

TRADING UPDATE

For the Period Ended 30 September 2021

*Nutritious Foods and Beverages for
the Sustenance of Good Health*

OPERATING ENVIRONMENT

The operating environment for the three months to 30 September 2021 was affected by the level 4 COVID-19 lockdown restrictions between 29 June and 07 September 2021, but the impact was not as severe as that experienced in 2020. The widening margin between the official and parallel exchange rate exerted pressure on margins and threatens the positive inflation trend that saw Year-on-Year inflation decline from 659.40% in September 2020 to 51.55% in September 2021.

PERFORMANCE

Raw milk utilised in the quarter was up 7% from Q2 and up 5% over prior year. Cumulative raw milk utilised was 3% ahead of prior year. Milk supply remains constrained by the high cost of stock feeds. The Government launched command silage, a welcome initiative intended to support dairy farmers grow their own silage in order to improve stock feed availability and reduce cost of milk production. This should see improved milk production in the ensuing year.

Q3 sales volumes grew by 78% over same period last year and 23% over prior quarter. Year to date sales volumes of 67 million litres were 63% above the same period last year. The Beverages category anchored the growth with a 165% increase over prior year, whilst the Foods category grew by 49%. Liquid Milks surpassed previous year by 13%. However, growth in the Liquid Milks category was constrained by raw milk supply shortages.

Capacity utilisation increased from 33% in Q3 of 2020 to 60% in Q3 of 2021 largely due to growth of the Beverages category. Despite the significant increase in volume across all categories, the business was still not able to meet demand due to supply side challenges. Major maintenance work on key lines hampered production but will spur volume growth going forward.

Revenue for the quarter in inflation adjusted terms was 11% (23% in historical terms) above Q2 of 2021 and 69% (157% in historical terms) above Q3 2020. Year to date inflation adjusted revenue was 67% above (268% in historical terms) the same period in 2020. Significant cost push pressures ahead of inflation were experienced from both the local and foreign supply sources of raw and packing materials, negatively impacting margins. Cost containment, cost reduction, and strategic procurement of inputs mitigated the negative impact thereof, resulting in a slight recovery in the year to date operating margin to 6% (7% in historical terms) compared to 4% in 2020 (10% in historical terms).

The drive to generate foreign currency revenues continued to bear fruit with year to date foreign currency revenue up 196% from 2020. Borrowings as at 30 September 2021 were ZW\$ 839 million, up 30% from 30 June 2021, as the business leveraged the balance sheet for growth. Borrowings were utilised to fund stocks of materials to support growing volumes and capital investments. Delays in disbursements from the auction market also contributed to rising debt. The Group remains sufficiently liquid with a current ratio of 1.59 up from 1.38 in December 2020 and 1.40 as at 30 June 2021.

OUTLOOK

The improved performance achieved in Q3 is expected to sustain into the final quarter of 2021 as demand is expected to remain firm. The business is geared to take full advantage of the high demand through increased production capacity and forward planning for inputs into production. The company invested about US\$1.5 million in a recently commissioned ammonia plant that will see growth in ice-cream production, improving product portfolio mix and margin performance going forward. The company also invested US\$2m in additional UHT filling and packing equipment that will double capacity for cartonised beverages towards the end of the 4th quarter of 2021.

The continued depreciation of the ZW\$ poses a threat to business performance. Notwithstanding the challenges faced by the auction system, the resolutions reached at the recent stakeholder engagement between Government, the RBZ and the business community if adhered to, will have an impact on the forex operating environment and the business at large.

COVID- 19 PANDEMIC

To date, 99.99% of our staff have been vaccinated as a way of sustainably dealing with the pandemic. Our service providers' staff who include security, vendors, merchandisers and canteen service providers have all been vaccinated. The business will continue to implement COVID-19 risk mitigation measures as a priority to protect the interests of our stakeholders. However, the business remains alive to the risk posed by potential future COVID-19 waves.

By Order of the Board



S. Punzisani
Company Secretary
20 October 2021