



NATIONAL FOODS

HOLDINGS LIMITED

Unaudited Abridged Financial Results of National Foods Holdings Limited

for the 6 months ended 31 December 2016

Salient Features			
	6 Months ended 31 Dec 2016 USD '000		
Volume (MT)	292 000	⬆	0.3%
Revenue	164 979	⬇	-3.5%
Operating profit	8 656	⬇	-17.7%
Profit before tax	8 436	⬇	-4.8%
Basic earnings per share (cents)	9.62	⬇	-0.8%
Headline earnings per share (cents)	9.77	⬆	1.1%
Interim dividend declared per share (cents)	4.81	⬇	-0.4%

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 interim group financial results are presented in accordance with the disclosure requirements of the Zimbabwe Stock Exchange (ZSE) Listing Requirements for provisional interim financial statements (interim reports). The abridged interim 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.

Introduction

The Group recorded a subdued performance for the period, posting Profit before Tax of \$8.44 million which was 4.8% below the same period last year. Volume performance was reasonable given the trading environment with 292 000 tons sold representing a marginal increase of 0.3% over prior year. Profitability was impacted by a disappointing result from the Maize division which saw substantially reduced volumes as Government significantly increased the supply of subsidised maize to consumers following the disappointing 2015-16 harvest.

The ability of the Group to settle its foreign creditors deteriorated markedly over the period due to the difficulties experienced by the banking sector in making foreign remittances. As a result substantial cost increases were incurred due to penalties on late payments as well as more expensive foreign credit lines.

Several categories, including flour and rice, saw volume increases on the back of Government's policy to reduce imports of finished goods following the implementation of SI 64 of 2016 as well as the common challenges faced across the food sector in accessing foreign currency for raw materials. In a similar vein, Pure Oil Industries produced a strong set of results, with Zim Gold becoming the leading cooking oil brand on the market.

Overview of Financial Performance

Revenue declined by 3.5% compared to the previous period, while the difficulties in the Maize business and general pricing restraint led to gross margin declining by 9.3%. This translated to a reduction in EBITDA by 17.7%, with the strong performance of Pure Oil leading to an improved outcome at Profit before Tax which reduced by 4.8% over prior year. Encouragingly, operational expenditure declined by 9.6% compared to the same period last year as the cost rationalisation interventions began to take effect.

The statement of financial position remains in a healthy position, with net borrowings of \$1.8 million at 31 December 2016. Net working capital closed the year at \$48.83 million versus \$46.25 million for the prior year. As is normally the case at this time of year, the Group elected to carry stocks of certain key raw materials at the close of the period. The business remains well positioned to fund its growth ambitions as well as a continued dividend flow to its shareholders.

Capital expenditure for the period amounted to \$2.1 million. Almost all capital projects have been delayed due to the unavailability of foreign currency and it appears unlikely that the Group will be able to complete the planned projects for the year for which expenditure of \$9.7 million had been budgeted.

Flour Milling

The Flour division produced a solid result for the period, with volumes increasing by 16% as compared to last year. This growth emanated from the Baker's flour category and in particular strong demand from all of the major plant bakers who are now sourcing all of their flour requirements locally.

Both the Harare and Bulawayo mills are now operating at full capacity, with the benefits of our refurbishment program apparent in a solid operating performance. This program was due to be completed this year but is now likely to be delayed due to the difficulties being experienced in settling foreign suppliers for capital items.

Maize Milling

The Maize division had a very challenging period with volumes 28% below last year. The increased scale of Government supported supplies of subsidised maize substantially dampened demand for maize meal. In addition, millers competed aggressively on price for the diminished market which caused a material reduction in margins. Consequently the business registered a \$1.5 million loss before tax in the 6 month period ended 31 December 2016.

Regional availability of maize remains tight and is expected to remain so until the new harvest which at this point looks promising both locally as well as across the region following the excellent rain received.

Stockfeeds

The Stockfeeds division produced a reasonable performance for the period. Volumes declined by 3% compared to the prior period, with most recent data from the Stockfeed Manufacturers Association showing that nationally feed volumes manufactured declined by 11% for the second half of 2016 compared to the same period in 2015. Market demand for Stockfeed continues to decline as consumption of protein products maintains its downward trend in line with consumer disposable income.

MCG

This division produced a significantly improved result, driven by rice volumes which increased by 54% and Red Seal salt which maintained its market leading position. A number of opportunities exist in several of the smaller FMCG categories on the back of reduced imports of finished products and the Group is currently assessing these.

