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TongaatHulett®

Hippo Valley Estates Limited

QUARTERLY TRADING UPDATE - FIRST QUARTER (Q1) ENDED 30 JUNE 2020

Operating Environment

The operating environment continued to be turbulent in the first quarter marked by the return to multicurrency and fixed exchange rate system in March 2020, the subsequent return to a market driven exchange rate in June 2020 and the perpetuation of hyperinflation accelerating to 737% by June 2020. With no end in sight for the Covid-19 pandemic, business activity continued to be depressed and constrained by resulting low disposable incomes.

Operations

Cane and sugar production (tons) for the 3 months ended 30 June 2020

	2020	2019	% Change
Tons cane harvested - Company	275 293	311 923	-12%
Tons cane harvested - Private farmers	139 297	148 015	-6%
Total tons cane milled - Company	414 590	459 938	-10%
Tons sugar produced - Company	49 425	53 997	-8%
Tons sugar produced – Industry Total	101 063	109 607	-8%

Whilst the 2020/21 production season started on schedule on 5 May 2020, cane deliveries to the mill were constrained in the initial weeks mainly on account of logistical challenges by NRZ which compromised the overall harvesting programme. Steps are however being taken to ensure that all available cane is harvested in the current season. Mill performance for the first quarter was satisfactory with all the efficiency parameters being within the long-term averages for this time of the season.

Marketing

The demand for sugar in the domestic market remained relatively firm during the quarter period with consumers stocking up ahead of winter and as a precaution in light of Covid-19. Speculative trading by some traders capitalizing on pricing distortions on account of exchange rate differentials also resulted in sugar being diverted from traditional retail chains to the informal market. The industry has since taken measures to minimize speculative trade with expectations that the new currency auction system will stabilize the situation. Total local industry sales volumes for the quarter amounted to 66 492 tons compared to 60 054 tons sold during the same period last year. Export sales to date of 32 080 tons were achieved during the quarter compared to 14 587 tons over the same period in prior year, benefitting from increased sales into Kenya. A season total of 136 000 tons (prior year 89 000 tons) has been allocated to the export market of which 58% has already been contracted to date. A significant volume of 97 500 tons will be exported to Kenya and 18 198 tons to the United States (inclusive of a prior year reallocation of 4 672 tons). The recent moves by Government to allow trading in foreign currency in the local market and the return to a market driven exchange rate regime are positive and welcome developments which will enhance economic stability and business viability.

Impact of Covid-19-Update

As outlined in the Covid-19 specific trading update to shareholders of 26 May 2020, there have so far been minimal interruptions to the Company's operations resulting from the pandemic during the quarter as the Company remains classified as an essential service. In addition, the Company has in place a robust Business Continuity plan (BCP) to mitigate potential negative impacts of the pandemic. Regrettably, the Company recorded its first Covid-19 case on 20 July 2020. All established Covid-19 protocols were implemented including contact tracing and disinfection of premises. The Company's main priority, as always, remains the health and wellbeing of its employees and all stakeholders in our immediate communities, as well as those visiting the operations at all relevant times.

Outlook

The just ended 2019/20 rainfall season was yet another poor one with very minimal inflows into the industry's water supply dams, presenting a key risk to the industry. Although the industry has sufficient irrigation water to cover the current season, water conservation initiatives including reduced water application rates to levels that are not a deterrent to normal crop growth have been instituted as a precautionary measure. Total industry sugar production for the current year is set to be between 445 000 and 455 000 tons exceeding prior year production of 441 000 tons, with the Company's share of production estimated at 50%.

The authorities have assured the Company that its application for a 99 Year Lease will be attended to with urgency providing further confidence and stability to operations.

Work on the 4 000 hectares out grower cane development project in partnership with Government and local banks (Project Kilimanjaro) is on-going with a total of 2 700 hectares of virgin land having been cleared and ripped, 466 hectares of which have been planted to sugarcane. During the first quarter ended 30 June 2020, work on the project has been slowed down by delays in obtaining adequate funding from financial institutions due to the prevailing adverse economic environment. Alternative funding structures for the project are under consideration in consultation with Government, which will result in the project being progressed on a phased approach. On completion, Project Kilimanjaro will contribute significantly to the industry target of full utilization of installed milling capacity of 600 000 tons sugar by 2023/24, positioning the country to be one of the most competitive sugar producers in the region and globally.

The Company remains optimistic that notwithstanding the COVID-19 pandemic and the current economic challenges, the Zimbabwe sugar industry is well positioned to be one of the most competitive in the region by 2023 on the back of increased production and operating efficiencies.

By Order of the Board

D L Marokane
Chairman

A Mhere
Chief Executive Officer

30th July 2020