

Unaudited Abridged Financial Results of National Foods Holdings Limited

for the half-year ended 31 December 2018

Chairman's Statement

Directors' Responsibility

The Holding Company's Directors are responsible for the preparation and fair presentation of the Group's interim abridged financial statements, of which this press release represents an extract. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Chapter 24:03). The principal accounting policies applied in the preparation of these interim financial statements are consistent with those applied in the previous annual financial statements. There is no significant impact arising from new and revised IFRS which became effective for reporting periods commencing on or after 1 January 2018.

Reporting Currency

The separation of cash balances into Nostro Foreign Currency Accounts (FCA) and electronic Real Time Gross Settlement (RTGS) balances, as mandated by the monetary and fiscal authorities, has resulted in numerous deliberations and considerations in respect of the functional currency for companies operating in Zimbabwe. These interim financial statements are presented in a currency consistent with the previous annual financial statements. Following the Monetary Policy Statement on 20 February 2019, we await detailed guidance from our various regulators as to a standard methodology to be adopted in the presentation of future financial statements.

Overview and Financial Performance

The Group recorded a solid performance for the period, posting Profit before Tax of \$21.95m which was 84% above the same period last year. EBITDA for the period increased by 77% compared to last year. Volumes grew by 18.4% over the prior period, driven mainly by Stockfeeds as the poultry sector recovered from the Avian Influenza outbreak and Maize on the back of a poorer local maize harvest and the fact that household maize retentions were reduced on account of the attractive GMB price. Volumes in the MCG unit declined by 19% as rice consumption declined markedly due to its relative affordability.

The second half of the period was characterised by a significant increase in inflation. In response pricing regrettably had to be adjusted substantially in most categories in order to maintain viability. These price changes led to reduced volume momentum over the October to December quarter where volumes grew by only 11.7% compared to 18.4% for the half year.

Revenue for the period increased by 41% compared to last year, as a consequence of both the volume increase of 18% and average selling prices per unit which increased by 19.3% versus last year. Operational expenditure increased by 58.6% to \$37.4m relative to the same period last year. Inflationary pressure was evident across all cost lines, particularly those costs with imported content such as plant and vehicle maintenance costs.

The Group's working capital model changed appreciably over the quarter in response to the prevailing economic situation. Stock increased in value from \$41.7m at June 2018 to \$66.6m in December 2018 as efforts were made to build inventory of key raw materials which also increased in value. Prepayments increased from \$23.5m to \$46.4m for the same reason.

During the period an agreement was reached between the Reserve Bank of Zimbabwe (RBZ) and the Group's major grain supplier wherein the RBZ assumed the Group's legacy debt to its supplier amounting to \$54.9m as part of a funding agreement, which will see this debt being settled over an agreed period. National Foods settled the full amount locally to the Reserve Bank, resulting in a reduction in its creditors. The timely settlement of the legacy wheat position in accordance with the agreed terms is critical to enable the continued and consistent supply of imported wheat into the country. Regrettably, shortly after the period end the RBZ has had to delay payments on the facility which in turn has disrupted flour supplies to the market. The Group continues to work closely with the RBZ to resolve the matter and remains fully capacitated to produce adequate volumes of flour provided the necessary foreign currency to import wheat is available.

Capital expenditure for the period amounted to \$9.76m, well behind plan due to difficulties in sourcing foreign currency which caused substantial delays in the various capital projects that had been planned. The Group will continue to reinvest in improving its operations in line with the availability of foreign currency.

Flour Milling

Volumes for the period grew by 3.4% compared to last year. Demand for bread flour was unprecedented due to the relative affordability of bread and the business decided to prioritise supplies to bakers at the expense of prepacked flour, where volumes declined by 40.8%. In spite of this and the fact that our mills were operating at maximum capacity, we were unable to satisfy the demand for Bakers flour. The on-going sustainability of this unit will largely be driven by the availability of imported wheat and market related pricing across the flour to bread value chain.

Maize Milling

The Maize division delivered a much-improved result, driven by volume growth of 60% over last year. The volume growth occurred due to the affordability of maize compared to other starches as well as the poorer local maize harvest and reduced household maize retentions. Our new Pearlenta Hi-Fibre and Red Seal Multigrain innovations continue to be well received by the market.

