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 2020

FINANCIAL PERFORMANCE	GROUP Audited 2020	GROUP Audited 2019	COMPANY Audited 2020	COMPANY Audited 2019
Condensed consolidated and separate statements of comprehensive income	K'm	K'm	K'm	K'm
Revenue	146,953	129,676	80,187	69,532
Operating profit	8,137	20,047	(5,707)	6,701
Dividend income	28	2	-	-
Net finance cost	(3,880)	(5,367)	(2,066)	(3,732)
Profit before taxation	4,285	14,682	(7,773)	2,969
Taxation	(1,546)	(4,599)	2,184	(1,130)
Net profit for the year	2,739	10,083	(5,589)	1,839
Other comprehensive losses	(140)	(80)	(162)	(48)
Total comprehensive income	2,599	10,003	(5,751)	1,791
Adjusted for:				
Other comprehensive losses	140	80	162	48
Headline earnings	2,739	10,083	(5,589)	1,839
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)	384	1,413		
Headline earnings per share (tambala)	384	1,413		
Dividend per share (tambala)	200	50		
Quality of earnings statement				
Operating profit	8,137	20,047		
Adjust for:				
Change in fair value of growing cane	4,800	(1,557)		
Operating profit excluding fair value changes	12,937	18,490		
Business segmental analysis				
Revenue				
Sugar production	102,204	66,434		
Cane growing	44,749	63,242		
	146,953	129,676		
Operating profit				
Sugar production	25,580	18,596		
Cane growing	(17,443)	1,451		
	8,137	20,047		
Condensed consolidated and separate statements of financial position				
ASSETS				
Property, plant and equipment (including Right of use - assets)	58,056	56,144	40,520	39,492
Investment	494	463	324	324
Non-current assets	58,550	56,607	40,844	39,816
Current assets	87,823	104,065	63,162	72,355
Total Assets	146,373	160,672	104,006	112,171
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	71,874	71,298	15,179	21,930
Taxation	19,059	21,420	11,967	14,485
Non-current liabilities	2,070	220	1,034	188
Current liabilities	53,370	67,734	75,826	75,568
Total Shareholders' Equity and Liabilities	146,373	160,672	104,006	112,171
Depreciation	8,109	5,292		
Capital expenditure	6,190	10,989		

	GROUP Audited 2020	GROUP Audited 2019	COMPANY Audited 2020	COMPANY Audited 2019
Condensed consolidated and separate statements of cash flows	K'm	K'm	K'm	K'm
Cash generated from operations before working capital changes	21,855	23,809	3,347	8,386
Working capital requirements	7,933	(11,375)	19,505	(1,129)
Finance costs and taxation	(6,225)	(9,093)	(2,610)	(7,331)
Net cash flows from operating activities	23,563	3,341	20,242	(74)
Net cash flows used in investing activities	(6,126)	(10,928)	(4,831)	(7,513)
Net cash flows before financing activities	17,437	(7,587)	15,411	(7,587)
Cash flows used in financing activities	(4,107)	1,218	(2,080)	1,218
Increase / (decrease) in cash and cash equivalents	13,330	(6,369)	13,331	(6,369)
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	70,131	60,048	21,087	19,248
Effect of adoption of IFRS16 *Leases*	(1,666)	-	(643)	-
Balance at beginning of the year (restated)	68,465	-	20,444	-
Net profit for the year	2,739	10,083	(5,589)	1,839
Dividends paid	(357)	-	(357)	-
Balance at end of the year	70,847	70,131	14,498	21,087
Non-distributable reserve				
Balance as at beginning of the year	385	465	61	109
Cash flow hedges	(162)	(48)	(162)	(48)
Fair value gain / (loss) on revaluation of investment	22	(32)		
Balance at end of year	245	385	(101)	61
Shareholders' equity	71,874	71,298	15,179	21,930

Overview

The financial period under review spans the end of the 2019 crushing season and the commencement of the 2020 season.

In terms of operations for the year from September 2019 to August 2020 agricultural and factory operations progressed satisfactorily at both estates despite much drier weather than normal being experienced at the beginning of the year and Nchalo experiencing some plant mechanical problems towards the end of the previous crushing season in late November 2019. Overall, more favourable weather conditions together with an improved power supply from the Electricity Generation Company (EGENCO) with the increased lake and river levels supported our agricultural focused efforts to deliver an improved cane harvest and quality of crop. Pleasing cane yields continued from the drip irrigation conversions at Nchalo. However, yellow aphid, mielie bug and leaf roller infestations were cause for concern and again resulted in costly pest control measures. Grower cane yields at both estates also exceeded expectations and the business continued to deploy detailed strategic recovery plans to actively assist our grower community restore operational and financial stability. Despite the declaration of the COVID-19 pandemic as a National Disaster in Malawi by the then State President on 30 March 2020 and the subsequent implementation of lockdown measures in South Africa where most of our equipment and consultants needed for off-crop maintenance are sourced from, both plants managed to start up for the 2020 crushing season with Dwangwa starting up on scheduled time on 16 April 2020 while Nchalo had a two week delay and only started up on 2 May 2020 due to the delays in the delivery and installation of critical equipment like the shredder turbine arising from the effects of COVID-19 lockdown measures in South Africa and neighbouring countries. The onsite engineering teams overcame the challenges of commissioning mill equipment that is normally installed by specialist personnel from the original equipment manufacturers, with remote support. Once commissioned for start-up both mills have had a remarkable season and have exceeded expected performance with the Dwangwa mill breaking several long held records in the process. Strategic initiatives at both operations continue to deliver continuous improvement across the business with generally better factory throughputs, improved levels of production and time account performance coupled with an ongoing in-depth focus on product quality.

