ILLOVO SUGAR (MALAWI) PLC

SUGAR ILLOVO MALAWI

AN ILLOVO SUGAR AFRICA COMPANY

(Incorporated in Malawi on 31 May 1965 under registration number 839)

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2019

	GROUP		COMPANY	
	Audited 2019	Audited 2018	Audited 2019	Audited 2018
FINANCIAL PERFORMANCE				
Condensed consolidated and separate statements of comprehensive income	K'm	K'm	K'm	K'm
Revenue	129,676	141,760	69,532	75,625
Operating profit	20,047	30,197	6,701	10,711
Dividend income	2	31	-	-
Net finance cost	(5,367)	(5,901)	(3,732)	(3,647)
Profit before taxation	14,682	24,327	2,969	7,064
Taxation	(4,599)	(7,878)	(1,130)	(2,624)
Net profit for the year	10,083	16,449	1,839	4,440
Other comprehensive (charges)/income	(80)	605	(48)	605
Total comprehensive income	10,003	17,054	1,791	5,045
Adjusted for:				
Other comprehensive losses/(income)	80	(605)	48	(605)
Headline earnings	10,083	16,449	1,839	4,440
Number of shares in issue ('000)	713,444	713,444		
Weighted average number of shares on which net profit per share is based ('000)	713,444	713,444		
Net profit per share (tambala)	1,413	2,306		
Headline earnings per share (tambala)	1,413	2,306		
Quality of earnings statement				
Operating profit	20,047	30,197		
Adjust for:				
Change in fair value of growing cane	(1,557)	(1,042)		
Operating profit less fair value changes	18,490	29,155		
Business segmental analysis				
Revenue				
Sugar production	66,434	82,588		
Cane growing	63,242	59,172		
	129,676	141,760		
Operating profit				
Sugar production	18,596	29,413		
Cane growing	1,451	784		
	20,047	30,197		
Condensed consolidated and separate statements of financial position				
ASSETS				
Property, plant and equipment	56,144	50,481	39,492	35,899
Investment	463	-	324	324
Non-current assets	56,607	50,481	39,816	36,223
Current assets	104,065	88,375	72,355	60,541
Total Assets	160,672	138,856	112,171	96,764
Shareholders' equity and liabilities				
Shareholders' equity	71,298	60,939	21,930	20,139
Deferred taxation	21,420	19,212	14,485	12,648
Non-current liabilities	220	3,876	188	3,843
Current liabilities	67,734	54,829	75,568	60,134
Total shareholders' equity and liabilities	160,672	138,856	112,171	96,764
Depreciation	5,292	4,057		
Capital expenditure	10,989	14,413		

	GROUP		COMPANY	
	Audited 2019	Audited 2018	Audited 2019	Audited 2018
Condensed consolidated and separate statements of cash flows	K'm	K'm	K'm	K'm
Cash generated from operations before working capital changes	23,809	33,180	8,386	12,800
Working capital requirements	(11,375)	(4,790)	(1,129)	765
Finance costs, taxation and dividends	(9,093)	(13,156)	(7,331)	(2,144)
Net cash inflow from operating activities	3,341	15,234	(74)	11,421
Cash flow used in investing activities	(10,928)	(13,149)	(7,513)	(9,336)
Net cash (outflow)/inflow before financing activities	(7,587)	2,085	(7,587)	2,085
Cash flow used in financing activities	1,218	(9,721)	1,218	(9,721)
Decrease in cash and cash equivalents	(6,369)	(7,636)	(6,369)	(7,636)
Condensed consolidated and separate statements of changes in equity				
Share capital and premium				
Balance at beginning and end of the year	782	782	782	782
Retained earnings				
Balance at beginning of the year	60,048	43,599	19,248	14,808
Net profit for the year	10,083	16,449	1,839	4,440
Balance at end of the year	70,131	60,048	21,087	19,248
Non-distributable reserve				
Balance at beginning of the year	109	(496)	109	(496)
Effect of adoption of IFRS 9	356	-	-	-
Balance as at beginning of the year (restated)	465	(496)	109	(496)
Cash flow hedges	(48)	-	-	-
Fair value loss on revaluation of investment	(32)	605	(48)	605
Balance at end of year	385	109	61	109
Shareholders' equity	71,298	60,939	21,930	20,139

OVERVIEW

During the first half of the year to February 2019, the two estates, Dwangwa and Nchalo experienced flactuating wet and dry weather conditions. Although the inclement weather challenged pest control activities at Nchalo, pleasing cane yields were achieved from the recent field conversions to drip irrigation. Overall agricultural performance on both estates were generally in line with expectations. Smallholder farmers had a mixed season with the Dwangwa growers exceeding forecast while the Nchalo growers were down on the cane crop estimate being significantly impacted by power shortages. Pests, particularly yellow aphid, continued to impact negatively on both own and grower cane.

