



# SEED CO LIMITED TRADING UPDATE FOR THE FIRST QUARTER ENDED 30 JUNE 2020

## Trading Environment

The country was under various forms of Covid-19 lockdown as the government reviewed its movement restriction measures fortnightly during the quarter under review. Considering the depressed state of the health delivery system in the country, authorities exercised deliberate caution in easing the lockdown conditions. The resulting reduced economic activity locally was compounded by the negative impact on commodity exports due to declining global demand. However, the impact on the Group's activities was negligible since seed supply was designated as an essential service.

The economy was further weighed down by hyperinflationary conditions and the sharp ZWL\$ depreciation. Year-on-year inflation to 30 June 2020 closed at 737.3%. Meanwhile, the introduction of the weekly foreign exchange auction saw the ZWL\$ plummet from the previous fixed exchange rate of 25.0 to 57.4 per US\$ at the initial auction held on 23 June 2020. In line with the dual pricing system prescribed by the central bank, the Group's pricing strategy is to ensure that ZWL\$ selling prices track the exchange rate to minimise any value erosion which may be caused by the rampaging inflation and the softening local currency.

## Sales Volume Performance

Total sales volumes for the first quarter increased by 45.4% from the corresponding period last year with wheat seed and barley seed respectively making up 91.6% and 8.1% of the total sales volumes during the period under review.

Wheat seed sales volumes were 56.5% higher than prior year on the back of improved irrigation capacity which benefited from rising water levels and better electricity supply. In addition, the government's commitment to reduce imports by supporting local production of the crop contributed to the positive sales performance.

On the other hand, barley seed sales volumes decreased by 20.3% compared to the previous year as the major customer cut back its seed uptake for malt production in response to reduced beer consumption arising from constrained customers' disposable income and the Covid-19 lockdown.

## Financial Performance

The first quarter is mainly a cost-accumulation phase in preparation for the main maize seed selling season in the second half of the financial year.

Historical cost revenue for the quarter grew by 1,097% from the same period last year which is indicative of the aforementioned inflationary selling price increases and volume growth. However, the turnover increase in inflation-adjusted terms was a relatively modest 80%.

Compared to prior year, operating profit rose by 577% in historical cost terms and by only 28% after factoring in IAS 29 adjustments as the revenue growth was partially offset by the hyperinflation-driven operating costs.

The share of loss from the foreign associate widened as its US\$ denominated loss was translated at a weaker exchange rate. The average ZWL\$/US\$ exchange rate depreciated from 5.05 for the quarter ended 30 June 2019 to 35.79 for the quarter ended 30 June 2020.

The average index used for the restatement of the historical cost income statement for the quarter was 1,165.4 versus 172.6 for the corresponding period last year. These translated to average conversion factors of 0.72 and 4.70 respectively.

## Outlook

In light of the prevailing economic challenges in Zimbabwe which are exacerbated by the Covid-19 pandemic that is also ravaging the Group's other regional markets, the outlook is difficult to predict. To mitigate against the effects of the pandemic, the Group developed and activated a Business Continuity Plan that is aligned to the essential services nature of the Group's business. In addition, the Group's strategic position at the base of the food value chain, and the concerted effort by the Zimbabwean government, regional governments and other key stakeholders to ensure food security is expected to help the Group's performance remain resilient in the circumstances.

The Group is soldiering on amidst severe funding constraints to commission the game changing US\$12.5m Artificial Seed Drying Facility at Stapleford in Zimbabwe before the end of the year.

By Order of the Board

T.N. Chimanya  
Group Secretary  
17 August 2020

**Directors:** D E B Long (Chairman), M Nzwere (CEO)\*, R C D Chitengu, D Garwe, P Gowero, D P F Jacquemond, J Matorofa (CFO)\*, M.S. Ndoro, F Ruwende, F Savin, P Spadin, D Zaranyika<sup>^</sup>, L Mutunga<sup>^</sup>.

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