The focus on safety of all our employees and contractors deployed within the business and the surrounding communities remained a key area of attention. In terms of employee and contractor health, task force teams were put in place at each site to establish facilities and to develop policies and procedures, with a very regular cadence of meetings, to deal with all matters related to the global COVID-19 pandemic. Security issues at the sites remained an area of concern with frequent incidents of theft and increasing cases of assault of company employees.

Domestic sugar sales during the year were at times challenging against a background of the ongoing influx of informal sugar imports from neighbouring countries, notably Mozambique and Zambia, exacerbated by the weakening of domestic currencies in these bordering countries. Close engagement continued with both Government and the Malawi Revenue Authority (MRA) officials aimed at addressing these challenges which negatively impacted the profitability of the company as well as reducing the revenues for growers for their sugarcane sales. The illegal sugar trade also adversely impacted business cash flows and consequently on payments to the MRA.

The commercial and logistics teams were very adaptive with a revised strategy to enhance sugar direct deliveries to customers. Further to that they also embarked on consumer promotional and activation initiatives with an optimised product portfolio. The company launched a promotion in mid-December 2019 which resulted in a reduction of its domestic sugar pricing in order to stimulate domestic sugar demand and help stem the influx of informal sugar imports. The end of the promotion in early March 2020 saw the group entrenching the 13.5% price rebase on domestic pre-packs. The price rebase resulted in a remarkable drop in sugar sales revenues and a loss in the fair value of growing cane but was mitigated by an increase in sugar sales volumes. These initiatives were further supported by the recently launched route to consumer strategic initiative to improve overall product offering and availability.

Export sugar revenues were also below expectation primarily as a result of logistical challenges with our main shipping lines arising from rehabilitation works taking place at the port of Nacala. In the second half of the year COVID-19 border formalities also hindered formal crossborder sugar trade. The export sales teams pursued every sales opportunity to ensure a continued flow of cash and much needed foreign currency into the business. In terms of quality of product and approach to service, the focus on the production, packing and storage of sugar proved to be positive, building on previous gains and initiatives.

With our ongoing focus on debt reduction, coupled with revenue and volume enhancement strategies as well as ongoing structural and cost rationalisation initiatives across the entire business value chain to drive business sustainability, positive results were realized. The initiatives continue to drive down the overall cost of sugarcane growing and sugar production and ensures the development of a business that meets the needs of all stakeholders. The reduction of debt levels and a decrease in domestic interest rates resulted in net finance costs decreasing. During the year under review the company also successfully implemented a new operating model and restructured its managerial positions at all the three locations. The group also continued with its efforts to implement identified opportunities and deploy strategies aimed at sustainably resetting the overall cost base of the business along the entire value chain to augment overall profitability. These efforts continue to deliver expected results. New capital items at both locations were limited to essential business needs and were well executed on time and on budget focusing on improved cost, quality and operational efficiencies.

Prospects

The continuing positive effects of the Nchalo agricultural recovery plans, the ongoing structural changes within the agronomy sections at both estates, together with a return to more normal weather patterns and continuing improvements in EGENCO electricity supply, coupled with the ongoing focus on grower sustainability and viability, should continue to impact positively on overall agricultural performance on both own and smallholder farmer operations. In terms of milling operations, both Dwangwa and Nchalo factories will continue to address plant operational and performance parameters to build on the good work presently underway in terms of milling capacity and reliability.

On the commercial front 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 ongoing focus on the route to consumer strategy including affordability, quality and warehousing and logistics. Sugar exports, into very challenging regional and deep water markets, compounded by the COVID-19 related logistical challenges, will continue to be an area of focus for the commercial teams who will strive to optimise value in every ton of sugar sold and will develop markets to fully exploit all revenue growth opportunities.

The country's economic environment including inflation, exchange and interest rate fluctuations together with the internal debt levels of the company, exacerbated by effects of the COVID-19 pandemic, will continue to have a marked effect on overall business profitability. Ongoing performance, efficiency and cost control strategies that have been implemented, and continue to be deployed, will drive down the overall cost of production, improve operating margins into the future to build real business sustainability and deliver positive free cash flows. This will be underpinned by the continuing rationalisation and upliftment of skills and performance levels across the entire workforce.

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

Dividend

Notice is hereby given that at the forthcoming annual general meeting, the board of directors will be recommending that a dividend of 200 tambala per share be declared in respect of the ordinary shares of the company for the year ended 31 August 2020 (31 August 2019: 50 tambala per share). The dividend will be payable on 31 March 2021 to shareholders on the register at the close of business on 12 March 2021.

Gavin Dalgleish
Chairman

Lekani Katandula
Managing Director

25 November 2020

Report of the Independent Auditor on the Condensed Consolidated and Separate Financial Statements of Illovo Sugar (Malawi) plc

EY
Building a better working world

Opinion

The condensed consolidated and separate financial statements, which comprise the condensed statements of financial position as at 31 August 2020, the condensed statement 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 2020.

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 26th November 2020. That report also includes communication of other key audit matters. Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the consolidated and separate 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 Standards on Auditing (ISA) 810 (Revised), Engagements to report on Summary Financial Statements.

Ernst & Young

Chartered Accountants (Malawi)

Chiwemi Chihana
Registered Practicing Accountant

30th November 2020

Yambani tsiku lilironse ndi Illovo

TRUSTED ILLOVO QUALITY