The financial period under review spans the end of the 2018 crushing season and commencement of the 2019 season. Both mills operated well in the period especially Nchalo with reduced plant downtime and significantly improved extraction rates compared to the prior year. Dwangwa's crop was large and a nominal carryover of cane occurred with wet weather arriving early closing the 2018 season slightly ahead of plan. The 2019 season start-up of estate operations went very well at Nchalo following a well-managed off crop maintainance period. Dwangwa experienced some initial challenges with plant commissioning issues which progressed onto another solid performance in season once again operating at very high levels of extraction. New capital items at both locations were limited to essential business needs alone and were well executed on time and on budget focusing on improved cost, quality and operational efficiencies.

During the year, the on-going quality focus on all sugar products and formats, packing, warehousing and distribution of sugar, continued to deliver positive contribution.

Challenging market conditions, including pre- and post-election civil unrest, continued to be experienced in the commercial sphere with illegal sugar imports continuing unabated despite good support from the Malawi Revenue Authority (MRA) which had run several search and confiscation operations supported by the launch of sensitisation programs aimed at halting the illegal activities. The illegal sugar imports as well as increased competition resulted in a severe impact on the business cash flows and also on taxes paid to the MRA. Sugar sales also faced some challenges to do with export quality, pricing constraints, logistical challenges and increased transport costs. In order to counter some of this negative impact, the commercial and logistics teams have been very adaptive with a revised strategy to enhance sugar direct deliveries to customers and have also embarked on consumer promotional and activation initiatives and an optimised portfolio.

Management prioritised debt reduction and this initiative, coupled with revenue and volume enhancement strategies and on-going cost rationalisation across the entire business value chain to drive business sustainability, continued to be deployed to ensure the development of a business that will meet the needs of all stakeholders and significantly reduce the overall cost of sugar production.

Overall Illovo Malawi's socio-economic impact within the country remained significant in terms of employment, social investment and contribution to the Malawi fiscus.

PROSPECTS

It is expected that normal weather patterns and improvements in power generation by the Electricity Generation Company (Malawi) Limited, should have a positive impact on the agricultural output and factory throughput. In the longer term, the continuing positive effects of the Nchalo agricultural and factory recovery plans, focus on the use of more efficient irrigation systems and factory energy efficiency improvements, together with a focus on plant performance and reliability and packing capability at Dwangwa should show better operational results. Further, the development of strategies to turnaround the financial and operational stability to the smallholder sugarcane farmers, overall on-going business structural changes and upliftment of skill levels across the employee base will result in improved cane crop yields and sucrose content, improved plant reliability and performance and further quality improvements throughout the value chain.

With regards to the commercial environment, the business will continue its various initiatives in the local direct consumption market and extend the delivery footprint to the wider consumer market supported by an on-going focus on product pack sizes, branding, affordability and quality. Sugar exports, into very challenging regional and deep water markets, will continue to be an area of focus for the commercial teams who will strive to optimise value in every ton of sugar sold.

Exchange rates, inflation and interest rate movements, and the debt levels of the company will continue to have a marked effect on overall business profitability. However, the on-going performance, efficiency and cost control strategies that have been implemented, and continue to be deployed, will build real business sustainability and improve operating margins and generate positive free cash flows into the future.

DIVIDEND

Notice is hereby given that a dividend of 50 tambala per share has been declared in respect of the ordinary shares of the company for the year ended 31 August 2019. The dividend is payable on 31 March 2020 to shareholders on the register at the close of business on 13 March 2020.

Gavin Dalgleish
Chairman

Mark Bainbridge
Managing Director

27 November 2019

REPORT OF THE INDEPENDENT AUDITOR ON THE CONDENSED CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF ILLOVO SUGAR (MALAWI) plc

Opinion

The condensed consolidated and separate financial statements, which comprise the condensed statements of financial position as at 31 August 2019, the condensed statements of profit or loss and other comprehensive income, condensed statements of changes in equity and condensed statements of cash flows for the year then ended, and related notes, are derived from the audited consolidated and separate financial statements of Illovo Sugar (Malawi) plc for the year ended 31 August 2019.

In our opinion, the accompanying condensed consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements, in accordance with International Financial Reporting Standards and in compliance with the Companies Act, 2013.

Condensed Consolidated and Separate Financial Statements

The condensed consolidated and separate financial statements do not contain all the disclosures required by International Financial Reporting Standards and requirements of the Companies Act, 2013. Reading the condensed consolidated and separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated and separate financial statements and the auditor's report thereon. The condensed consolidated and separate financial statements and audited consolidated and separate financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated and separate financial statements.

The Audited Consolidated and Separate Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 27 November 2019. That report also includes communication of other key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

Directors' Responsibility for the Condensed Consolidated and Separate Financial Statements

Directors are responsible for the preparation of the condensed consolidated and separate financial statements in accordance with International Financial Reporting Standards and in compliance with the Companies Act, 2013; and for such internal control as the directors determine is necessary to enable the preparation of the condensed consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the condensed consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Ernst & Young
Chartered Accountants (Malawi)

Chiwemi Chihana
Registered Practicing Accountant
2 December 2019

Yambani tsiku lilironse ndi Illovo

TRUSTED ILLOVO QUALITY