Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Unaudited Interim Results for the six months ended 30 September 2016

GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited 6 months ended 30.09.16 US$'000	Unaudited 6 months ended 30.09.15 US$'000 Note 5	Audited Year ended 31.03.16 US$'000 Note 5
Revenue		**82 912**	**70 158**	**116 830**
Operating profit/(loss)		3 898	5 695	(6 542)
Net finance charges	Note 1	(2 303)	(3 386)	(6 355)
Profit/(loss) before tax		1 595	2 309	(12 897)
Income tax (expense)/credit	Note 2	(603)	(722)	3 164
Profit /(loss) after tax		992	1 587	(9 733)
Share of profit of associated companies		439	481	932
Profit/(loss) for the period		**1 431**	**2 068**	**(8 801)**
Other comprehensive loss, net of tax		(53)	(117)	(213)
Actuarial gains on post retirement provision		-	-	63
Exchange loss on foreign investment		(53)	(117)	(276)
Total comprehensive income/(loss) for the period		**1 378**	**1 951**	**(9 014)**
Number of shares in issue ('000 of shares)		193 021	193 021	193 021
Earnings/(loss) per share (cents)		0.7	1.1	(4.6)

GROUP STATEMENT OF FINANCIAL POSITION

	Unaudited As at 30.09.16 US$'000	Unaudited As at 30.09.15 US$'000 Note 5	Audited As at 31.03.16 US$'000 Note 5
ASSETS			
Non-current assets	**222 387**	**231 827**	**228 091**
Property, plant and equipment	218 492	228 528	224 639
Intangible assets	855	-	567
Investments in associated companies	3 040	3 299	2 885
Current assets	**125 142**	**131 286**	**125 070**
Short term biological assets	36 668	39 987	48 176
Deferred plant maintenance costs	4 911	5 033	11 964
Inventories	40 488	45 179	28 340
Trade and other receivables	23 890	32 681	27 998
Current tax asset	-	-	1 210
Cash and cash equivalent	19 185	8 406	7 382
Total assets	**347 529**	**363 113**	**353 161**
EQUITY AND LIABILITIES			
Capital and reserves			
Shareholder's interest	**219 408**	**228 995**	**218 030**
Issued share capital	15 442	15 442	15 442
Non-distributable reserves	127 639	127 851	127 692
Retained earnings	76 327	85 702	74 896
Non-current liabilities	**67 024**	**70 349**	**69 180**
Deferred tax liabilities	62 469	65 802	64 653
Provisions	4 555	4 547	4 527
Current liabilities	**61 097**	**63 769**	**65 951**
Trade and other payables	28 146	20 198	23 580
Short term borrowings	31 339	41 986	42 371
Current tax liability	1 612	1 585	-
Total equity and liabilities	**347 529**	**363 113**	**353 161**

GROUP STATEMENT OF CHANGES IN EQUITY

	Issued capital US$'000	Non-distributable reserves US$'000	Retained income US$'000	Total US$'000
Balance at 30 September 2015 - Note 5	15 442	127 851	85 702	228 995
Total comprehensive loss for the period - Note 5	-	(159)	(10 806)	(10 965)
Loss for the period	-	-	(10 869)	(10 869)
Other comprehensive (loss)/income	-	(159)	63	(96)
Balance at 31 March 2016 - Note 5	15 442	127 692	74 896	218 030
Total comprehensive (loss)/income for the period	-	(53)	1 431	1 378
Profit for the period	-	-	1 431	1 431
Other comprehensive loss	-	(53)	-	(53)
Balance at 30 September 2016	**15 442**	**127 639**	**76 327**	**219 408**

