Proplastics
Pipe Systems That Last

TRADING UPDATE FOR THE THIRD QUARTER TO 30 SEPTEMBER 2020

In compliance with Notice 11 of the Zimbabwe Stock Exchange (ZSE) Practice, Proplastics Limited hereby issues the following trading update for Q3 of 2020, ending 30 September.

TRADING ENVIRONMENT

The trading environment for the three months has been challenging. The period was characterised by tight liquidity conditions, hyperinflationary environment, volatile exchange market and domestic price distortions resulting in relentless pressure on the local costs of production. The global impact of the Corona Virus (COVID-19) has significantly affected the Group's domestic and regional markets resulting in significant interruptions in the entire supply and value chains. It is, however, pleasing to advise that we have witnessed positive increase in economic activity in the third quarter of the period as businesses adapt to the "new normal".

The introduction of SI85 of 2020 in April, which allows holders of free funds to settle local transactions in United States Dollars, has gone a long way in addressing our foreign currency requirements. More still, the introduction of the auction system has seen the exchange rate showing signs of stability, which in turn has begun to slow down inflation and that has assisted greatly in planning and preservation of value.

The global shortage in the supply of PVC feedstock, a derivative of crude oil, due to closing of facilities as a result of the COVID-19 pandemic has resulted in shortages and price increase of both the raw materials and finished goods. The imbalance in supply and demand is likely to spill over into Q1 of 2021. The supply of water and electricity remained stable during the period under review.

FINANCIAL PERFORMANCE

The demand for the Group's products improved significantly in the quarter under review. Consequently, considerable pressure was experienced on the raw material and product supply side in order for the business to meet increased demand. As a result, sales tonnage for the quarter grew by 64% compared to the third quarter of the previous year. In turn, year to date volumes responded positively from a reduction of 18% in the first half of the year to 10% above similar period last year at the close of the third quarter. Segmental contributions from irrigation, mining, merchants, civils, and borehole drillers registered positive growth in the third quarter. Exports grew 75% and contributed 7% from 4% to total revenue in the period under review.

Gross Profit margins, in historical figures, improved to 63% from 47% from the half year weighted average. Consequently, the margins are now above the prior year levels. The growth in sales volumes and turnover supported by outstanding productivity from the new factory permeated through to a strong earnings performance for the quarter.

The current ratio improved to 1.34 from 0.7 at year end and the gearing ratio remains low at 9%. Foreign creditors closed the quarter at US$400 thousand compared to US$1 million at the end of 2019 as the business benefited from the Introduction of SI85. It is pleasing to note that the business is now within the trading terms as arranged with its foreign suppliers.

OUTLOOK

The solid third quarter performance should set the tone for the remainder of the year. Though supply gaps as a result of the global shortage of raw materials are to be expected beyond year end, management has put in place robust contingency plans to reduce these to the bare minimum. The easing of lockdown regulations, a stance also being observed in the region, is anticipated to spur demand further.

The business expects the Engineers from Italy to be back in the country in the last quarter to commission the new mixing plant. This will again go a long way in enhancing factory efficiencies as was envisaged when the project was conceived.

Our operations are now fully back on track and priority remains the safety and health of all our key stakeholders and employees in view of the COVID-19 pandemic. The business will remain resolute in observing the guidelines of the Ministry of Health and Child Care as well as the World Health Organization guidelines.

G. SEBBORN
02 October 2020