Biscuits and Snacks

This unit was acquired in April 2016 and manufactures extruded corn snacks and loose biscuits. A number of initiatives have been introduced to improve product quality and distribution, resulting in turnover increasing by 84% over the comparative period. In terms of profitability this unit is not yet a significant contributor to the Group but remains an important cog of the Group's growth aspirations. The portfolio of products in this unit will continue to be developed and broadened in the future.

Pure Oil Industries

National Foods holds an effective 40% state in Pure Oil Industries and its results are equity accounted. The business produced an excellent set of results for the period with revenue increasing by 138% over the prior period.

The oil sector has seen a number of new investments in recent years on the back of Government support. These investments will benefit not only consumers through the supply of locally produced oil but also producers of oil seed crops such as soya beans and cotton who will now have a more readily available market for their product.

Depots

Gain Cash and Carry (Gain) has taken on the operations of the Group's former Depot network with effect from November 1st 2016. Gain has been awarded a licence to operate the Depots and will steadily increase the basket of goods sold to become a fully-fledged wholesaler. National Foods will not have a shareholding in Gain. The transition of the Depots will allow the Group to focus on and further grow its core light manufacturing activities.

Contract Farming

The Group continues to support local farming, with 5,800 hectares of maize, wheat and soya beans having being planted through the National Foods' scheme. In addition to this, Pure Oil Industries launched a soya bean contract farming scheme for the 2016-17 season where the production of 1,300 hectares of soya beans has been supported through the provision of inputs to contracted farmers.

Corporate Social Responsibility (CSR)

The Group operates a number of CSR programs, which are aimed primarily at assisting vulnerable groups, disadvantaged communities as well as assisting various livestock and wildlife initiatives around the country.

Future Prospects

The trading environment is expected to become increasingly challenging for the foreseeable future. The availability of foreign currency to procure key imported raw materials will strongly influence the Group's results in the next period. As ever the Group will support local agricultural production in the first instance but where there are shortfalls must turn to imported products.

Management continues to focus on building a sustainable, competitive light manufacturing business as well as seeking out further organic and acquisitive growth opportunities.

Dividend

The Board is pleased to declare an interim dividend of 4.81 US 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 2017 and will be payable in full to all the shareholders of the Company registered at the close of business on the 7th of April 2017. The payment of this dividend will take place on or about the 24th of April 2017. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of 31st of March 2017 and ex-dividend as from the 3rd of April 2017.

Directorate

Lovejoy Nyandoro was appointed to the position of Group Finance Director on November 9th 2016. He replaces Liberty Murimwa who has left National Foods to establish Gain Cash & Carry on 31 October 2016. The Group thanks Liberty for the tremendous contribution he has made as Group Finance Director since 2008. Lovejoy has served the Group since 2005 and we wish him every success in his new position.

Acknowledgement and Appreciation

I would like to thank management and staff sincerely for their on-going efforts in a tremendously challenging operating environment. Finally, I wish to thank my fellow board members for their continued support and counsel.

Todd Moyo

Chairman

14 February 2017

Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	6 Months ended 31 Dec 2016 Unaudited USD '000	6 Months ended 31 Dec 2015 Unaudited USD '000
Revenue	164 979	170 977
Operating profit before depreciation and amortisation	8 656	10 521
depreciation and amortization	(1 466)	(1 362)
Profit before interest and tax	7 190	9 159
interest income	194	320
interest expense	(476)	(615)
equity accounted earnings	1 528	-
Profit before tax	8 436	8 864
tax	(1 858)	(2 238)
Profit for the period	6 578	6 626
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	2	(2)
Total comprehensive income for the year	6 580	6 624
Profit for the year attributable to:		
equity holders of the parent	6 578	6 626
Total comprehensive income for the year attributable to:		
equity holders of the parent	6 580	6 624
EARNINGS PER SHARE (CENTS)		
- Basic earnings per share	9.62	9.69
- Headline earnings per share	9.77	9.66

Abridged Group Statement of Financial Position

	At 31 Dec 2016 Unaudited USD '000	At 30 June 2016 Audited USD '000
ASSETS		
Non-current assets		
property, plant and equipment	45 278	45 644
other non-current assets	7 145	4 487
	52 423	50 131
Current assets		
inventory	39 664	49 042
trade receivables	40 939	28 320
other receivables	11 110	3 176
assets held for sale	157	157
cash and cash equivalents	7 718	9 166
	99 588	89 861
Total assets	152 011	139 992
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non-distributable reserves	(11)	(13)
distributable reserves	90 427	87 686
Total shareholders' equity	91 100	88 357
Non-current liabilities		
deferred tax liability	8 459	8 180
	8 459	8 180
Current liabilities		
interest-bearing borrowings	9 477	7 245
trade and other payables	42 318	35 632
provisions	568	538
current tax liability	81	32
liabilities relating to assets held for sale	8	8
	52 452	43 455
Total liabilities	60 911	51 635
Total equity and liabilities	152 011	139 992