Stockfeeds

Stockfeed volumes recovered, growing by 39%, as last year was heavily impacted by the Avian Influenza outbreak. Feed prices had to be increased mainly due to the higher prices of imported soya and minerals and vitamins. The consequent knock on effect in protein prices points to more constrained volumes in the second half.

MCG

Volumes in this unit were disappointing, declining by 20% compared to last year. The volume reduction was driven mainly by rice due to its affordability and to a lesser extent salt where disruptions occurred in imported raw material supply due to foreign currency shortages.

Snacks and Treats

This unit delivered an excellent performance, with volume growth of 28% driven by the King Kuris soft snacks and Iris biscuits brands. The Group continues to drive a strong innovation agenda in the snacks and treats categories and the coming half will see the launch of additional new products.

Pure Oil

National Foods holds an effective 40% stake in Pure Oil Industries and its results are equity accounted. The business produced a reasonable result for the period, with attributable earnings increasing by 12% versus last year. Foreign currency allocations to the edible oil sector reduced during the period, leading to a decline in oil volumes by 21%.

National Foods Logistics

National Foods Logistics (Natlog) was created in the second half of the previous financial year. Natlog is responsible for the distribution of National Foods' product to the market and is a joint venture partnering Equity Distribution Services, formerly National Foods' outsource distribution service provider. 17 new vehicles were commissioned during the period to augment the existing fleet and improve product distribution.

Contract Farming

The Group continues to support local farming, with 10,400 hectares of a variety of cereal crops planted during the year through two substantial contract farming schemes. National Foods directly supported the production of 9,500 hectares of maize, wheat, soya beans, sugar beans and popcorn through the 2018 winter and 2018-19 summer seasons. In addition, Pure Oil has supported an additional 900 hectares of soya beans during the 2018-2019 summer season.

Corporate Social Responsibility (CSR)

The Group's CSR program supports 41 registered institutions spread across the country's 10 provinces. CSR support in the half year included cholera pandemic support as well as the provision of medical supplies to the Epilepsy Foundation of Zimbabwe. In the half year, the company earned an award as the "Top Sustainable Company of the Year - 2018" from the CSR Network Zimbabwe for its efforts in uplifting vulnerable communities.

Future Prospects

The period under review witnessed substantial increases in inflation and an overall deterioration in the macro-economic environment. The resolution of challenges in the provision of foreign currency for imported wheat is essential for the continued sustainability of the Flour unit. Whilst the Group remains committed to continuing to play a meaningful role in the basic food commodities space and broadening its category repertoire, the near-term focus must be on resolving the wheat payment issue.

Interim Dividend

The Board is pleased to declare an interim dividend of 12.31 RTGS cents per share payable in respect of all ordinary shares of the Company. This interim dividend is in respect of the financial year ending 30th June 2019 and will be payable in full to all the shareholders of the Company registered at the close of business on the 29th of March 2019. The payment of this dividend will take place on or about the 12th of April 2019. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of the 26th of March 2019 and ex-dividend as from the 27th of March 2019.

Acknowledgement and Appreciation

I would like to acknowledge the efforts of management in stewarding the company through challenging times. In addition, the contributions and wise counsel of my fellow board members is sincerely appreciated.



Todd Moyo
Chairman
14 March 2019

Salient Features

	6 Months Ended 31 Dec 2018 unaudited	
Volume (MT)	310 000	▲ 18.3%
	\$'000	
Revenue	207 745	▲ 41.2%
Operating profit	23 785	▲ 79.6%
Profit before tax	21 946	▲ 84.0%
Basic earnings per share (cents)	24.62	▲ 78.6%
Headline earnings per share (cents)	24.09	▲ 86.5%
Interim dividend declared per share (cents)	12.31	▲ 78.6%

Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	6 Months Ended 31 Dec 2018 unaudited \$'000	6 Months Ended 31 Dec 2017 unaudited \$'000
Revenue	207 745	147 166
Operating profit before depreciation	23 785	13 244
depreciation	(1 436)	(1 378)
Profit before interest and tax	22 349	11 866
interest income	85	77
interest expense	(2 386)	(1 577)
equity accounted earnings	1 898	1 559
Profit before tax	21 946	11 925
tax	(5 109)	(2 497)
Profit for the period	16 837	9 428
Other comprehensive income - to be recycled to profit or loss at a future point in time		
exchange differences arising on the translation of foreign operations	—	1
Total comprehensive income for the period	16 837	9 429
Profit for the period attributable to:		
equity holders of the parent	16 837	9 428
Total comprehensive income for the period attributable to:		
equity holders of the parent	16 837	9 429
EARNINGS PER SHARE (CENTS)		
- basic earnings per share	24.62	13.78
- headline earnings per share	24.09	12.91

Abridged Group Statement of Financial Position

	At 31 Dec 2018 unaudited \$'000	At 30 Jun 2018 audited \$'000
ASSETS		
Non-current assets		
property, plant and equipment	52 129	44 123
other non-current assets	12 642	13 137
	64 771	57 260
Current assets		
inventory	66 600	41 747
trade and other receivables	93 994	62 516
current portion of other financial assets	5 743	1 999
cash and cash equivalents	19 343	33 403
current tax receivable	—	751
	185 680	140 416
non-current assets held for sale	107	3 402
Total assets	250 558	201 078
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non-distributable reserves	(12)	(12)
distributable reserves	116 338	103 163
Total shareholders' equity	117 010	103 835
Non-current liabilities		
deferred tax liability	8 560	8 202
	8 560	8 202
Current liabilities		
interest-bearing borrowings	65 972	30 422
trade and other payables	48 347	53 133
current tax liability	4 099	—
Shareholders for dividends	6 565	5 316
	124 983	88 871
liabilities relating to non current assets held for sale	5	170
Total liabilities	133 548	97 243
Total equity and liabilities	250 558	201 078

Abridged Group Statement of Cash Flows

	6 Months Ended 31 Dec 2018 unaudited \$'000	6 Months Ended 31 Dec 2017 unaudited \$'000
Cash (utilised)/generated from operating activities	(37 815)	4 983
net interest paid	(2 301)	(1 466)
tax paid	(65)	(1 403)
Total cash (utilised)/generated from operations	(40 181)	2 114
Investing activities		
Purchase of property, plant and equipment to expand operations	(6 975)	(788)
Purchase of property, plant and equipment to maintain operations	(2 785)	(1 190)
Other cashflows from investing activities	2 743	896
Net cash outflow from investing activities	(7 017)	(1 082)
Net cash (outflow) / inflow before financing activities	(47 198)	1 032
Financing activities		
Dividend paid	(2 413)	(2 364)
Net (decrease) / increase in cash	(14 060)	12 752
Cash and cash equivalents at the beginning of the period	33 403	3 683
Cash and cash equivalents at the end of the period	19 343	16 435
Cash and cash equivalents comprise		
cash and short term deposits with related parties	19 343	16 435
	19 343	16 435

Abridged Group Statement of Changes in Equity

	Share capital \$'000	Non-Distributable Reserves \$'000	Distributable Reserves \$'000	Total \$'000
Balance at 30 June 2017	684	(11)	94 264	94 937
profit attributable to equity holders of the parent	—	—	17 175	17 175
dividends paid	—	—	(8 276)	(8 276)
transfer of foreign currency reserve	—	(1)	—	(1)
Balance at 30 June 2018	684	(12)	103 163	103 835
profit attributable to equity holders of the parent	—	—	16 837	16 837
dividends paid	—	—	(3 662)	(3 662)
transfer of foreign currency reserve	—	—	—	—
Balance at 31 December 2018	684	(12)	116 338	117 010

Supplementary Information

1 Corporate Information

The company and its subsidiaries are incorporated in Zimbabwe except for Botswana Milling and Produce Company (Proprietary) Limited and Red Seal Manufactures (Proprietary) Limited which are incorporated in Botswana.

The Group's activities consist of the milling of flour and maize, the manufacture of stockfeeds and the packaging and sale of other general household goods. The Group also owns a portfolio of properties that are leased out to the main business units and to third parties.

