Dairibord Holdings
More Than Just Milk

TRADING UPDATE

For the First Quarter Ended 31 March 2022

Nutritious Foods and Beverages for the Sustenance of Good Health

OPERATING ENVIRONMENT

During the quarter under review, the operating environment was marred by rising inflation which was a product of imported inflation, exacerbated by the Russia – Ukraine war as well as the devaluation of the Zimbabwe Dollar. Year on year inflation for March stood at 72.70%, which was an increase from 60.7% recorded in December 2021. The lower than expected rains in the 2021/2022 agricultural season has curtailed the economic prospects and projections for industry in 2022. However, firm global commodity prices in the quarter have improved foreign currency inflows, mitigating the impact. In light of the foregoing, the business continued to pursue a low-cost, high volume, and value preservation strategy.

During the quarter, the COVID-19 pandemic was reasonably contained in Zimbabwe, allowing businesses to operate largely uninterrupted compared to the same period in the prior year in spite of new variants emerging globally. COVID-19 mitigation remained a key focus at both the national and company levels. All of Dairibord's staff had received the first and second COVID-19 vaccine shots as at 31 March 2022.

PERFORMANCE

The performance commentary in this update is based on historical cost financial information.

Raw Milk

The company's raw milk utilised remained firm over the period and accounted for 33% of raw milk utilised by processors. Farmers were not spared from the inflationary impacts of increasing costs of fertilizer, fuel, and other inputs. Dairibord persisted in supporting farmers with regular raw milk price adjustments in line with their cost build-up to ensure they remain viable and poised for volume recovery. Dairibord also continued to support farmers' growth plans by arranging guaranteed and subsidised loan facilities for capital expenditure to fund herd growth and re-tooling as well as working capital financing.

Sales Volumes

Sales volumes for the period at 23 million litres were 17% above the same period in 2021, with Foods and Beverages increasing by 29% and 31%, respectively. Liquid Milks sales fell by 4% due to plant unavailability on the UHT line which was under commissioning. Demand for our products remained strong with the business not being able to fully satisfy the market across all product categories. The commissioning and optimisation of several capital projects, aimed at increasing product supply, was in progress during the period, particularly in the Liquid Milks and Beverages category.

The business maintained the focus on foreign currency generation to improve the capacity to procure raw and packaging materials. Resultantly, volumes sold in foreign currency grew 186% and accounted for 40% of total sales volumes up from 17% in 2021 with exports accounting for 8% (4% in 2021) and domestic forex sales accounting for 32% (13% in 2021).

Revenue and Profitability

Revenue of ZW$ 3,9 billion for the period under review represented a 129% growth over prior year, due to positive price and volume performance. Export revenue grew by 149% over the same period last year while domestic US$ revenue grew by 190%. Overall, foreign currency revenues grew by 182%.

Operating profit grew by 48% above the prior year. However, operating margins remained under pressure due to high input costs of both domestic and foreign supplies. Global crude oil price increases had a material impact on raw and petroleum-based packaging material and transport costs. Furthermore, the cost of milk powders increased in the world markets resulting in a cost-push on milk and other dairy products. Utilities, labour and financing costs were also significant cost drivers.

OUTLOOK

A combination of the continued depreciation of the ZW$ and hyperinflation pose a threat to business performance. Notwithstanding, it is anticipated that interventions put in place by Government and the Reserve Bank to cushion business from external shocks and stabilise the foreign exchange markets, if successful, may go a long way to curtailing inflation and local currency devaluation.

However, the decision to increase the Bank Policy Rate from 60% to 80% will result in a high-interest burden for the productive sector that requires affordable funding rates to remain viable. Improved performance is expected in Q2 compared to Q1, on the back of firm demand for our brands coupled with improved supply stemming from capital investments that are starting to generate returns. There will also be focus on the Foods category that is high-margin and high-value to bolster profitability.

Despite the prevailing environment, the company remains solvent with assets exceeding liabilities as at 31 March 2022. The company has mapped out germane strategies to ensure business continuity into the foreseeable future while protecting value in an operating landscape that remains onerous.

By Order of the Board

S. Punzisani
Company Secretary
4 May 2022

Directors: J. Sachikonye (Chairman), *A. Mandiwanza (Group Chief Executive), C. Mahembe, S. Chindove, R. P. Kupara, *M. R. Ndoro (Finance Director), N. Chiromo, C.R.J. Hawgood, K.K. Naik * Executive.