

Audited Abridged Financial Results of National Foods Holdings Limited

for the year ended 30 June 2018

Chairman’s Statement

Directors’ Responsibility

The Holding Company’s Directors are responsible for the preparation and fair presentation of the Group’s consolidated financial statements, of which this press release represents an extract. The abridged annual group financial results are presented in accordance with the disclosure requirements of the Zimbabwe Stock Exchange (ZSE) Listings Requirements for provisional annual financial statements (preliminary reports). The abridged annual group financial results have been prepared in accordance with the measurement and recognition principles of International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Chapter 24:03). The principal accounting policies of the Group are consistent with those applied in the previous annual financial statements.

Audit statement

The Group’s auditors Ernst & Young have issued an unmodified opinion on the consolidated financial statements, for the year ended 30 June 2018, on which this abridged set is based. The auditors considered the allowance for credit losses on trade and other receivables and the valuation and existence of inventories to be key audit matters. The audit opinion, with a detailed description of the key audit matters and how they were addressed, is available for inspection at the Company’s registered address.

Introduction

The Group recorded a reasonable performance for the period, posting Profit before Tax of \$21.21m which was 23% above the same period last year. EBITDA for the period increased by 14% compared to last year, weighed down by a very disappointing performance from the Flour division. Whilst record Flour volumes were achieved, margins were significantly impacted by the inability to increase prices as a consequence of the price of bread which remained constant for the greater part of the year. The Maize division returned to profitability and together with improved rice margins partially compensated for the poor Flour performance. Our associate Pure Oil produced an excellent result, delivering attributable earnings of \$5.2m, an increase of 182% over the prior period.

Volume for the year increased by 7.1% compared to last year, reaching 543,000 MT. The increase was largely driven by the Flour division where volumes increased by 28%, the highest in the company’s history. Maize volumes grew by 11%, while there were volume reductions in stockfeed (13%) on the back of the Avian Influenza outbreak and rice (25%) due to foreign currency constraints. Improved and more robust consumer demand was evident in the second half of the year, with volumes in the final quarter increasing by 33% over the previous year and positive growth being registered across all of the operating units.

The company’s position with its foreign creditors deteriorated significantly over the year, with \$37.59m remaining outstanding to foreign wheat suppliers at the end of the period. It is crucial that a solution for this debt is found in the immediate future, failing which there will be disruptions to the supply of imported wheat and consequent flour and bread shortages. Regular and constructive engagements with the Reserve Bank are underway to resolve this matter.

Overview of Financial Performance

Revenue for the period increased by only 3% compared to last year, driven by a reduction in average selling prices by 5%. The key Flour, Maize and Stockfeeds units all saw declining selling prices for a variety of reasons.

In Flour, selling prices declined by 2.5% due to the inability to increase prices against a largely static bread price. Stockfeed prices declined by 5.3%, as a result of an increased proportion of lower priced beef feed, as poultry volumes declined following the Avian Influenza outbreak. In the maize category, selling prices reduced by 15% due to a significant reduction in raw maize prices as the country was self-sufficient in maize for the first time in many years.

Total gross margin dollars increased by 2.7% compared to last year, with a mixed performance across the various categories. Flour margins declined substantially, reducing by 22.2% in absolute dollars per ton in comparison to last year. International wheat prices rose during the year and these increases could not be recovered in flour prices due to the delays in agreeing the increase in bread pricing with Government. Whilst an increase in bread price was agreed towards the end of the period, the margin impact of this has subsequently been largely eroded by further inflationary pressures. The viability of the mill-bake value chain remains severely challenged and it is imperative that the sector works with Government to find a sustainable solution for both industry and the consumer.

Margins across the remaining categories largely met expectation; in dollar per ton terms stockfeed margins increased moderately, whilst maize margins measured on the same basis were flat. Rice margins improved on the back of relatively well priced raw materials in the first half.

Operational expenditure increased by 2.3% to \$47.95m compared to the same period last year. Excluding costs relating to the discontinued Depots incurred in the early part of last year, costs increased by 7.6% versus the prior period. Towards the end of the financial year inflationary increases were seen particularly in distribution costs (warehousing and delivery costs), driven by increased fuel and vehicle maintenance costs, and to a lesser extent plant repair and maintenance costs.

Working capital reduced from \$79.0m at the start of the year to \$51.2m at year end. Prepayments for key raw materials increased by \$9.8m over the period whilst foreign creditors increased by \$36m, largely due to the imported wheat position. There was a significant amount of cash held at year end (\$33.4m) which was being held to secure key raw materials, as increasingly it is becoming necessary to prepay to procure competitively.

