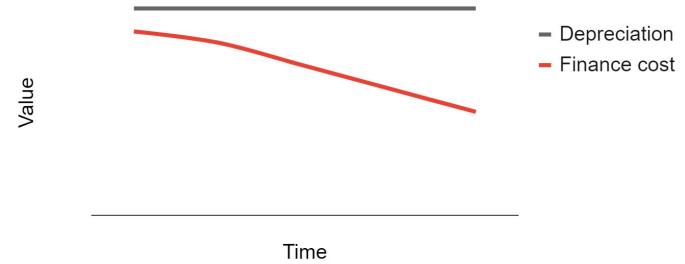


IAS 17: Lease smoothing liability

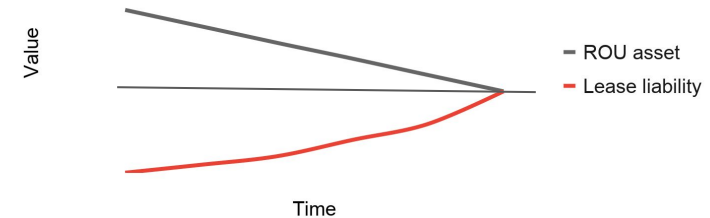


IFRS 16

IFRS 16: Depreciation on straight-line basis and implied interest charge



IFRS 16: Right-of-use asset and lease liability

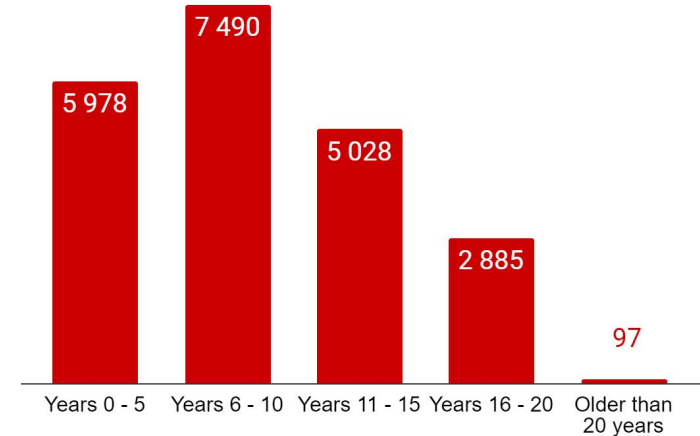




GROUP LEASE PROFILE

- On 30 June 2019 the Group had 2 095 qualifying property leases under IFRS 16.
- The maturity profile of the lease impacts the interest charge on the statement of comprehensive income.
- Interest charged on the lease liability is higher in the earlier years and decreases over time as the liability decreases with lease payments.
- The weighted average incremental borrowing rate applied to the lease liability is 8.5%.

