Proplastics
Pipe Systems That Last

# TRADING UPDATE – 9 MONTHS TO SEPTEMBER 2022

Proplastics Limited hereby issues trading update for the period ended 30 September 2022.

## TRADING ENVIRONMENT

- From the beginning of the year, the trading environment was characterised by high inflation and volatile exchange rates up until July 2022.
- In mid-June, the Government introduced Statutory Instrument 118A to instill confidence in the economy. The main thrust of the SI was the enactment into law of the interbank rate as the sole exchange rate to stabilize the volatile local currency.
- Other monetary policy shifts included raising of the interest rate to 200% on the ZWL denominated borrowings, and as a result the business was negatively affected by significant increase in finance costs on local borrowings.
- Settlement of allocated foreign currency amounts at the auction floor were delayed but outstanding amounts largely reduced from the half year position.
- The conflict in eastern Europe posed a challenge to the profitability of the business with price escalations of requisite raw materials. The effects have since diminished significantly as evidenced by the retreat in prices of hydrocarbons by-products.
- The current cash sales ratio is now skewed in favour of the United States Dollar. The Group is currently relying on local USD sales and export proceeds in sustaining all import requirements.
- Modernization of the Group's plant positioned the business to remain more competitive as evidenced by the current levels of efficiencies and improved margins.

## BUSINESS PERFORMANCE

- Revenue for the 9 months was 18% above prior year, in inflation adjusted terms. Sales volumes declined 10% compared to prior period due to depressed disposable incomes.
- Exports revenue recorded a decline of 30% compared to prior period because of currency volatility experienced during the period.
- Due to efficiencies realized from the plant modernization initiatives, gross profit margins for the reporting period improved compared to prior year.
- Profitability, which was hampered by exchange losses resulting from overdue payments to foreign creditors in the first half of the year, has shown an improvement in the third quarter.
- As a result, the full year performance is expected to show an improvement from the reported first half performance.
- A total of USD2,7m was spent on capital equipment in the 9 months of trading. The newly commissioned PVC line has already contributed 12% to the total production volumes since April 2022 while the new injection molding machines and molds resulted in a 10% increase in total volumes for the period.

## OUTLOOK

- Demand for group products is likely to remain flat to year end given the onset of the rainy season.
- With the enhanced factory capacity, the business will be able to convert all anticipated orders.
- Power supply is expected to improve as the Group, in partnership with our electricity distributor, have embarked on the replacement of the underground armored cable that is fraught with faults with a semi dedicated overhead powerline.
- The Group will continue to review its reporting currency, costing model, value chain management, borrowings and working capital position as part of balance sheet preservation strategies.
- With all the complexities in the trading environment, the business remains alive to the challenges and continues to implement various initiatives focused on improving revenue and profitability.

**G. SEBBORN**
November 2022