2 Operating Segments

	Milling, Manufacturing and Distribution \$'000	Properties \$'000	Intersegment adjustments \$'000	Total \$'000
Revenue				
31 December 2018	208 223	1 008	(1 486)	207 745
31 December 2017	148 093	1 047	(1 974)	147 166
Operating profit before depreciation				
31 December 2018	23 131	654	—	23 785
31 December 2017	12 632	612	—	13 244
Depreciation				
31 December 2018	(1 117)	(319)	—	(1 436)
31 December 2017	(1 085)	(293)	—	(1 378)
Net Interest Expense				
31 December 2018	(2 520)	219	—	(2 301)
31 December 2017	(1 700)	200	—	(1 500)
Profit before tax				
31 December 2018	21 392	554	—	21 946
31 December 2017	11 406	519	—	11 925
Segment assets				
31 December 2018	204 837	45 721	—	250 558
30 June 2018	156 008	45 070	—	201 078
Segment liabilities				
31 December 2018	(127 668)	(5 880)	—	(133 548)
30 June 2018	(91 098)	(6 145)	—	(97 243)
Capital expenditure				
31 December 2018	9 024	736	—	9 760
31 December 2017	1 658	320	—	1 978

	6 Months Ended 31 Dec 2018 unaudited \$'000	6 Months Ended 31 Dec 2017 unaudited \$'000
3 Depreciation	1 436	1 378
4 Capital expenditure for the period	9 760	1 978
5 Future lease commitments		
Payable within one year	283	—
Payable two to five years	306	—

	31 Dec 2018 unaudited \$'000	30 Jun 2018 audited \$'000
6 Commitments for capital expenditure		
Contracts and orders placed	5 093	9 898
Authorised by Directors but not contracted	5 924	4 822
	11 017	14 720

The capital expenditure is to be financed out of the Group's own resources and existing borrowing facilities.

	31 Dec 2018 unaudited \$'000	30 Jun 2018 audited \$'000
7 Other non-current assets		
Intangible assets	1 516	1 516
Investment in associates	10 130	10 632
Loan receivable	989	976
Other financial assets	7	13
	12 642	13 137

8 Shareholders for Dividends
The Shareholders for dividends balance relates to foreign dividends payable, outstanding as at reporting date.

9 Interest bearing borrowings
Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 5.6% per annum. The facilities expire at different dates during the year and will be reviewed and renewed when they mature.

	31 Dec 2018 unaudited \$'000	30 Jun 2018 audited \$'000
10 Assets held for sale		
Land and Buildings at cost	121	4 040
Accumulated depreciation on Land and Buildings	(14)	(638)
Net carrying amount	107	3 402
Deferred tax relating to assets held for sale	(5)	(170)

On 1 December 2018 the Group disposed of land and buildings that were used as depots to Lolite Trading, (a property owning company) in which National Foods Limited retained a non-controlling interest through its wholly owned subsidiary, National Foods Properties Limited for a consideration of \$3,705,000. The properties were non-core to the business and were presented under the Properties operating segment. The gain on disposal amounted to \$409,865 which is included under 'Operating profit before depreciation' in the statement of comprehensive income.

11 Earnings per share: Basic earnings basis
The calculation is based on the profit attributable to equity holders of the parent and number of shares in issue for the year.

Headline earnings basis

Headline earnings comprise of basic earnings attributable to equity holders of the parent adjusted for profits, losses and items of a capital nature that do not form part of the ordinary activities of the Group, net of their related tax effects and share of non-controlling interests as applicable.

	6 Months Ended 31 Dec 2018 unaudited \$'000	6 Months ended 31 Dec 2017 unaudited \$'000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	16 837	9 429
Adjustment for capital items (gross of tax):		
Adjustment for capital items	(485)	(7)
(Profit) / Loss on disposal of property, plant and equipment	—	(587)
Profit on disposal of listed investments	125	2
Tax effect on adjustments	16 477	8 837
Headline earnings attributable to ordinary shareholders		
Number of shares in issue	68 400	68 400
Number of ordinary shares in issue		
Weighted average number of ordinary shares in issue		
Basic earnings per share (cents)	24.62	13.78
Headline earnings per share (