**Present value maturity analysis of lease liability
- Rm (30 Jun 19)**

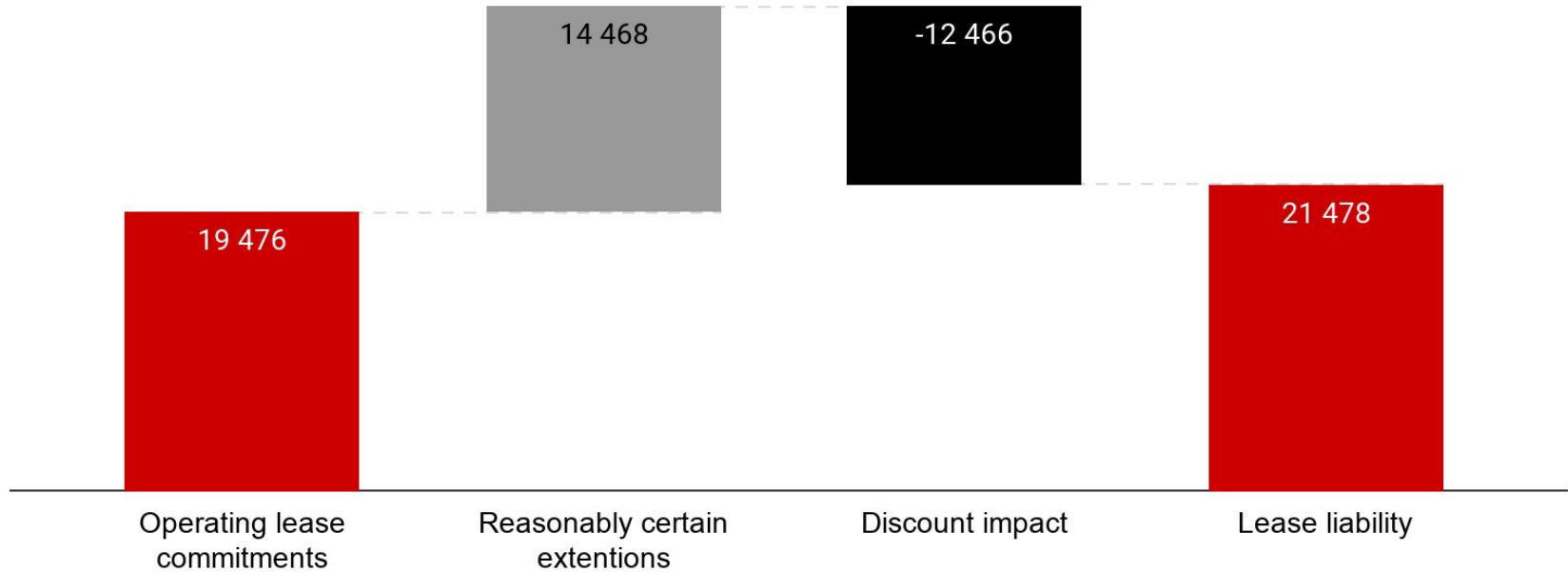


The Group's portfolio of qualifying property leases has an average lease term of 9.0 years (2018: 8.7 years).



