

Cottco Holdings Trading update as at 30 June 2022



Cottco Holdings Limited ("Cottco" or "the Company") is pleased to provide a trading update as at 30 June 2022. This trading update covers the last quarter of the 2021/2022 financial year ended 31 March 2022, and the first quarter of the 2022/2023 financial year to 30 June 2022.

OPERATING ENVIRONMENT

The conflict in Ukraine has led to global increase in fuel prices and global shortages of food amongst other things which has resulted in an increased demand for oil seeds including cotton seed. Whilst lint prices had risen to 158.19 c/lb in May 2022, there was a sharp decline at the end of June 2022 to 105.13 c/lb as the United States increased its forecast of expected lint production and import demand from China and Bangladesh slowed down as food security took precedence over clothing worldwide.

The inflation of the United States dollar at around 9% p.a. has impacted the pricing of goods locally, and this inflation coupled with speculative pricing by suppliers in order to keep ahead of inflation continues to put pressure on Cottco margins. The increase in local borrowing rates to 200% p.a. is also of additional concern as the Company needs to access credit from time to time for operational needs.

BUSINESS PERFORMANCE

For the year ended 31 March 2022, the Company sold 50,187 tonnes of lint with 11,663 tonnes (23%) allocated to local customers and the remainder (77%) exported. Cottco's local toll-spinning arrangement resulted in 937 tonnes of lint being value added. Ginned seed of 62,160 tonnes was sold mainly to local oil expressors and stock feed suppliers.

The 1st Quarter ended 30 June 2022 is traditionally the commencement of the intake season. Intake officially commenced on 13 June 2022, which was about a month later than usual as the bulk of the crop was a late crop owing to the delay in first rains. As at 13 July 2022, intake stood at 34,497 tonnes, and intake is expected to peak in July and August 2022. Payment modalities have been put in place for the current season to improve farmer viability and ensure that farmer payments are made timeously.

Ginning is set to commence on the 18th of July 2022 with lint output being prioritised to support local spinners.

Cotton farmer subsidy funding from Government was availed in full on 8 July 2022 and considerable progress has been made in payments to farmers.

FINANCIAL PERFORMANCE

The Company is pleased to advise that the outstanding 2016 and 2017 audits which were stalled due to the lack of a Board to authorise them have now been signed off. Arrangements are in progress to bring the audits to current period, i.e. 31 March 2022.

At the start of the 2021 Cotton Buying Season, the Company had a legacy debt of ZWL\$3.3 billion arising from the high producer prices set in 2020 season, against a declining lint price in that same period, unfavourable exchange rates and a prolonged buying season. This constrained the Company's ability to secure adequate funding for the 2021 season and whilst the Company was able to pay farmers ZWL\$3 billion, the balance of ZWL\$956 million was outstanding. However, following the settlement of subsidy amounts outstanding from 2020, the outstanding payments will be settled in the current season. The Company is forecasting to be current on its debts for the year ending of 31 March 2023.

PAYOUT INSURANCE CLAIM FIRE INCIDENT AT CHECHECHE, CHIPINGE SOUTH

Insurers have paid USD1.3million to date and additional receipts are expected as they finalise the claim.

OUTLOOK

The late onset of the rains and erratic rainfall patterns have led to a reduction in the expected intake to 85,600 tonnes for the season compared to 116,000 tonnes in 2021. Farmers have expressed general satisfaction with the current season's payment modalities and Cottco anticipates an increase in the number of farmers for the 2022 planting season as it continues to roll out the Pfumvudza/Intwasa Programme, with the advantage that cotton is a drought tolerant crop.

Capital raising for value addition projects and acquisition of additional hybrid seed is underway.

A Cautionary Statement and Announcement were published on the 13th of July 2022 updating shareholders on Government's plans to increase its shareholding in the company due to the pivotal role that cotton is envisaged to have in rural transformation and industrial development and shareholders will continuously be updated.

By Order of the Board
Mrs Jacqueline Dube CA (Z)

A stylized signature of Mrs Jacqueline Dube.

Acting Company Secretary

