TSL LIMITED

TRADING UPDATE FOR THE THIRD QUARTER ENDED 31 JULY 2020

Operating environment

The operating environment remains uncertain and hyperinflationary. The national lockdown due to the Covid-19 pandemic continues, although restrictions have been relaxed.

The monetary authorities introduced a foreign currency auction system in June 2020 in response to the persistent foreign currency shortages and the volatile exchange rate. This has brought a measure of stability in the exchange rate and has improved the availability of foreign currency on a more transparent system. Since its introduction, the auction system has seen a movement in the exchange rate from a fixed 1:25 to the US Dollar to 1:73.8 as of 31 July 2020.

Tobacco industry expectations were that national tobacco volumes would have been between 10% and 15% lower than the 258 million Kgs achieved in prior year. Currently at 182 million kgs, indications are that the national crop will fall short of the original target. Prices, on average, have been firmer in the current year.

Decentralization of contract floors was announced at the onset of the tobacco marketing season. Independent auction floors have yet to secure the requisite approvals for decentralization.

Business performance

Preservation of shareholder value is a key priority and the Group's financial position has been strengthened. Gearing remains deliberately low at under 5%. Cash generation remains satisfactory with most of Group working capital requirements being funded from internally generated resources. Local currency liquidity through financial institutions remained constrained during the period.

The Group has remained profitable during the quarter despite generally depressed volumes.

Agriculture Operations

Independent auction volumes at Tobacco Sales Floor at 5.7 million kgs were 73% below prior year owing to the smaller tobacco crop, the later start to the tobacco season and auction floors not receiving the requisite approvals to decentralise. TSF still holds the largest market share in this segment and has the highest seasonal average price. Contracted volumes handled for tobacco merchants at 7.9 million kgs are 45% below the same period last year. Work is being undertaken with industry players to ensure a smoother tobacco marketing season in 2021.

Volumes at Propak Hessian were down 21% due to the later start of the tobacco selling season and the decline in national tobacco crop. Procurement of hessian for the coming season is at an advanced stage, cognizant of likely disruptions in the supply chain. The foreign exchange auction market has eased the sourcing of currency.

Agricura has seen growth in market share and volumes across most product lines, largely attributable to product availability and more attractive pricing on locally manufactured products. Manufacturing and restocking for the coming summer season are underway.

In the farming operations, tobacco yields were satisfactory. Approximately two thirds of the crop had been sold and pricing was marginally lower than in prior year. Due to low dam water levels, the winter wheat programme was scaled back and water rationing was undertaken on the banana plantation. The business has opted not to sell the harvested maize and soya bean in the current period.

Logistics Operations

Tobacco handling volumes were 4% behind prior year due to the later start of the tobacco selling season and delays in tobacco processing. The distribution division recorded significant growth in volumes as new customers were secured. Volumes in the ports business decreased by 37% due to generally slower movement of both imports and exports owing to the Covid-19 pandemic.

Handling volumes at Premier Forklifts were 18% below prior year due to the delayed start of tobacco processing.

Meanwhile, forklift sales were also depressed as most customers held back on capital projects under lockdown.

Volumes in the freight forwarding and customs clearing business were depressed as imports by the customer base remains subdued.

Avis' rental days were 39% below prior year as the business was significantly affected by the ban on both local and international travel.

Real estate operations

Occupancies remain satisfactory with voids in the quarter at under 5%. Construction of a 10,000 square metre world class warehouse is progressing well, although delays have been encountered in the steel supply chain. The warehouse is scheduled for completion and occupation in February 2021.

Impact of COVID-19

The increase in infections in the country has significantly disrupted business operations. Though Group entities continued to operate as essential services during the lockdown period, supply chains have been disrupted to varying degrees. The full impact of the pandemic on the Group's 2020 financial performance remains uncertain.

Focus remains on ensuring safety of staff and stakeholders with measures being implemented to curb transmissions of the corona virus. The Group has implemented various contingency plans to mitigate associated risks and ensure disruptions of operations are minimized.

Outlook

The operating environment is expected to remain difficult for the remainder of the year. With the introduction of the foreign currency auction system, the availability of foreign currency for restocking and capital investments is expected to continue to improve. A more stable exchange rate will minimize business disruptions.

The Group will continue to implement its "moving agriculture" strategy. Foreign currency generation, building resilience and value preservation remain key priorities.

By Order of the Board

J Muchando

James Muchando
Company Secretary

14 September 2020