



Trading Update

FOR THE FIRST QUARTER ENDED 30 JUNE 2021



The Company today issues a business update for the first quarter ended 30 June 2021.

TRADING ENVIRONMENT

The trading conditions during the quarter under review were influenced by partial relaxation of the COVID-19 induced restrictions to gatherings, travel and business trading hours. The regional countries relaxed the lockdowns in response to the subsiding second wave COVID-19 infections rates. Some restrictions on social gatherings and targeted measures limiting the sale or consumption of alcoholic beverages through onsite consumption channels remained in place. These restrictions have had an effect of slowing down economic activity.

The nascent recovery in the Zimbabwe economy, as reflected by slower inflation and a stable exchange rate, was negatively impacted by the dent in confidence in the use of foreign currency for domestic transactions arising from the policy interventions under Statutory Instrument 127 of 2021. There are pricing disparities arising from the wide margins between the official and market exchange rates.

The country has recorded some increase in consumer disposable incomes, benefiting from the higher economic activity, driven by infrastructure spending, growth in agricultural output and increased mining activity which injected liquidity. In South Africa, economic activity increased in line with the easing of lockdown restrictions with output inching up.

In Zambia, the economy experienced resurgent inflation and currency depreciation ahead of the general election scheduled for 12 August 2021. Consumer demand remains constrained.

VOLUME PERFORMANCE

Volume performance in the prior year first quarter was significantly curtailed by the onset of hard lockdowns in response to the COVID-19 pandemic during the first wave. The high growth rates recorded in Zimbabwe for first quarter of F22, in comparison to prior year, partly arises from the low prior year base.

Lager beer volume for the quarter grew by 139% compared to the same period last year. The volume is trending up, benefiting from competitive pricing, consistent product supply and the injection of new returnable glass. There were some supply disruptions arising from scheduled plant maintenance and utility outages.

In Zimbabwe, the Sorghum beer volume grew by 106% for the quarter compared to prior year. There were some constraints in the supply of key packaging materials due to poor availability of and logistical challenges on resins on world markets. Some key trade channels such as bars and beerhalls remained inaccessible under the prevailing COVID-19 regulations. The category is benefiting from the improved agricultural output and better access to rural markets.

The volume at Natbrev Zambia declined by 29% for the quarter. The performance reflects the increased competition from illegal bulk beer and the restricted access to some trade channels. There are signs of recovery as the business expands its product offering.

United National Breweries South Africa registered a promising volume growth of 361% over prior year. The business was largely closed in 2020 due to the ban on alcohol sales. The recovery has been curtailed due to the re-imposition of alcohol ban at the end of June 2021 in response to the third wave of COVID-19 infections.

The Sparkling Beverages volume grew by 205% for the quarter compared to the prior year as the business continues to recover market share. This is largely due to consistent product supply and the increased social and economic activities that drive consumption. The volume includes sales into the Manicaland territory which became part of the franchise at the beginning of the quarter. The current focus is on injecting returnable glass bottles and supplying the full range of flavours and packages.

African Distillers Limited (Afdis) registered a volume growth of 47% for the quarter as the unit expands the route to market model to access more channels. Market supply was affected by the shortages of key imported ingredients.

Schweppes Holdings Limited recorded a beverages volume growth of 44% for the quarter on the back of improved product supply and recovery of market share in juice drinks. The supply of juice concentrates continues to improve.

FINANCIAL PERFORMANCE

Group revenue grew by 114% for the quarter in inflation adjusted terms and by 391% in historical cost terms. This reflects the volume recovery across all beverage categories off a low prior year base. The historical cost figures reflect lower and less frequent price increases in line with a more stable exchange rate and lower inflation in Zimbabwe.

The Group has benefited from improved access to foreign currency through domestic nostro sales. This was disrupted somewhat due to the unintended consequences of the policy change under statutory instrument 127 of 2021. There are cost disparities arising from the wide exchange rate margins.

EFFECTS OF CORONAVIRUS (COVID-19) ON THE BUSINESS

The Company will continue to review its responses to the COVID-19 pandemic based on the best available medical and safety protocols with a focus to avoid and reduce transmissions of the disease through its activities.

There is a resurgence of COVID-19 infections in waves driven by virulent and transmissible mutations of the virus. This results in the re-imposition of various levels of lockdowns and restrictions on business activities, particularly those related to trading or consumption of alcoholic beverages. The roll out of vaccines provides hope that countries will attain herd immunity that will allow a return to normal levels of social and economic activity. There are many uncertainties that make it difficult to fully estimate the full impact of the COVID-19 pandemic on the financial health of the Company and Group entities.

OUTLOOK

The authorities in regional markets invoked heightened levels of lockdowns in June 2021 in response to the third wave of COVID-19 infections as a number of countries were behind in their vaccination programs. The businesses in Zimbabwe will benefit from the improved agricultural output and better access to foreign currency. The Company expects a return to reduced lockdown regulations and improved business activity as the country increases the vaccination rollout program. Further to this, it is hoped that the monetary authorities implement their stated intentions for the auction exchange rate to reflect macro-economic developments following pronouncements made in the recent monetary policy

The Company will continue placing the safety and health of its employees first and abiding by best practice as pronounced by the authorities whilst seeking to recover both volume and profitability. The Company will continue to upscale its sustainable development initiatives with a particular emphasis on responsible alcohol consumption, environmental protection and corporate citizenship.

By order of the board

A Makamure
Company Secretary
15 July 2021