GROUP STATEMENT OF CASH FLOWS

		Unaudited 6 months ended 30.09.16 US$'000	Unaudited 6 months ended 30.09.15 US$'000 Note 5	Audited Year ended 31.03.16 US$'000 Note 5
Cash flows from operating activities				
Operating profit/(loss)		3 898	5 695	(6 542)
Depreciation	Note 3	7 739	14 148	19 775
Net movements in provisions		28	74	139
Gross movement in provisions		28	74	54
Movement attributable to non distributable reserves		-	-	85
Changes in biological assets		11 508	11 340	3 151
(Profit)/loss on disposal of property, plant and equipment		(120)	(327)	128
Cash generated from operations		**23 053**	**30 930**	**16 651**
Changes in working capital		(3 474)	(24 320)	584
Decrease/(increase) in deferred plant maintenance costs		7 053	5 561	(1 370)
Net cash generated from operations		**26 632**	**12 171**	**15 865**
Net finance charges paid		(2 303)	(3 386)	(6 355)
Net cash inflow from operating activities		**24 329**	**8 785**	**9 510**
Cash flows from investing activities				
Property, plant and equipment purchased		(1 903)	(12 713)	(15 552)
Proceeds from disposal of property, plant and equipment		143	1 177	1 256
Dividends received from associated companies		266	261	887
Net cash outflow from investing activities		**(1 494)**	**(11 275)**	**(13 409)**
Net cash inflow/(outflow) before financing activities		22 835	(2 490)	(3 899)
Cash flow from financing activities				
Proceeds from borrowings		35 768	1 765	23 895
Repayment of borrowings		(46 800)	(21 342)	(43 087)
Net cash outflow from financing activities		**(11 032)**	**(19 577)**	**(19 192)**
Net increase/(decrease) in cash and cash equivalents		**11 803**	**(22 067)**	**(23 091)**
Net cash balance at the beginning of the period		**7 382**	**30 473**	**30 473**
Net cash balance at the end of the period		**19 185**	**8 406**	**7 382**

NOTES TO THE GROUP INTERIM RESULTS

		Unaudited 6 months ended 30.09.16 US$'000	Unaudited 6 months ended 30.09.15 US$'000 Note 5	Audited Year ended 31.03.16 US$'000 Note 5
1.	**Net finance charges**			
	Interest paid	(2 337)	(3 397)	(6 376)
	Interest received	34	11	21
		(2 303)	(3 386)	(6 355)
2.	**Income tax expense**			
	Normal tax	(2 822)	(2 795)	-
	Deferred tax	2 184	2 044	3 193
	Transfer from/(to) non-distributable reserve	35	29	(51)
	Transfer to revenue reserve	-	-	22
	(Charged)/credited to Income Statement	(603)	(722)	3 164
3.	**Depreciation**			
	Depreciation of property, plant and equipment	4 430	5 836	8 960
	Depreciation of roots	3 309	8 312	10 815
		7 739	14 148	19 775
4.	**Capital expenditure commitments**			
	Contracted and orders placed	1 349	1 373	2 820
	Authorized by Directors but not contracted	106	322	168
		1 455	1 695	2 988

5. Accounting policies and comparative figures

Hippo Valley Estates Limited has adopted all the new and revised accounting pronouncements as issued by the IASB which were effective for Hippo Valley from 1 January 2016. The adoption of these standards had no recognition and measurement impact on the financial results, other than for the adoption of the revised IAS 16 which requires that biological assets that meet the definition of a bearer plant be accounted for as property, plant and equipment in accordance with IAS 16 instead of IAS 41.

Comparative figures have been restated, with the effect of the mandatory adoption of the revised IAS 16 on profit or loss for the year ended 31 March 2016 (with the 6 months ended 30 September 2015 in brackets), being a decrease in operating profit of US$342 000 (2015: US$291 000), a corresponding tax charge of US$88 000 (2015: US$75 000) and a decrease in net profit for the period of US$254 000 (2015: US$216 000). The effect on the statement of financial position at 31 March 2016 was a decrease of US$342 000 in biological assets (2015: US$291 000), a decrease of US$254 000 in retained earnings (2015: US$216 000) and a decrease of US$88 000 in deferred tax balance (2015: US$75 000).