Capital expenditure for the period amounted to \$4.44m, 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

Profitability for the division in the year under review was extremely disappointing, declining by 37.3%. That this occurred with record volumes is a reflection of the severe margin compression in the category, the reasons for which have been outlined elsewhere in this report. Flour is the most significant category in our portfolio, making it imperative that meaningful solutions to both the viability of the mill-bake value chain and the foreign wheat creditor position are found in the near future.

Maize Milling

The Maize division achieved an improved result, registering a small profit having achieved a loss of \$0.77m in the same period last year. Volumes increased by 10.5%, a positive result given the excellent local harvest. Government has

agreed that the national food security and commercial activities of the GMB will be separated into autonomous units. It is hoped that this will result in a more level competitive environment in the category in future.

The company continues to focus intensely on innovation within the maize category portfolio and it was encouraging to note that the new Pearlenta High Fibre products have been well received by health conscious consumers.

Stockfeeds

Volume performance for the Stockfeeds division was disappointing, declining by 13% on prior year due to the Avian Influenza outbreak which severely compromised availability of day old chicks in the market and consequently led to reduced feed volumes. Poultry volumes recovered in the second half of the year as day old chick availability improved. Beef and dairy feed volumes were also improved following the excellent 2016-17 rains which improved pastures and reduced supplementary feeding requirements over the past year.

MCG

This division produced a strong result for the period, driven by rice and to a lesser extent salt which maintained its market leading position. Mahatma and Red Seal rice performed strongly in the market as national rice supplies were constrained by foreign currency availability. The fortunes of this unit will continue to be driven by the ability to secure foreign currency to import raw materials.

Snacks and Treats

This division manufactures extruded corn snacks and loose biscuits under the Zapnax, Kings and Iris brands. Volumes increased by 31% compared to the previous period, with firm growth from Iris loose biscuits. Whilst the unit is not yet a significant contributor to the Group we believe that the snacks and biscuit categories have growth potential and to this end have recently made further investment in increasing capacity and capability in this unit. The focus is to continue increasing volumes on the back of improved capacity and distribution whilst broadening the portfolio of products. Cream biscuits will be launched under the Iris brand during the first half of next year.

Pure Oil

Pure Oil produced an excellent result for the period, delivering attributable earnings of \$5.2m which represented a 182% increase over the previous financial year. In a relatively short period of time Pure Oil has become the market leader in the cooking oil category and has successfully kept the product on shelf in spite of the challenges in securing foreign currency for raw material imports.

Pure Oil will be entering the bakers’ fats and margarine categories and these products will be introduced in the first half of the next period.

National Foods Logistics

National Foods Logistics (Nat Log) was created in the second half of the financial year. Nat Log will be responsible for the distribution of National Foods’ product to the market and is a partnership with Equity Distribution (Pvt) Ltd, formerly National Foods’ outsource distribution service provider. The rationale behind this investment is that distribution capability has become a critical success factor for National Foods and our objective is to improve customer service and lower costs through investing in specialised truck and warehouse capability. To this end Nat Log has ordered 16 new trucks which will be commissioned early in the new financial year. The results of Nat Log will be equity accounted by National Foods.

Contract Farming

The Group continues to support local farming, with 10,800 hectares of a variety of cereal crops having been planted during the year through two substantial contract farming schemes. National Foods directly supported the production of 8,700 hectares of maize, wheat, soya beans and sugar beans through the 2017-2018 summer and 2018 winter seasons. In addition, Pure Oil has supported an additional 2,100 hectares of soya beans during the 2017-2018 summer season.

Corporate Social Responsibility (CSR)

The Group’s CSR program focuses on improving well-being and enhancing lives in the communities within which the company operates, supporting 41 institutions.

This year the Group has again partnered with Kapnek Trust in an initiative to establish further early childhood development (ECD) classroom facilities in line with the new education curriculum. Through this initiative 7 Primary schools, 4 in the Sanyati District and 3 in the Ngezi District were assisted to successfully build or rehabilitate facilities to enable ECD teaching.

Future Prospects

The period under review witnessed significant political changes in our country. Now that the critical election phase is behind us it is imperative that attention is urgently directed at resolving some of the serious challenges facing the economy. The direct and increasing impact that some of these issues are having on National Foods has been discussed in this statement. Provided that meaningful solutions to these challenges can be found, we believe that there will be significant opportunities to supply a broader range of categories as economic conditions and the position of the consumer improve further.

