



RAINBOW TOURISM GROUP TRADING UPDATE FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

The Company issues a trading update for the third quarter to 30 September 2019.

Introduction

The performance posted during the period to 30 September 2019 is evidence that RTG continues to thrive in the most difficult economic environment and that the company has well and truly closed on the turmoil of the past. The key highlight of this performance is eight times growth in EBITDA and 20 times growth in profitability. Such levels of growth are a continuation of the positive results posted during prior year, resulting in the Company receiving the award for “a listed company with the highest growth in profitability” from the Zimbabwe Quoted Companies Survey run by the Zimbabwe Independent in recognition of 10 times growth in profitability for the year ended 31 December 2018.

The Company is now entering a new and exciting growth phase. The growth will be led not because of favourable operating conditions but rather by sound asset-light strategies. The Company will begin to reap the rewards of our focus on fresh revenue streams which are beyond the traditional hotel business. These fresh revenue streams will enable the Company to enjoy more than the 4% of the tourist’s spend currently being enjoyed under the existing business model that is focused solely on the hotel business. These revenue streams include;

- 1.1 Investment in tour operations as led by Heritage Expeditions Africa and Journey’s By Exotic.
- 1.2 Investment in Information Technology as driven by Gateway Stream.com.
- 1.3 Investments in the Advertising Agency business from which we have started to enjoy the fruits of lower marketing costs and now set to benefit from revenue flowing from third parties.

The above will complement our existing efforts to expand the existing rooms portfolio particularly in the Victoria Falls for which funding has already been secured.

Operating Environment

The operating environment remained constrained as uncertainty persisted mainly driven by inflation, fuel and electricity shortages. The local tourism market stayed subdued owing to the continued erosion of disposable incomes against escalations in prices of local goods and services. Tourism products and services share of wallet for the local market has declined due to perceived more critical expenses.

During the period under review monetary and fiscal authorities introduced a number of policy interventions which were aimed at addressing the aforementioned challenges. These measures, among others include the gazetting of a legal instrument that prescribes the exclusive use of the Zimbabwean Dollar for domestic transactions, the injection of new notes and coins as well as new market related pricing for fuel and electricity.

The introduction of SI 142 of 2019 in June resulted in cancellations and postponement of Victoria Falls bookings during the 3rd quarter. Despite a decline in tourist arrivals at national level, RTG grew its foreign arrivals by 4%, buoyed by our consistent investment in direct international marketing.

Financial performance review

RTG continues to thrive in the most difficult economic environment. Revenues grew to ZWL\$110 million in the first 9 months of 2019. This performance was 388% above the same period in 2018 of ZWL\$22.7 million. This performance was in spite the closure of Bulawayo Rainbow Hotel during Q1 to make way for refurbishments. During the period under review, the Company generated foreign currency revenues of US\$7.6 million, 4% up from US\$7.35 million recorded in 2018. Occupancy for the nine months year-to-date closed at 47%, 10 percentage points below 57% registered in 2018.

The Group's gross margin closed at 78% for the period under review. This is a 16% improvement from 67% achieved in 2019. Earnings before interest, tax depreciation and amortization closed at ZWL\$35,4 million an improvement of 744% from ZWL\$4.2 million recorded same period in 2018. It is pleasing to note that EBITDA margin for the period under review grew by 68% from 19% in 2018 to 32% in 2019.

Key accounting developments

Impact of IAS 29 "Financial reporting in Hyper Inflationary Economies"

The current hyperinflationary environment has necessitated the Public Accountants and Auditors Board (PAAB) to issue a guidance on financial reporting for the period after July 2019. This guidance requires the financial statements to be adjusted for inflation. The publication was on the basis that the economy has met all the factors to be considered under IAS29.

Product enhancement

The Company will begin an extensive refurbishment of the bedrooms for its 5-star flagship the Rainbow Towers Hotel & Conference Centre at an investment of over US\$2 million. The refurbishment will commence mid – December 2019 and will be completed by 31 January 2019. This is following the refurbishment works at Bulawayo Rainbow Hotel done in the first quarter of 2019.

Dividend declaration

No interim dividend has been declared for the third quarter 2019

Outlook

The Company will continue to optimise opportunities arising in the macro-economic environment through exploiting its asset-light business model. The focus going forward will be centred on the following pillars:

- Completion of major refurbishments of the existing hotels.
- Expansion of the Victoria Falls properties.
- Growing the Gateway stream across Africa.
- Rolling out all the Heritage Expedition revenue centres.
- Driving optimal performance of Journeys by Exotic.

By order of the Board



Napoleon Mtukwa
Company Secretary

The Company was granted an extension to publish its Q3 financial results by 15 December 2019.