

CASTINGS PLC
INTERIM MANAGEMENT REPORT
Six months ended 30 September 2019

Sales for the six months ended 30 September 2019 were £73.1 million (2018 – £68.3 million) with profit before tax of £7.34 million (2018 – £5.77 million).

Foundry operations

As previously reported, customer demand was strong during the first three months of the period followed by some softening in the second quarter. Overall the output during the period was up 5.4% at 25,200 tonnes (2018 – 23,900 tonnes) and external sales revenue increased by 7.9% to £70.1 million. The revenue figure is enhanced by the continued shift to more machined parts which results in higher average selling prices.

The profit from the foundry segment of £7.1 million represents an increase of 9.5% from the equivalent period last year (“previous period”). Whilst there has been some margin improvement compared to the previous period, further productivity gains are set to be realised during the second half of the financial year and into 2020/21.

Investment of £3.1 million has been made during the period to support automation and other productivity initiatives within the foundry businesses.

Machining operation

CNC Speedwell generated external revenue of £3.0 million during the period, a decrease of 8.1% compared to the previous period, with a reported profit of £0.1 million compared to a loss of £0.8 million in the previous period. The reduction in external revenue is to be expected as the emphasis continues to be on the group’s core customer base.

The focus on engineering and productivity improvements in the machining business are now starting to be realised and have resulted in a return to profit in the period. It will continue to take time before all of the necessary processes have been reviewed and production efficiencies fully reflected in the operating performance. Where gains have been made this has increased the capacity available for future production without the need for further investment.

The capital investment during the period has again reduced from £1.3 million in the previous period to £0.6 million. The investment made has been to support automation and other productivity initiatives.

Outlook

The commercial vehicle sector has reported a decline in order intake in Europe. Accordingly, we have seen a reduction in schedules from this element of our customer base, which represents 70% of group revenue.

The focus in the foundry businesses continues to be on productivity improvements within the production processes and the completion of the automation of finishing processes. We expect to see the benefit of this during the remainder of the current financial year and into 2020/21.

The programme of automation investment commenced in the machining business following the successful development of a pilot cell during the period. This will enable the business to achieve additional productivity gains over a number of years.

Dividend

An interim dividend of 3.48 pence per share has been declared and will be paid on 2 January 2020 to shareholders who are on the register at 22 November 2019.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group’s performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results.

The directors consider that the principal risks and uncertainties remain substantially the same as those stated on pages 7 and 8 of the Annual Report for the year ended 31 March 2019.

The general election and uncertainty surrounding our future relationship with Europe continues to cause concern over the near-term outlook and prospects for the UK economy. It is still too early to quantify or determine with certainty the impact on the group. The board will continue to monitor developments, consider the impact on the group’s businesses and take appropriate action to help mitigate any risks associated with the UK leaving the EU.

Cautionary statement

This Interim Management Report (‘IMR’) has been prepared solely to provide additional information to shareholders to enable them to assess the group’s strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose. This IMR contains certain forward-looking statements. These are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

The IMR has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to Castings P.L.C. and its subsidiary undertakings when viewed as a whole.

By order of the board

BRIAN J. COOKE
Chairman
8 November 2019

Castings P.L.C.
Lichfield Road
Brownhills
West Midlands
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Consolidated Statement of Comprehensive Income

For six months ended 30 September 2019

	Unaudited Half year to 30 September 2019 £'000	Unaudited Half year to 30 September 2018 £'000	Audited Year to 31 March 2019 £'000
Revenue	73,135	68,284	150,236
Cost of sales	(57,349)	(54,710)	(118,129)
Gross profit	15,786	13,574	32,107
Distribution costs	(1,444)	(1,429)	(2,794)
Excluding exceptional items	(7,109)	(6,444)	(14,116)
Exceptional items	—	—	(1,275)
Total administrative expenses	(7,109)	(6,444)	(15,391)
Profit from operations	7,233	5,701	13,922
Finance income	111	70	128
Profit before income tax	7,344	5,771	14,050
Income tax expense	(1,393)	(1,094)	(3,040)
Profit for the period attributable to the equity holders of the parent company	5,951	4,677	11,010
Other comprehensive income/(expense) for the period:			
Items that will not be reclassified to profit and loss:			
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses			
	—	—	237
Defined benefit pension schemes GMP equalisation charge	—	—	1,290
	—	—	1,527
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of available for sale financial assets	30	32	44
Tax effect of items that may be reclassified	(5)	(5)	(7)
	25	27	37
Total other comprehensive income/(losses) for the period (net of tax)	25	27	1,564
Total comprehensive income for the period attributable to the equity holders of the parent company	5,976	4,704	12,574
Earnings per share attributable to the equity holders of the parent company			
Basic and diluted	13.64p	10.72p	25.23p