Dividend

The Board is pleased to declare a final dividend of 5.64 US cents per share payable in respect of all ordinary shares of the Company. This dividend is in respect of the financial year ended 30 June 2018 and will be payable in full to all the shareholders of the Company registered at the close of business on the 26th of October 2018. The payment of this dividend will take place on or about the 2nd of November 2018. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of 23 October 2018 and ex-dividend as from the 24th of October 2018. This final dividend brings the total dividend for the year to 12.53 US cents per share.

Acknowledgement and Appreciation

I would like to thank management and staff sincerely for their continued commitment in what has been a very challenging year. Finally, I wish to thank my fellow Board members for their continued support and counsel.

Todd Moyo

Chairman

27 September 2018

Salient Features	Year Ended 30 June 2018 Audited USD '000		
Volume (MT)	543 075	⬆	7%
Revenue	297 929	⬆	3%
Operating profit	22 134	⬆	14%
Profit before tax	21 211	⬆	23%
Basic earnings per share (cents)	25.11	⬆	25%
Headline earnings per share (cents)	25.05	⬆	25%
Total dividend declared per share (cents)	12.53	⬆	25%

Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	Year Ended 30 June 2018 Audited USD '000	Year Ended 30 June 2017 Audited USD '000
Revenue	297 929	289 508
Operating profit before depreciation and amortisation	22 134	19 383
depreciation and amortisation	(2 667)	(2 887)
Profit before interest and tax	19 467	16 496
interest income	150	458
interest paid	(3 602)	(1 560)
equity accounted earnings	5 196	1 832
Profit before tax	21 211	17 226
tax	(4 036)	(3 522)
Other comprehensive income - to be recycled to profit or loss at a future point in time		
exchange differences arising on the translation of foreign operation	(1)	2
Total comprehensive income for the period	17 174	13 704
Profit for the year attributable to:		
equity holders of the parent	17 175	13 704
Total comprehensive income for the year attributable to:		
equity holders of the parent	17 174	13 706
EARNINGS PER SHARE (CENTS)		
- Basic earnings per share	25.11	20.04
- Headline earnings per share	25.05	20.06

Abridged Group Statement of Financial Position

	At 30 June 2018 Audited USD '000	At 30 June 2017 Audited USD '000
ASSETS		
Non-current assets		
property, plant and equipment	44 123	45 683
other non-current assets	13 137	7 597
	57 260	53 280
Current assets		
cash and cash equivalents	33 403	3 683
inventory	41 747	44 469
trade and other receivables	62 516	51 497
current portion of other financial assets	1 999	-
current tax receivable	751	90
	140 416	99 739
assets held for sale	3 402	107
	143 818	99 846
Total assets	201 078	153 126
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non-distributable reserves	(12)	(11)
distributable reserves	103 163	94 264
Total shareholders' equity	103 835	94 937
Non-current liabilities		
deferred tax liability	8 202	7 988
	8 202	7 988
Current liabilities		
interest-bearing borrowings	30 422	30 665
trade payables	52 786	16 604
other payables	347	401
shareholders for dividends	5 316	2 526
	88 871	50 196
liabilities relating to assets held for sale	170	5
	89 041	50 201
Total liabilities	97 243	58 189
Total equity and liabilities	201 078	153 126

Abridged Group Statement of Cash Flows

	Year Ended 30 June 2018 Audited USD '000	Year Ended 30 June 2017 Audited USD '000
Cash generated/(utilised) from operating activities	49 332	(15 196)
net interest paid	(3 554)	(1 102)
tax paid	(4 318)	(3 839)
Total cash generated/(utilised) from operations	41 460	(20 137)
Investing activities		
purchase of property, plant and equipment to expand operations	(518)	(1 164)
purchase of property, plant and equipment to maintain operations	(3 926)	(2 700)
other cashflows utilised in investing activities	(1 564)	(301)
Net cash outflow from investing activities	(6 008)	(4 165)
Net cash inflow/(outflow) before financing activities	35 452	(24 302)
Financing activities	(244)	23 421
Dividend paid	(5 488)	(4 602)
Net increase/(decrease)in cash	29 720	(5 483)
Cash and cash equivalents at the beginning of the year	3 683	9 166
Cash and cash equivalents at the end of the year	33 403	3 683
Cash and cash equivalents comprise		
cash and short term deposits	33 403	3 683
	33 403	3 683

Abridged Group Statement of Changes in Equity

	Share capital USD '000	Non-distributable reserves USD '000	Distributable reserves USD '000	Total USD '000
Balance at 30 June 2016	684	(13)	87 686	88 357
profit attributable to equity holders of the parent	-	-	13 704	13 704
dividends paid	-	-	(7 126)	(7 126)
transfer of foreign currency reserve	-	2	-	2
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

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 Manufacturers (Proprietary) Limited which are incorporated in Botswana.

