LAFARGE

# Lafarge Cement Zimbabwe Limited

## Third Quarter Trading Update

### OPERATING ENVIRONMENT

The operating environment showed improvement influenced by the easing of the COVID-19 lockdown restrictions. This has since allowed the resumption of economic activity, although under some health and safety compliance requirements. This reopening of business activity coincided with the cement demand peak season.

The foreign currency exchange rate has significantly stabilised. Blended month-on-month inflation, which accounts for USD pricing, has been on a downward trend from the July 2020 rate of 35.53% to 3.83% in September. This has helped maintain price stability for the business during the last quarter.

Consumer incomes, remain subdued as they have not been able to grow in step with inflation.

### BUSINESS PERFORMANCE

The business experienced a rebound in Q3. Record sales volumes were recorded in the month of July, the best for the same month since 2003. This accelerated volumes recovery, closing the quarter at 7% above the same period prior year. Volumes were driven by a strong recovery in the Individual Home Builder (IHB) market, Concrete Plaster Manufacturing (CPM) and Roads segments on the back of strong tobacco and cotton market revenues.

The business recorded solid gross profit margins exceeding the set target. This performance is as a result of intense focus on cost rationalisation. The foreign currency exchange rate ushered in stability in pricing as the market continues to see wider usage of the USD, especially in the formal market. Foreign currency receipts grew substantially in the quarter. Consequently, the company was able to meet its foreign currency obligations. The business remains profitable.

Variable costs rose markedly during the quarter. This was due to increases in replacement costs for imported spare parts and the high electricity tariff implemented by ZESA.

Demand for cement in the construction sector increased by 34% ahead of Q2 following the reopening of the economy after the COVID-19 induced national lockdown. As business activity progressively continued to gain momentum into Q3, the demand for cement consequently outstripped supply causing considerable supply backlog.

The Dry Mortars business grew by 64% in volumes against the same period last year. This was mainly influenced by the increase in demand for SupaGrow, the agricultural lime range, during the winter land preparation season. This demand was further compounded by the widespread application of the Pfumvudza agriculture model.

Ongoing capital projects for the Dry Mortars business resumed in the third quarter, although at a slow pace owing to COVID-19 related travel restrictions which delayed the arrival of the equipment manufacturer's engineers. The commissioning of the New Dry Mortars Plant has therefore been set for the last quarter of the year.

The supply contract for the Vertical Cement Mill was also signed during the quarter, marking the initiation stage of the project which will begin in the first quarter of 2021.

### COVID-19

Through the "HEALTH, CASH AND COSTS" strategy, efforts continued to build resilience throughout the operations as the COVID-19 pandemic is still present.

The company is maintaining focus on safeguarding health and wellness in the workplace and among stakeholders. This includes various programmes to support employees during this time and this has resulted in minimum impact of the pandemic.

The business has shifted its customer facing operations towards digital platforms for socially distanced business transactions. This is in response to the transformed operating environment necessitated by adaptation to COVID-19 related operating restrictions. These platforms include the LEAD Retail application which accounts for 86% of sales and the online Binastore in order to offer customers convenience while protecting their health through social distancing.

### OUTLOOK

The impact on operations of the COVID-19 pandemic is expected to continue into the foreseeable future. Normally market demand tapers off at the height of the rainy season. The anticipation is that there will be continued benefit from the current stability in the exchange rate assuming there is strict control of money supply.

Favourable rainfall forecasts for the coming season bode well for the agricultural sector and therefore for the whole economy including construction.

Downside risks to this growth outlook emanate from how the country responds to a possible second wave of COVID-19 which may potentially result in another slowdown of economic activity.

**By Order of the Board**

K. C. Katsande
Chairman

**13 November 2020**



**Directors:** K. C. Katsande (Chairman); D. L. Cruttenden; P. M. S. Deleplanque; G. Zvaravanhu, M. A. Masunda; S. M. Mutangadura; P. Nyika* (Chief Executive Officer); ***Executive**

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