Hippo Valley Estates Limited





TRADING UPDATE FOR THE FIRST QUARTER ENDED 30 JUNE 2024

Operating Environment

The quarter under review was largely characterized by changes which came through the 2024 monetary policy framework that was pronounced shortly after the Company's year-end. The policy measures were targeted to curb exchange rate and price volatility, and ultimately reduce USD dominance in the long term. One of the major developments was the introduction of a new currency named the Zimbabwe Gold (ZiG), which has since been assigned a new currency code 'ZWG'. At the onset, the exchange rate between the ZWG currency and the USD was ZWG1: USD13.56 and this eventually closed the quarter on 30 June 2024 at ZWG1: USD14.39. The Company has to date complied with all the directives of the 2024 Monetary Policy Statement and focus remains on ensuring all operations adapt to the current trading environment.

However, currency dynamics have had a negative effect on the cost of doing business as the Company is currently experiencing a mismatch between the ZWG and USD on revenues and expenditure where the currency mix on revenues is currently showing a decrease in USD denominated sales and an increase in ZWG denominated sales while providers of goods and services are currently preferring settlement more in USD than what the Company is able to generate from the normal sales. At the beginning of the current year, the Company adopted the USD as the reporting currency, and will continue assessing and monitoring the level of its dominance for further guidance and implementation. With this development, the Company will therefore no longer be applying the provisions of IAS 29 *hyperinflation*.

Notwithstanding that the country experienced El Nino induced weather patterns, the Industry was generally not adversely affected due to adequate irrigation water from the supplying dams, save for Mkwasine area servicing private farmers where the water cover is less than a year.

Operational Performance

Area under cane

	Company	Private Farmers	Total
Change	1% ↑	2% ↑	1% ↑
Jun-24	10 768	12 288	23 056
Jun-23	10 706	12 101	22 807

Sugar cane yield per hectare (tons)

	Company	Private Farmers
Change	3% ↑	1% ↑
Jun-24	106.9	79.0
Jun-23	103.9	78.0

Sugar cane production (tons)

	Company	Private Farmers	Total
Change	3% ↑	18% ↑	9% ↑
Jun-24	297 902	221 184	519 086
Jun-23	288 923	186 806	475 729

Sugar production (tons)

	Company	Industry
Change	6% ↑	10% ↑
Jun-24	61 069	124 059
Jun-23	57 427	113 171

Cane to Sugar ratio*

Change	3% ↓
Jun-24	8.50
Jun-23	8.28

*Tons of cane required to be crushed to produce one ton of sugar.

The increase in Company sugar cane production was driven by a combination of better yields, increased harvesting targets in line with total cane delivery projections which are expected to exceed prior year, a more consistent rate of delivery of sugar cane and improved mill uptime. Private farmer performance increased following early cane deliveries unlike prior year that was affected by delays emanating from late conclusion of supply agreements.

With the successful off-crop (annual) maintenance to ensure more plant reliability, the mill is performing optimally with good crush rates ahead of target and better than prior seasons.

Sales and Marketing Performance

Industry sales volumes

	Domestic	Export	Total	Company's share
Jun-24	81 626	3 385	85 011	49.9%
Jun-23	87 816	3 423	91 239	52.0%
Change	7% ↓	1% ↓	7% ↓	2.1% ↓

Domestic sales for the quarter dropped by 7% in comparison to the prior period, with the spill over effects of duty-free sugar imports still noticeable during the period under review. This is despite the repeal of Statutory Instrument 80 of 2023 that came into effect from 1 February 2024. In addition, sales performance was impacted by a slow start from the country's sugar refineries, but this has since recovered. The Company believes that with the good start in sugar production, positive milling performance and continuous engagements with the authorities, there will be no need for the reintroduction of duty-free sugar imports in the current and ensuing years.

The decrease in export sales volume for the industry was mainly a result of deliberate prioritisation of the domestic market in the first quarter to ensure consistent product availability to all local consumers and customers. The industry is on course to fulfill all critical export commitments. The industry has adequate sugar to satisfy both the local and export requirements.

Safety, Health and Environment (SHE)

No Lost Time Injuries (LTIs) or fatality incidents were recorded during the first quarter, compared to 2 LTIs (and zero fatalities) recorded during the same period in prior year.

Regrettably, post the reporting period, a fatal incident was recorded when a crane operator employed by a third party contracted by the Company to offer cane loading services fell and was run over by the crane. Action plans, including termination of the contract with the concerned company have been implemented to reduce chances of recurrence of a similar incident and all SHE requirements per set standards to be met before being reconsidered for a contract. In addition, audits are being carried out to ascertain SHE compliance levels of all contractors on site with a view of correcting all deviations identified.

Financial Performance

Revenue realised at the end of the first quarter grew by 15% on the back of better sales mix and price realisations despite the drop in overall sales volumes. However, the increase in revenue was not sufficient to offset the increase in the cost of doing business particularly in respect of manpower and cane costs.

Outlook

Looking ahead, the Company expects better returns augmented by improved agricultural output, positive mill performances and an enhanced commercial re-engineering, supported by our operational experience from overcoming last year's challenges and strong economic recovery in line with measures implemented through the recent 2024 monetary policy statement. The Company assures adequate sugar stocks for the year including meeting all critical sugar sales requirements before the commencement of the next season, to cover the domestic market first and then critical export market demands.

As stated above the drought experienced will not affect the industry's anticipated current year performance. Regards the Mkwasine private farmers, plans were implemented at industry level to rationalize water supplies from the affected dams in order to mitigate the impacts on the crop.

While the introduction of the new currency (ZWG), has demonstrated its potential to anchor the economy through stabilisation of prices, and restoring confidence, there is currently a cashflow mismatch between the two major trading currencies (ZWG & USD) which is resulting in limited USD denominated receipts than required for critical imports and other local supplies which are currently priced in USD. The Company continues to engage customers and suppliers of goods and services for a win-win currency mix on settlement to ensure business viability and sustainability.

At the beginning of the current year, to navigate through operational dynamics and ensure business sustainability, the Company launched 'Project Zambuko', an initiative focused on enhancing operational efficiency, commercial excellence and maximising opportunities to reduce costs. The Company remains resilient and focused on improving performances to ensure targets are met as the year progresses, while closely watching the effects of recent policy measures.

By Order of the Board

CF Dube
Chairman

RT Masawi
Chief Executive Officer

16 August 2024

DDH&M_HPV 16450