

SA Express - still trying to figure out its net asset value

 By [Rob Baker](#)

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The most telling bit of information released about SA Express last week, was on page 165 of the Annual Report of the Department of Public Enterprises: "No impairment for the current year for South African Express (SAX) has been provided as the current year net asset value is not available." Impairments are changes in the value of an asset, which are obviously impossible to specify if one does not know what the value of the asset was at the start and end of the period.



The Auditor-General took over the auditing of SA Express earlier this year, and the 2010/2011 figures were restated to a loss of R187m. However, it's clear by the fact that SA Express has not agreed a number with the auditors for its net asset value, that the accounting issues have not been resolved yet. This point is driven home SA Express's statement earlier this week that "the company is still working hard to improve the audit report".

The headline of the statement was in fact that "SA Express posts a profit", but my opinion is that the profit of R1m is likely to be an accounting funny. The more telling figure is the R25m operating loss it reported. The difference between operating profit/loss and accounting profits is usually to do with interest earned or tax.

"This past financial year, SA Express has made a significant turnaround by posting at net profit of R650k as compared with the restated loss of R365.9m in 2012. This is mainly attributed in part to the increase in turnover of over R270m (from R2,021bn in 2012 to R 2,295bn in 2013), the operating cost remaining stable and the recognition of the deferred tax asset of R158m based on future profits. Furthermore, the airline's operating margin marked an improvement of R263m from an operating loss of R288.3m in 2012 to an operating loss of R25.1m in 2013. The airline also saw a drop in cash used in operations: from R234.2m in 2012 to R133m in 2013" said SA Express in their statement.

We're now moving into the realm of speculation, however I think it's unlikely given SA Express's financial status that it had much interest income. The more likely explanation for the profit is to do with the tax implications of the reversal profits in 2010/2011, into a R187m loss, and deferred tax assets being raised. I'm not a tax expert though, so I'm treading on thin ice

with this bit of speculation. It'll be interesting to see what the reasons for the profit were when SA Express releases its results.

Another interesting bit of info from the annual report was that there wasn't a corporate plan submitted by SA Express, as a result of the 2010/2011 financial year issues - this drives home the point that it isn't merely an accounting issue, but has repercussions on the airline's current year planning. The SA Express Board also wouldn't sign the shareholder compact, as they wanted a downward adjustment to the fleet renewal plan, because of the worsening economic climate.

So it seems that there was more than a bit of tension between the shareholder (government) and the SA Express Board, which explains why the entire board was fired in August 2012, by the Minister of Public Enterprises. The new board have some significant challenges ahead of them : (1) returning SA Express to a state of generating operating profits, (2) the fleet renewal plan, with it seeming that its shareholder is more keen on rapid expansion than it is, and (3) beginning its integration strategy with SAA and Mango Airlines.

ABOUT ROB BAKER

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