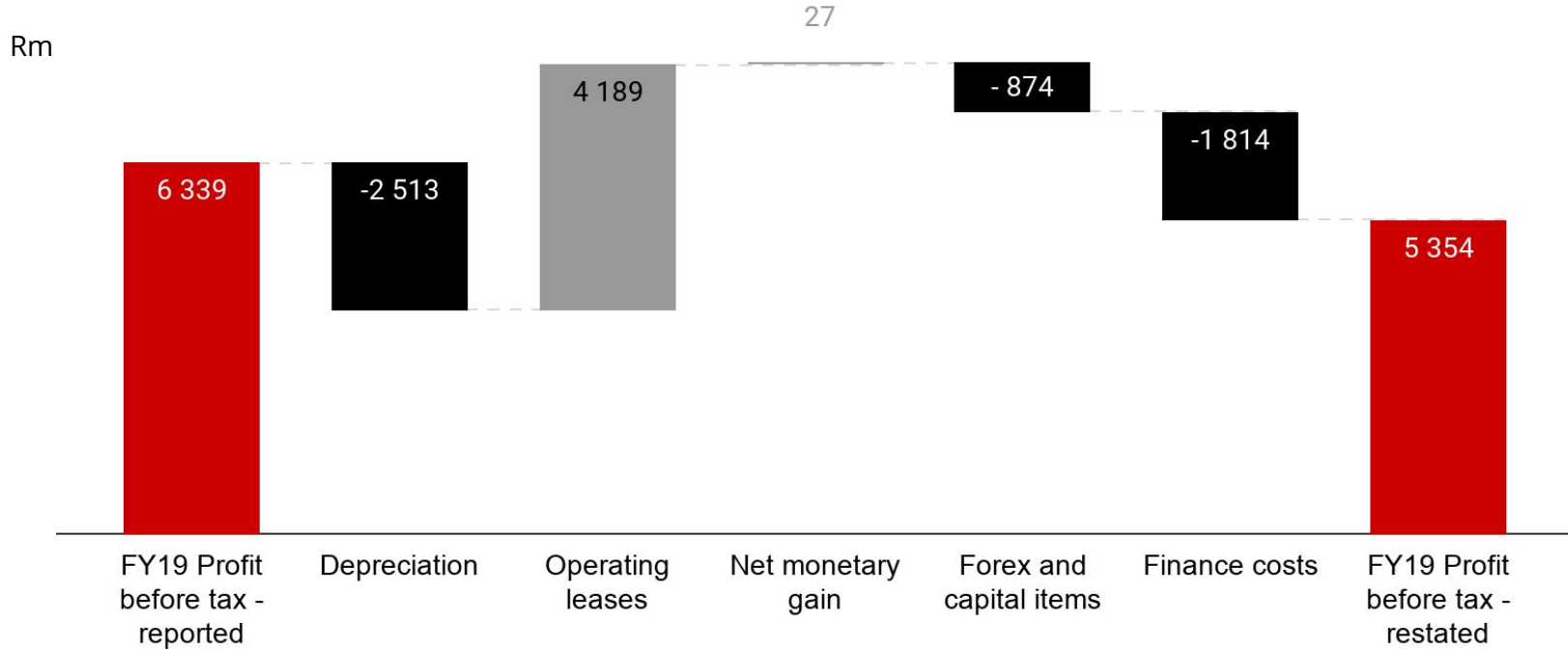
PRE- AND POST IFRS 16 LEASE LIABILITY

Rm





IMPACT ON PROFIT BEFORE TAX





FOREX AND CAPITAL ITEMS

- The R458 million foreign currency impact arises from the Group's foreign currency lease exposure.
- Net investment hedge accounting will be applied from the start of the 2020 financial year to reduce this impact.
- IAS 36: Impairment of assets (IAS 36) requires impairment testing at each reporting date and this extends to the right-of-use assets recognised under IFRS 16.
- As a result, the following impairments were recognised:
 - 2 July 2018: R943 million
 - 30 June 2019: R416 million





IMPACT ON PERFORMANCE MEASURES

	Jun 2019 Reported	IFRS 16 Impact	Jun 2019 Restated
Net debt (Rm)	8 123	21 478	29 601
Net asset value (Rm)	26 177	-3 970	22 207
Invested capital (Rm)	42 007	17 508	59 515
Return on invested capital (%)	11.0	-1.6	9.4
Return on average shareholders equity (%)	12.0	-5.0	7.0

Definitions:

Net debt: Cash and cash equivalents less bank overdrafts, total borrowings and lease liabilities (after implementation of IFRS 16).

Net asset value: Total assets less total liabilities.

Invested capital: Net asset value excluding borrowings, lease liabilities (after implementation of IFRS 16) and bank overdrafts.

Return on invested capital: Trading profit after tax (calculated by applying the effective tax rate), expressed as a percentage of invested capital.

Return on average shareholders' equity: Basic headline earnings, expressed as a percentage of the average of capital, reserves and interest bearing borrowings (including lease liabilities after IFRS 16 implementation), at the beginning and the end of the financial year.



IMPACT ON PERFORMANCE MEASURES

	Jun 2019 Reported	IFRS 16 Impact	Jun 2019 Restated
EBITDA (Rm)	9 531	3 342	12 873
Trading profit (Rm)	6 876	1 703	8 579
Trading profit margin (%)	4.6	1.1	5.7
Operating profit (Rm)	6 911	829	7 740
Operating profit margin (%)	4.6	0.5	5.1

Definitions:

EBITDA: Earnings before interest, tax, depreciation and amortisation.



IMPACT ON DIVIDEND AND COVER

	Jun 2019 Reported	IFRS 16 Impact	Jun 2019 Restated
Diluted HEPS (cents)	779.9	-81.4	698.5
Diluted HEPS excl. hyperinflation	637.2	-83.8	553.4
Dividend per share (cents)	319.0	-	319.0
Annual dividend cover (times) adjusted	2.0	-0.3	1.7

Definitions:

HEPS: Headline earnings per share



THANK YOU | QUESTIONS