

SABS
ISO 9001SABS
ISO 14001SABS
ISO 18001

SAPPMA



SPECIAL TRADING UPDATE - FIRST QUARTER 2020 & LOCKDOWN PERFORMANCE

The demand for the Group's products remained subdued in the first quarter of the year, as was the case for the greater part of last year. Sales tonnage for the quarter was 14% below the same period last year.

The quarter was also affected by the business's migration to the new factory, a process that was only completed mid-February. Production has been running smoothly in the new factory and all backorders are now cleared with sufficient stock cover. The new mixing plant is still to be commissioned, having been affected by the COVID-19 pandemic. It is important to note that the extrusion process can run independently of the automated mixing process until the commissioning of the plant is carried out.

Revenue contribution was below budget and prior year across the traditional segments, i.e. Merchants, Irrigation, Local Authorities, Borehole drillers, Mining, Civils and Exports.

Turning to the current situation, the month of March saw the worsening of the COVID-19 pandemic and the business had to shut down on the 24th of March 2020, as a precautionary measure. Subsequently, the government announced a 21-day lockdown period from the 30th of March to the 19th of April 2020. This was further extended to the 3rd of May and thereafter to the 17th of May 2020.

As an important economic contributor, on the 31st of March 2020, the business was awarded with an exemption to operate as an essential services provider. The business afterward partially opened the factory on the 21st of April and we have since been running the operations, although at reduced levels.

Activities in the economy have been subdued ever since the announcement of the lockdown, but the business has taken the window to improve on stocking levels for the fast-moving products as well as the supply of critical pipes that were needed in the fight against the pandemic.

The Government policy, through SI 85 of 2020, to allow those with free funds to pay for goods and services in foreign currency on the domestic market, has seen an improvement in purchases in United States Dollars.

Overall, the lockdown and the pandemic will affect our volumes for the year, and we currently estimate the effect to be around 30% of the planned budget. We have not had serious disruptions on the supply of raw materials and we continued to receive supplies during the lockdown period.

The liquidity position for the business remains solid with local suppliers adequately covered and the clearing of foreign obligations a priority. Since the beginning of the year, the supply of utilities, in particular electricity, has been stable and this was a boost to production.

There have not been credit risk concerns as the trading terms for the business is predominantly cash upfront given the operational environment in the economy.

It is very unfortunate that the business had to terminate some contract employees and work with minimal headcount. The business has also implemented all precautionary measures as announced by both the local and international health institutions in preventing the spread of the pandemic within the workplace.

In conclusion, we still see the effects of the pandemic taking its toll on the business for the greater part of the year. However, we do not see a significant threat to the continuity of the operations or solvency position as a going concern.

G. Sebborn
15 May 2020