6. Currency of reporting

The financial statements are reported in United States Dollars (US$). This is the functional currency of the Group.

By order of the Board
Hippo Valley Estates Limited
Registration No. 371/1956

Registered Office; Hippo Valley Estates
Chiredzi

B Shava
Company Secretary

22 November 2016

Tongaat Hulett

HIPPO VALLEY ESTATES LIMITED

Unaudited Interim Results for the six months ended 30 September 2016

- Revenue of US$82,9 million (2015: US$70,2 million)
- Operating profit of US$3,9 million (2015: US$5,7 million)
- Profit for the period of US$1,4 million (2015: US$2,1 million)

COMMENTARY

The difficult trading environment persisted in the six month period ended 30 September 2016, characterized by severe cash shortages generally in the economy and the resultant reduction in consumer spending compounded by high unemployment levels occasioned by company closures. At the back of the El Nino induced drought and the resultant low dam levels, irrigation water continued to be restricted. On the domestic market, Government interventions to protect local industry from illegal imports, in particular the introduction of SI 64 of 2016, helped in mitigating the full impact of these negative environmental factors. It is against this background that the results for the half year ended 30 September 2016 were achieved.

Sugar production for the period to 30 September 2016 amounted to 155 522 tons compared to 157 877 tons for the same period last year, a marginal decrease of 1%. This was a satisfactory outcome considering the late start of the milling season and the resultant lower cane deliveries to the mill over the six month period to 30 September 2016 amounting to 1 165 432 tons compared to 1 303 899 tons delivered in the same period last year, a decrease of 11%. This positive outturn in production is largely on account of the improved cane quality and the resultant favourable cane to sugar ratio. The Company's cane deliveries amounted to 663 949 tons (2015: 754 254 tons), a decrease of 12%, while the private farmers collectively delivered 501 483 tons of cane (2015: 549 645 tons), a 9% decrease. The overall volume of cane deliveries to the mill is still being impacted by lower cane yields due to the poor growing conditions precipitated by low rainfall and restricted irrigation as a result of low dam levels.

Total revenue for the six month period to 30 September 2016 amounted to US$82,9 million (2015: US$70,2 million), an increase of 18%. Total sales volumes for the period to 30 September 2016 amounted to 257 356 tons (2015: 247 085 tons), an increase of 4%, with the Company's share amounting to 139 413 tons (2015: 124 211 tons). Operating profit and profit for the period amounting to US$3,9 million and US$1,4 million is below the prior period of US$5,7 million and US$2,1 million respectively. This reduction was caused by a higher proportion of exports, at prices below local market prices, and a higher level of outgrower cane payments compared with the first half of last year. The division of proceeds ratio between outgrowers and the miller is out of line with ratios applicable in the region, as it does not take cognizance of the substantial capital employed in milling operations and is therefore not sustainable. Efforts to redress the situation continue.

Operating cash flow before working capital for the six months to 30 September 2016 amounted to US$23,1 million (2015: US$30,9 million). A total of US$3,6 million was released from working capital compared to an absorption of US$18,8 million in the comparative period, mainly due to a lower stock-holding and higher creditors in the current year compared to the previous period. Capital expenditure is below last year and this has been further impacted by the significant reduction in sugar cane root planting costs in response to the drought conditions. The Company's net debt decreased to US$12,2 million at 30 September 2016 compared to US$33,6 million at 30 September 2015. The net interest charge for the period to 30 September 2016 amounted to US$2,3 million (2015: US$3,4 million), commensurate with the level of borrowings and prevailing interest rates.

OUTLOOK

Hippo Valley Estates will continue to enhance its strategic positioning, focusing on multiple strategic thrusts, all with a positive impact on earnings and cash flow, through the various cycles that the business experiences, to extract higher returns from the existing asset base.