Abridged Group Statement of Cash Flows

	6 Months Ended 31 Dec 2016 Unaudited USD '000	6 Months Ended 31 Dec 2015 Unaudited USD '000
Cash generated from operating activities	4 301	5 660
net interest paid	(281)	(295)
tax paid	(1 531)	(1 634)
Total cash generated from operations	2 489	3 731
Investing activities		
purchase of property, plant and equipment to expand operations	(1 245)	(805)
purchase of property, plant and equipment to maintain operations	(858)	(1 590)
other cashflows from investing activities	(229)	(166)
Net cash outflow from investing activities	(2 332)	(2 561)
Net cash inflow before financing activities	157	1 170
Financing activities	2 232	6 474
Dividend paid	(3 837)	(3 181)
Net decrease/increase in cash	(1 448)	4 463
Cash and cash equivalents at the beginning of the period	9 166	8 746
Cash and cash equivalents at the end of the period	7 718	13 209
Cash and cash equivalents comprise		
cash and short term deposits with related parties	7 718	13 209
	7 718	13 209

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 2015	684	(10)	79 897	80 571
profit attributable to equity holders of the parent	-	-	14 273	14 273
dividends paid	-	-	(6 484)	(6 484)
transfer of foreign currency reserve	-	(3)	-	(3)
Balance at 30 June 2016	684	(13)	87 686	88 357
profit attributable to equity holders of the parent	-	-	6 578	6 578
dividends paid	-	-	(3 837)	(3 837)
transfer of foreign currency reserve	-	2	-	2
Balance at 31 December 2016	684	(11)	90 427	91 100

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 & Distribution USD '000	Properties USD '000	Inter segment adjustments USD '000	Total USD '000
Revenue				
31 December 2016	165 012	1 047	(1 080)	164 979
31 December 2015	170 865	1 062	(950)	170 977
Operating profit before depreciation and amortisation				
31 December 2016	8 008	648	-	8 656
31 December 2015	9 945	576	-	10 521
Depreciation and amortisation				
31 December 2016	(1 192)	(274)	-	(1 466)
31 December 2015	(1 093)	(269)	-	(1 362)
Net Interest Expense				
31 December 2016	(478)	196	-	(282)
31 December 2015	(548)	253	-	(295)
Profit before tax				
31 December 2016	7 866	570	-	8 436
31 December 2015	8 304	560	-	8 864
Segment assets				
31 December 2016	114 930	43 579	(6 498)	152 011
30 June 2016	110 800	35 832	(6 640)	139 992
Segment liabilities				
31 December 2016	(61 647)	(5 762)	6 498	(60 911)
30 June 2016	(53 265)	(5 009)	6 639	(51 635)
Capital expenditure				
31 December 2016	1 285	818	-	2 103
31 December 2015	2 166	229	-	2 395

	6 Months Ended 31 Dec 2016 Unaudited USD'000	6 Months Ended 31 Dec 2015 Unaudited USD'000
3 Depreciation and amortization	1 466	1 362
4 Bank overdrafts	-	-
5 Capital expenditure for the period	2 103	2 395
6 Future lease commitments		
Payable within one year	76	489
Payable two to five years	-	38
7 Commitments for capital expenditure		
Contracts and orders placed	621	396
Authorised by Directors but not contracted	9 116	7 004
	9 737	7 400
The capital expenditure is to be financed out of the Group's own resources and existing borrowing facilities.		
	31 Dec 2016 Unaudited USD'000	31 Dec 2015 Unaudited USD'000
8 Other non-current assets		
Intangible assets	1 516	1 516
Investment in associates	4 382	2 854
Loan receivable	889	-
Other financial assets	358	117
	7 145	4 487

9 Interest bearing borrowings

Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 7% 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.

10 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 2016 Unaudited USD'000	6 Months Ended 31 Dec 2015 Unaudited USD'000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	6 580	6 624
Adjustment for capital items (gross of tax):		
Adjustment for capital items		
Loss / (Profit) on disposal of property, plant and equipment	103	(15)
Tax effect on adjustments	-	4
Headline earnings attributable to ordinary shareholders	6 683	6 613
Number of shares in issue		
Number of ordinary shares in issue	68 400	68 400
Weighted average number of ordinary shares in issue	68 400	68 400
Basic earnings per share (cents)	9.62	9.69
Headline earnings per share (cents)	9.77	9.66

11 Events after the reporting date

There have been no significant events after reporting date at the time of issuing this press release.

12 Contingent Liabilities

The Group had no contingent liabilities at 31 December 2016.