TRADING UPDATE

FOR THE FIRST QUARTER ENDED 31 JANUARY 2023

OPERATING ENVIRONMENT

The first quarter of the financial year has seen the persistence of global supply chain disruptions and attendant increases in the cost of agricultural inputs. Power supply challenges have intensified. Liquidity shortages in both local and foreign currency have become more pronounced.

The volatility in foreign currency exchange rates and inflation rates has not been as pronounced as in the previous quarter but remains high. Greater use of the US Dollar as a trading currency has been witnessed.

The Tobacco Industry Marketing Board announced 8 March 2023 as the commencement date of the 2023 tobacco marketing season, three weeks earlier than in the previous year. Indications are that national tobacco volumes are expected to range between 5% and 10% above prior year. Rainfall patterns across most of the country has been reasonable and are expected to bode well for summer cropping output.

BUSINESS PERFORMANCE

Group revenues in the first quarter are mainly from the supply of agricultural inputs, provision of logistics services, and real estate services primarily to the agriculture industry. Revenue grew by 106% and 606% in inflation-adjusted and historical terms respectively for the quarter. This growth was mainly driven by firmer volumes in the agri-inputs business, a stronger performance in the logistics business, and increased uptake of tobacco packaging materials by customers in anticipation of the earlier start to the tobacco marketing season.

Interest rates on ZWL borrowings had become uneconomically high and consequently, the Group repaid its ZWL borrowings during the quarter, resulting in a decline in the already low gearing of the Group. Sizeable capital projects, which are expected to enhance the earning capacity and quality of the Group, are at various stages of execution and will see an increase in the Group's level of borrowings on the back of more sustainably priced facilities.

AGRICULTURE OPERATIONS

During the quarter, Tobacco Sales Floor undertook extensive preparations for the tobacco marketing season. The business doubled the capacity of its decentralised floor in Mvurwi to cater for increased contracted volumes, and augments the Harare, Karoi and Marondera floors.

Due to the earlier start of the tobacco marketing season, Propak Hessian ramped up the supply and distribution of tobacco packaging materials resulting in volumes of both hessian wraps and tobacco paper being significantly ahead of prior year. The market has welcomed the locally produced tobacco paper and there has been a marked increase in volumes. The business is adequately stocked for the season on all packaging materials.

Agricura's major product lines recorded good volume growth on last year, with improved product availability and market reach. Global supply chain disruptions necessitated sourcing of some products from less-competitively priced regional markets to ensure product availability locally and exerted pressure on margins.

In the farming operations, tobacco, maize, and soya bean crops are growing well and yields are expected to be satisfactory.

Logistics Operations

Handling volumes are significantly ahead of prior year as the unit acquired additional business from both existing and new customers. Volumes in the International Services Division, for the quarter, were 46% ahead of last year due to the Maputo rail service and the commencement of an additional rail service from Beira. The introduction of a reliable rail service is a positive move with a far-reaching impact on businesses in-country and within the region.

Volumes in the Supply Chain Division were depressed owing to global supply chain disruptions which constrained fertilizer movement. FMCG distribution volumes were 9% behind prior year, reflecting lower aggregate market demand.

Forklift hours in the Handling Equipment Division were 25% ahead of last year due to improved business from major clients. The Division has introduced electric forklifts as part of its service offering which is expected to benefit customers in the food and beverages industry.

Avis Budget Group's car rental days are marginally ahead of prior year as international arrivals continue to improve.

Real estate operations

Performance in the real estate operation remains satisfactory. The Business unit completed the expansion of the Mvurwi sales floor, bringing the new warehouse space to 9,000 square metres. This development has supported TSF's decentralisation drive.

The business is also creating additional world-class warehousing capacity of 23,000 square metres on two of the Group's properties. This move is intended to support the growth of both the agriculture and logistics operations over the next 12 to 18 months.

Demolition works are at an advanced stage on the one site, while ground works have commenced at the second site. The redevelopment of both sites is expected to start in the second quarter.

OUTLOOK

The Group continues to strategically invest to solve several key challenges facing the economy in pursuit of the "moving agriculture" strategy.

The agribusinesses are expected to benefit from a larger tobacco crop and what is anticipated to be a good marketing season.

The logistics business will continue to scale up rail volumes across a broad spectrum of commodities from both Maputo and Beira ports and widen the customer base.

The difficulties of the operating environment are expected to persist and will need to be proactively managed to ensure ongoing value creation and preservation.

For and on behalf of the Board
Fadzayi Pedzisayi
Company Secretary
17 March 2023