Nampak Zimbabwe Limited

TRADING UPDATE FOR THE YEAR ENDED 30 SEPTEMBER 2019

TRADING ENVIRONMENT

During the three month period since June 2019 the exchange rate depreciated by a further 140 percent. The Public Accountants and Auditors Board (PAAB) declared that Zimbabwe is now a hyperinflationary economy and hyperinflation accounting has to be applied in terms of IAS29.

The continuing scarcity of foreign exchange coupled with rising inflation presents the main challenge to the Group. Power shortages have worsened due to the low output from Kariba Dam and recurring breakdowns at the Hwange Thermal plant. This has necessitated use of generators beyond normal capacity which has led to increased production costs. A further challenge is the recent requirement for exporters, irrespective of their export levels, to pay for a proportion of electricity consumption in foreign exchange. Alternative energy sources are under active consideration. The Group remains engaged with the appropriate authorities and institutions to try and manage these challenges to our best advantage.

PERFORMANCE

Volumes were generally lower across all local sectors of the business, with the exception of the tobacco sector at Hunyani. Local sales decreased, although export volumes increased due to higher demand for tobacco packaging in Malawi and unexpected orders from Mozambique. The introduction of SI 142 compounded the difficulties of sourcing foreign currency which is vital to import various raw materials, particularly paper for conversion to tobacco boxes. Demand remains reasonable across the product portfolios, but supply continues to be hampered by the lack of raw materials.

In line with the Exchange Control Directive RU 102 dated 25 June 2019 and the Exchange Control Circular No 8 of 2019, the blocked funds previously held in the Non-Transitory Foreign Currency Account were transferred to the Reserve Bank of Zimbabwe after year-end. Additional blocked funds covering foreign creditors outside the agreement were also remitted pre- and post-year end to the Reserve Bank of Zimbabwe.

PRINTING AND CONVERTING SEGMENT

Hunyani Paper and Packaging

Volumes for the full year declined by 8% compared to the prior year. Local commercial volumes declined by 54%; however these were mitigated by improved local tobacco packaging volume growth of 34% due to a higher crop size. Furthermore, exports grew by 65% on prior year, driven by tobacco packaging exports to Malawi and ad-hoc orders from Mozambique. The commercial segment experienced a loss of volumes due to pricing challenges and a decline in the cartons segment due to raw material sourcing limitations.

PLASTICS AND METALS SEGMENT

CarnaudMetalbox

Volumes for the full year declined by 40% compared to the prior year as major customers recorded a reduction in their market segment demand.

Mega Pak

The full year volumes declined by 27% due to falling consumer demand in the beverage and cordials sectors and raw material supply constraints.

CAPITAL EXPENDITURE

Capital projects of $3,5 million, the majority of which were carried forward from the prior financial year, were spent largely on replacement machinery. Capital expenditure programmes remain curtailed.

DIRECTORATE

There have been no further changes to the Directorate since those announced in the previous Trading Update of 14 August 2019.

DELAY IN PUBLICATION OF YEAR END RESULTS

The publication of the Audited Financial Statements for the year ended 30 September 2019 has been delayed due to the requirement for compliance with International Accounting Standard (IAS 29) regarding inflation adjusted reporting in hyperinflationary economies as pronounced by the Public Accountants and Auditors Board. Implementation guidance was issued by the Institute of Chartered Accountants of Zimbabwe (ICAZ) and these require financial statements to be re-stated for the years 2018 and 2019. The considerable amount of additional accounting and audit work involved in this process means that the results will not be published before 31 December 2019, and as a consequence, an extension of time for publication has been requested from the Zimbabwe Stock Exchange. This means that the Group's Annual Report and the Annual General Meeting will be delayed.

OUTLOOK

The trading environment facing the Group and the manufacturing sector as a whole remains challenging. It is unlikely that any meaningful relief will be forthcoming until the critical constraints of foreign exchange and power supply are eased and that there is a return to a more market managed economy.

By Order of the Board

J. P. Van Gend
Group Managing Director

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13 December 2019