Consolidated Balance Sheet

30 September 2019

	Unaudited 30 September 2019 £'000	Unaudited 30 September 2018 £'000	Audited 31 March 2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	70,999	75,253	71,438
Financial assets	410	369	380
Other receivables	—	1,135	—
	71,409	76,757	71,818
Current assets			
Inventories	19,077	18,503	19,164
Trade and other receivables	36,954	40,670	41,121
Current tax asset	524	—	—
Other current interest-bearing deposits	—	4,900	5,000
Cash and cash equivalents	25,835	14,692	25,771
	82,390	78,765	91,056
Assets classed as held for resale	1,060	—	1,060
	83,450	78,765	92,116
Total assets	154,859	155,522	163,934
LIABILITIES			
Current liabilities			
Trade and other payables	22,453	22,787	24,222
Current tax liabilities	—	1,075	1,842
	22,453	23,862	26,064
Non-current liabilities			
Deferred tax liabilities	3,560	3,666	3,481
Total liabilities	26,013	27,528	29,545
Net assets	128,846	127,994	134,389
Equity attributable to equity holders of the parent company			
Share capital	4,363	4,363	4,363
Share premium account	874	874	874
Other reserve	13	13	13
Retained earnings	123,596	122,744	129,139
Total equity	128,846	127,994	134,389

Consolidated Cash Flow Statement

For six months ended 30 September 2019

	Unaudited Half year to 30 September 2019 £'000	Unaudited Half year to 30 September 2018 £'000	Audited Year to 31 March 2019 £'000
Cash flows from operating activities			
Profit before income tax	7,344	5,771	14,050
Adjustments for:			
Depreciation	4,163	3,870	8,296
Profit on disposal of property, plant and equipment	—	—	(160)
Finance income	(111)	(70)	(128)
Pension administrative costs	—	—	237
Pension GMP equalisation charge	—	—	1,290
Decrease/(increase) in inventories	87	(2,219)	(2,880)
Decrease/(increase) in receivables	5,185	(1,841)	(4,449)
(Decrease)/increase in payables	(1,769)	545	1,980
Cash generated from operating activities	14,899	6,056	18,236
Tax paid	(3,685)	(1,341)	(2,707)
Interest received	101	57	108
Net cash generated from operating activities	11,315	4,772	15,637
Cash flows from investing activities			
Dividends received from listed investments	10	13	20
Purchase of property, plant and equipment	(3,724)	(3,187)	(4,858)
Proceeds from disposal of property, plant and equipment	—	—	160
Transfer from/(to) other current interest-bearing deposits	5,000	—	(100)
Repayments from pension schemes	—	—	4,455
Advances to pension schemes	(1,018)	(1,228)	(2,390)
Net cash used in investing activities	268	(4,402)	(2,713)
Cash flow from financing activities			
Dividends paid to shareholders	(11,519)	(4,852)	(6,327)
Net cash used in financing activities	(11,519)	(4,852)	(6,327)
Net increase/(decrease) in cash and cash equivalents	64	(4,482)	6,597
Cash and cash equivalents at beginning of period	25,771	19,174	19,174
Cash and cash equivalents at end of period	25,835	14,692	25,771
Cash and cash equivalents:			
Short-term deposits	23,362	11,931	19,828
Cash available on demand	2,473	2,761	5,943
	25,835	14,692	25,771

Consolidated Statement of Changes in Equity

Unaudited	Equity attributable to equity holders of the parent				Total equity £'000
	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	
At 1 April 2019	4,363	874	13	129,139	134,389
Profit for the period	—	—	—	5,951	5,951
Other comprehensive income/(losses):					
Change in fair value of available for sale assets	—	—	—	30	30
Tax effect of items taken directly to reserves	—	—	—	(5)	(5)
Total comprehensive income for the period ended 30 September 2019	—	—	—	5,976	5,976
Dividends	—	—	—	(11,519)	(11,519)
At 30 September 2019	4,363	874	13	123,596	128,846
Unaudited	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	4,363	874	13	122,892	128,142
Profit for the period	—	—	—	4,677	4,677
Other comprehensive income/(losses):					
Change in fair value of available for sale assets	—	—	—	32	32
Tax effect of items taken directly to reserves	—	—	—	(5)	(5)
Total comprehensive income for the period ended 30 September 2018	—	—	—	4,704	4,704
Dividends	—	—	—	(4,852)	(4,852)
At 30 September 2018	4,363	874	13	122,744	127,994
Audited	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	4,363	874	13	122,892	128,142
Profit for the year	—	—	—	11,010	11,010
Other comprehensive income/(losses):					
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial loss	—	—	—	237	237
Defined benefit pension schemes GMP equalisation charge	—	—	—	1,290	1,290
Change in fair value of available for sale assets	—	—	—	44	44
Tax effect of items taken directly to reserves	—	—	—	(7)	(7)
Total comprehensive income for the year ended 31 March 2019	—	—	—	12,574	12,574
Dividends	—	—	—	(6,327)	(6,327)
At 31 March 2019	4,363	874	13	129,139	134,389

Notes

1. General information

Castings P.L.C. (the 'company') is a company domiciled in England. The condensed consolidated interim financial statements of the company for the six months ended 30 September 2019 comprise the company and its subsidiaries (together referred to as the 'group').