The Group’s activities consist of the milling of Flour and Maize, the manufacture of Stockfeeds, snacks and biscuits 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 USD '000	Properties USD '000	Inter segment adjustments USD '000	Total USD '000
Revenue				
30 June 2018	297 230	2 086	(1 387)	297 929
30 June 2017	288 968	2 098	(1 558)	289 508
Operating profit before depreciation and amortisation				
30 June 2018	20 821	1 313	-	22 134
30 June 2017	18 057	1 326	-	19 383
Depreciation and amortisation				
30 June 2018	(2 079)	(588)	-	(2 667)
30 June 2017	(2 324)	(563)	-	(2 887)
Net Interest Expense				
30 June 2018	(3 863)	411	-	(3 452)
30 June 2017	(1 498)	396	-	(1 102)
Profit before tax				
30 June 2018	20 485	726	-	21 211
30 June 2017	16 469	757	-	17 226
Segment assets				
30 June 2018	156 008	45 070	-	201 078
30 June 2017	115 561	44 351	(6 786)	153 126
Segment liabilities				
30 June 2018	(91 098)	(6 145)	-	(97 243)
30 June 2017	(58 723)	(6 252)	6 786	(58 189)
Capital expenditure				
30 June 2018	3 416	1 028	-	4 444
30 June 2017	3 007	857	-	3 864

	Year Ended 30 June 2018 Audited USD '000	Year Ended 30 June 2017 Audited USD '000
3 Depreciation and amortisation	2 667	2 887
4 Capital expenditure for the year	4 444	3 864
5 Future lease commitments		
Payable within one year	282 550	-
Payable two to five years	447 371	-
	30 June 2018 Audited USD '000	30 June 2017 Audited USD '000
6 Commitments for capital expenditure		
Contracts and orders placed	9 898	-
Authorised by Directors but not contracted	4 822	7 234
	14 720	7 234

The capital expenditure is to be financed out of the Group’s own resources and existing borrowing facilities.	30 June 2018 Audited USD '000	30 June 2017 Audited USD '000
7 Other non-current assets		
Intangible assets	1 516	1 516
Investment in associates	10 632	4 685
Loan receivable	976	930
Other financial assets	13	465
	13 137	7 597

8 Shareholders for dividends

The Shareholders for dividends balance relates to foreign dividends 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 6.05% per annum. The facilities expire at different dates during the year and will be reviewed and renewed when they mature. Facilities are secured by cession of movable assets, receivables and inventory. Inventories have been pledged to secure borrowing facilities of the Group.

10 Assets held for sale

The Group intends to dispose of properties which are non-core to the business within the next twelve months. These properties will be disposed to a new company in which National Foods Holdings Limited will retain a non-controlling interest through its wholly owned subsidiary, National Foods Properties Limited for a consideration of \$3,705,000. As such the relevant properties have been reclassified as assets held for sale.

	30 June 2018 Audited USD '000	30 June 2017 Audited USD '000
Land and Buildings	3 402	107
Deferred tax relating to assets held for sale	(170)	(5)

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.

	Year Ended 30 June 2018 Audited USD '000	Year Ended 30 June 2017 Audited USD '000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	17 175	13 704
Adjustment for capital Items		
(Profit)/loss on disposal of property, plant and equipment	(48)	14
Tax effect on adjustments	5	-
Headline earnings attributable to ordinary shareholders	17 132	13 718
Number of shares in issue		
Weighted average number of ordinary shares in issue (*000)	68 400	68 400
Basic earnings per share (cents)	25.11	20.04
Headline earnings per share (cents)	25.05	20.06

12 Guarantees

The company acted as a guarantor to Pure Oil. The guarantee was issued by National Foods Holdings Limited in favour of Stanbic Bank Zimbabwe Limited in respect of any and all financial obligations and the indebtedness of Pure Oil Industries (Private) Limited subject to a maximum limit of US\$7 million.