Multiple Strong Sugar Market Positions with a Domestic Market Focus

Prices for sugar in the international market have increased by some 50% over the past six months with the upcoming second year of a global supply deficit and continuing steady increases in global demand levels. Prices have now begun to stabilise and forecasts for the next 18 months seem to indicate that prices will remain at current levels. In the medium term, there are emerging concerns of the ability of global supply to match global demand at prevailing price levels. Global sugar consumption is predicted to continue to grow at a rate of some 1,5% per annum, with most of this growth coming from low per capita consumption developing countries.

The domestic market remains the primary focus and is increasingly protected from imports, with Government support, given the high rural job impact of the industry. To enhance protection of the local market from imports, legal and/or illegal, sugar refining matters are being addressed as part of the industry's strategy, which should lead to the replacement of imported industrial white sugar. Growth is targeted in consumption per capita, off a relatively low base, supported by distribution and marketing initiatives.

The industry, through Tongaat Hulett, has key market positions and experience in both the region (southern and eastern Africa) and the European Union (EU) for the sale of its additional sugar. It continues to develop and expand its positions in the regional deficit markets as well as broadening the industry's footprint in key value-add markets in the EU where it enjoys preferential access.

Growing Sugar Production from the Current Low Point

Current weather and growing conditions are masking the substantial progress that is being made with intensive agricultural improvement programs, irrigation efficiency and power reliability. The industry has more than 600 000 tons of installed milling capacity, which requires little capital expenditure to use the additional available capacity. Production increases from higher yields on existing hectares under cane and using the existing installed milling capacity have a low marginal cash cost of some 4 to 6 US cents per pound. The imminent completion of the Tokwe-Mukorsi dam will diversify the water catchment area and provide increased stability in future water supply.

Reducing the Cost of Sugar Production

The drive to reduce costs continues across Company operations. The sustained decrease in costs achieved over the previous three years (equivalent to some US$25,7 million in real terms) provides a good base for the next steps in the concerted cost reduction process, particularly focused on bought-in goods, services, transport, marketing, salaries and wages. There is scope for considerable further reduction, with man-hour reductions focusing on flexible components and natural attrition. The paradigms around costs that have traditionally been viewed as fixed are being challenged to mitigate against future potential volume volatility. Unit costs of sugar production will reduce further as these cost reduction processes continue, benefitting from future volume increases.

Near Term Outlook

The industry should continue to benefit substantially from improved local sugar market volumes and prices following Government's import protection measures and also from improved export revenues. Total sugar production in 2016/17 continues to be impacted by the effects of reduced irrigation due to low dam levels. The industry production for 2016/17 is estimated to be between 430 000 and 444 000 tons, compared to 412 000 tons last year. The weather forecast for the coming summer in the key growing and catchment areas is for average to above average rainfall. However, the 2017/18 crop will nevertheless be impacted by the current reduced irrigation regime. Given the recent start to the current rainfall season and a recovery of key dam levels, total industry sugar production is expected to recover over 2 years, amounting to between some 385 000 and 413 000 tons in 2017/18 and increasing to between some 535 000 and 570 000 tons in 2018/19. If the drought continues over the next summer in the catchment areas of the key dams then it could lead to a reduction in sugar production in 2017/18 of up to some 150 000 tons compared to 2016/17.

Overall, the Company's profit for the full 2016/17 year will continue to be influenced by a number of substantial and varying dynamics, both positive and negative, among which could include the introduction of the bond notes and the 5% export incentive, the full impact of which is difficult to predict at this stage. The proportion of earnings in the second half of the year is expected to be better than the second half of last year.

The Company, as part of the industry, continues to focus on value creation for all its stakeholders through an all-inclusive approach to growth and development. The Company will continue to pursue its broad based socio-economic empowerment programs, targeted at employment creation and economic empowerment at household level as part of its contribution to the socio-economic upliftment of surrounding communities.

M H Munro
Chairman

S D Mtsambiwa
Chief Executive Officer

22 November 2016