The principal activities of the group are the manufacture of iron castings and machining operations.

The financial information for the year ended 31 March 2019 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 March 2019 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498 (2) or (3) of the Companies Act 2006.

This report has not been audited and has not been reviewed by independent auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

2. Accounting policies

The annual financial statements of Castings P.L.C. are prepared using the recognition and measurement principles of IFRSs as endorsed by the European Union. The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

Basis of preparation

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed consolidated interim financial statements.

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated interim financial statements as applied in the group's latest annual audited financial statements.

New standards effective and adopted by the group in the period

The following new standards and IFRIC interpretations have been issued and are effective for the first time for the group's financial year beginning on 1 April 2019 and therefore have been applied by the group in these condensed consolidated interim financial statements:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

The adoption of these new or amended standards did not have a material impact on the group's financial position or results from operations in the half-year ended 30 September 2019.

3. Seasonality of operations

The directors do not consider there to be any significant seasonality or cyclicity to the results of the group.

4. Segment information

For internal decision making purposes, the group is organised into three operating companies which are considered to represent two operating segments of the group. Castings P.L.C. and William Lee Limited are aggregated into Foundry Operations and CNC Speedwell Limited is the Machining Operation.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would be available to third parties.

The following shows the revenues, results and total assets by reportable segment for the half year to 30 September 2019.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	70,106	3,029	—	73,135
Inter-segmental revenue	9,609	10,325	—	19,934
Segmental result	7,094	139	—	7,233
Unallocated income:				
Finance income				111
Profit before income tax				7,344
Total assets	137,691	31,430	(14,262)	154,859
Non-current asset additions	3,077	647	—	3,724
Depreciation	2,048	2,115	—	4,163
Total liabilities	(25,890)	(7,776)	7,653	(26,013)

The following shows the revenues, results and total assets by reportable segment for the half year to 30 September 2018.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	64,988	3,296	—	68,284
Inter-segmental revenue	9,433	9,646	—	19,079
Segmental result	6,476	(775)	—	5,701
Unallocated income:				
Finance income				70
Profit before income tax				5,771
Total assets	138,487	35,261	(18,226)	155,522
Non-current asset additions	2,336	1,339	—	3,675
Depreciation	1,972	1,898	—	3,870
Total liabilities	(28,132)	(11,359)	11,963	(27,528)

The following shows the revenues, results and total assets by reportable segment for the year ended 31 March 2019.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
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	£'000			
Revenue from external customers	143,060	7,176	—	150,236
Inter-segmental revenue	21,499	20,605	—	42,104
Segmental result	16,832	(1,342)	(56)	15,434
Unallocated income/(costs):				
Exceptional credit for recovery of Icelandic bank deposits previously written off				15
Defined benefit pension costs				(237)
Defined benefit pension GMP equalisation charge				(1,290)
Finance income				128
Profit before income tax				14,050
Total assets	145,747	33,393	(15,206)	163,934
Non-current asset additions	3,496	1,850	—	5,346
Depreciation	4,183	4,113	—	8,296
Total liabilities	(29,632)	(9,879)	9,966	(29,545)

5. Dividends

Amounts recognised as distributions to shareholders in the period:

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000
Final dividend of 11.40p per share for the year ended 31 March 2019 (2018 – 11.12p per share)	4,974	4,852
Supplementary dividend of 15.00p per share for the year ended 31 March 2019 (2018 – nil)	6,545	—
	11,519	4,852

The directors have declared an interim dividend in respect of the financial year ending 31 March 2020 of 3.48p per share (2019 – 3.38p), which will be paid on 2 January 2020.

6. Earnings per share and diluted earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. There are no share options or other potentially issuable shares; hence the diluted earnings per share is the same calculation.

	Unaudited Half year to 30 September 2019	Unaudited Half year to 30 September 2018	Audited Year to 31 March 2019
Profit after tax (£'000)	5,951	4,677	11,010
Weighted average number of shares	43,632,068	43,632,068	43,632,068
Earnings per share — basic and diluted	13.64p	10.72p	25.23p

7. Pension schemes

The group operates two defined benefit pension schemes which are closed to new entrants and closed to future accruals on 6 April 2009. The assets of the schemes are independent of the finances of the group and are administered by trustees.

The pension schemes are related parties of the group and during the period £1,018,000 (2018 – £1,228,000) was paid by the group on behalf of the schemes in respect of pension payments and administration costs. At 30 September 2019, the outstanding balance of £4,543,000 (2018 – £6,818,000) is repayable within one year. In the prior year, £1,135,000 of the balance was classified as a non-current other receivable being repayable on 30 November 2019.

Payments made by the company on behalf of the schemes in the current period are repayable on 30 November 2020.

8. Interim report

Copies of this interim management report will be available on the company's website, www.castings.plc.uk, and from the registered office.

Statement of Directors' Responsibilities

The directors confirm that the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

By order of the board

S. J. MANT FCA
Group Finance Director
8 November 2019