The African Seed Company

SEED CO LIMITED TRADING UPDATE FOR THE FIRST QUARTER ENDED 30 JUNE 2021

Trading Environment

The Zimbabwean Dollar (ZWL$) has stabilised since the introduction of the foreign currency auction system last year. However, reported backlogs in foreign currency settlement on the auction system have resulted in the parallel market premium increasing above 50% as importers seek quick access to foreign currency on the alternative market. On a positive note, the bumper harvest experienced in the previous agricultural season accompanied by the projected increase in mining output and firm commodity prices are expected to improve the foreign currency supply situation in the country. That, together with sustaining the decelerating inflation trend will be key for business confidence going forward.

While the Group has continued operating as an essential business, COVID-19 and the containment measures instituted to curb its spread remain a risk to business operations especially seed distributors in the retail sector.

Sales Volume Performance

Total sales volumes for the first quarter increased by 23.1% from the corresponding period last year with wheat seed making up 93.0% of the total sales volumes which is typical for the period under review.

Wheat seed sales volumes were 25.0% higher than prior year on the back of a government import substitution drive. This was further enhanced by the improved irrigation capacity which benefited from rising water levels following the good rains received during the summer.

Financial Performance

Historical cost revenue for the quarter grew by 303% from the same period last year attributable to the aforementioned volume growth and the local currency depreciating by 240% from ZWL$25/US$ in prior year to ZWL$85/US$ at the reporting date. However, the turnover increase in inflation-adjusted terms was a relatively modest 49%. Compared to prior year, the operating result swung by 213% and 115% from a profit to a loss in historical cost and inflation adjusted terms respectively. This was caused by the gross margin shrinking from the 70.3% achieved in the previous year largely distorted by exchange rate movements then to 30.1% in the current year.

The share of loss from associated companies widened mainly because of the translation of the foreign associate's US$ denominated loss at a much weaker average exchange rate compared to prior year. The first quarter is mainly a cost-accumulation phase in preparation for the main maize seed selling season in the second half of the financial year.

The average index used for the restatement of the historical cost income statement for the quarter was 2,888.2 compared to 1,165.4 for the corresponding period last year. These translated to average conversion factors of 1.03 and 2.63 respectively.

Outlook

During the quarter under review, The Government gazetted Statutory Instrument (SI) 127 of 2021 which empowers the Reserve Bank of Zimbabwe (RBZ) to enforce and penalise offenders of exchange control regulations mainly relating to trading on the foreign currency auction, exchange rates and acceptance of the local currency as legal tender under the multi-currency regime. This new regulation may impact the Group's value preservation efforts negatively due to the difficulty in pricing its seed at sustainable levels.

In spite of this potential challenge, subject to favourable climatic and economic conditions, the Group is poised to ride on the good performance achieved in the previous financial year on the back of the anticipated continuation of government programmes targeted towards enhancing food security amidst the COVID-19 pandemic and improving agricultural production to eliminate food imports.

The completion of the seed drier should enable the Group to accelerate seed availability to the market in the future while simultaneously improving its quality.

By Order of the Board

Terrence. N. Chimanya
Group Secretary
11 August 2021