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TRADING UPDATE

For The Period Ended 30 September 2020

Dairibord Holdings

More Than Just Milk

Nutritious Foods and Beverages for the Sustenance of Good Health

OPERATING ENVIRONMENT

The operating environment for the three months to 30 September 2020 showed improvement on the back of foreign currency exchange rate stability, reduced month on month inflation and relaxation of COVID-19 lockdown restrictions.

The introduction of the foreign currency auction system and Statutory Instrument 185 of 2020 improved foreign currency availability and stability resulting in enhanced planning, efficiency and value preservation.

Although the impact of COVID-19 continues to disrupt both local and regional markets, increased trading hours and reopening of trading channels resulted in overall improvement in aggregate demand.

PERFORMANCE

Dairibord remains the processor with the highest raw milk intake and widest milk intake base in the country. The business focused on ensuring the viability of suppliers through various support initiatives including competitive prices to sustain long term milk supply growth.

Production output grew on the back of improved supply of raw and packaging material, however, materials, labour, electricity, fuel and water costs continued to escalate.

Demand significantly improved in the third quarter with sales volumes growing 32% ahead of Q2. Growth was recorded across all product categories with liquid milks, foods and beverages growing by 15%, 74% and 50% respectively. Volumes for the quarter were 10% below Q3 of 2019 showing a recovery compared to the 46% decline recorded in Q2 2020 vs Q2 2019. While cumulative sales volumes remained below 2019 at 26% down, the trajectory shows a recovery from the 32% decline recorded in H1.

Revenue for the quarter in inflation adjusted terms was 43% (155% in historical terms) above prior quarter and 8% (810% in historical terms) above Q3 2019. Year to date revenue was 8% below the same period in 2019. The cumulative reduction is on account of depressed H1 performance. Year to date operating margins increased to 8% (10% in historical terms) compared to 6% in 2019 (10% in historical terms).

The drive to generate foreign currency revenue and contribute towards the company's foreign currency requirements continued to bear fruit with year to date foreign currency revenue up 50% from 2019. Foreign currency liabilities closed the period at US$0. 771 million (including a long term loan of US$0.302 million) down 34% from US$1.161 million at the end of June 2020. The short term liabilities were partly covered by foreign currency cash balances and expected receipts of US$0.312 million.

The Group remains sufficiently liquid with a current ratio of 1.55. Focus on optimising the cash management cycle saw the cash to credit ratio in September improve to 36:64 from 18:82 in December 2019.

Borrowings as at 30 September 2020 were Z$172.509 million up 504% from 31 December 2019. With a gearing ratio of 14%, there is an opportunity for the company to leverage the balance sheet for growth.

OUTLOOK

The improved performance achieved in the quarter is expected to continue into the final quarter of 2020 as the local and regional economies show signs of recovery. The business is geared to exploit opportunities presented in a more stable operating environment by mitigating supply chain disruptions and taking full advantage of weather induced demand.

The business will continue to implement COVID-19 risk mitigation measures as a priority to protect the interests of our stakeholders.

By Order of the Board

S. Punzisani
Company Secretary
28 October 2020

Dairibord Holdings Limited: 1225 Rekayi Tangwena Avenue, Belvedere, Harare **Telephone:** + 263 24 279 0801-5, 277 9035-45 **Website:** www.dairibord.com