Quality through generations

KHAYAH CEMENT LIMITED

2023 FINANCIAL YEAR TRADING UPDATE

I am delighted to present the Trading Update for Khayah Cement Limited (the Company) for the period 1 January 2023 to 31 December 2023.

TRADING ENVIRONMENT

The 2023 financial year witnessed the implementation of policies and pronouncements by fiscal and monetary authorities which were aimed at fostering stable and sustainable exchange rates and stabilising swings in inflation rates through boosting demand for local currency in the multi-currency economy. The policies and pronouncements were also aimed at growing the domestic economy in line with the milestones envisaged in Vision 2030. The combined effect of these policies and pronouncements saw the deceleration of annual inflation from 243.8% at the end of December 2022 to 26.5% at the end of December 2023.

Power supply remained relatively constant throughout the year although power voltage fluctuations continued to affect the smooth operation of the manufacturing plant and equipment. The high power costs, compared to neighbouring Zambia, continue to pose a significant financial challenge.

BUSINESS CONTEXT

On 23 December, 2022, the Company lodged an application with the Zimbabwe Stock Exchange for the temporary suspension of trading of its shares. The application was granted on 13 January, 2023. This was done to preserve shareholder value after economic measures were pronounced against a related party.

After the exit of Associated International Cement Limited in November 2022, Shareholders approved the change of the Company's name from Lafarge Cement Zimbabwe Limited to Khayah Cement Limited at the Extraordinary General Meeting held on 7 July 2023. The Company embarked on a short-term rapid high-impact plan, which was implemented at the beginning of the first quarter of 2023. The plan successfully achieved the key objective of stabilising the business during the first half of the year. This program involved critical capital projects such as improved packing capacity at the GML line, investment in improved state-of-the-art laboratory equipment for quality control, and a fleet of bulk tankers to service large construction projects. The Company, however, implemented a change in the main business model from the Integrated Value Chain (mining, crushing, hauling, burning and grinding) to a Grinding Station (grinding outsourced clinker) during the second half of the year. This strategic shift was imperative given the decision made to mothball the kiln mainly influenced by frequent and costly breakdowns coupled with the need to invest in the Kiln Shutdown Maintenance that was three years overdue.

VOLUME & FINANCIAL PERFORMANCE

Business performance was generally on an upward trend in the period under review as total volumes across the board grew by 38%. Net sales in inflation-adjusted terms increased from ZWL117 billion in 2022 to ZWL240 billion in 2023 in line with improved production volumes across the business.

CEMENT BUSINESS

The Company's industrial performance increased with the installation of the Vertical Cement Mill in Q3 of 2022. Cement sales volumes therefore closed 34% above the same period in the prior year. Production performance was largely negatively impacted by power quality challenges as well as equipment breakdowns, particularly at the kiln. One of the positive spin offs of the short-term rapid impact plan was to grow bulk cement volume contribution which increased from 1% in the prior year to 4% in the period under review. This growth is also in line with the Company's strategy of penetrating the bulk cement market.

Clinker production volumes though declined by 21% mainly due to the mothballing of the kiln in the last half of the year.

DRY MOTOR PRODUCTS

The dry motor product sales volumes grew by 153% above the same period last year. Growth in dry mortar products was partly driven by the strong demand for the agricultural lime range Supagrow in the Government co-ordinated agriculture program, Pfumvudza, which absorbed 33.7kt of the product during the period under review. The key area of focus during the period under review was implementation of new cost-effective product formulations in order to enhance competitiveness in the market.

AGGREGATES

The aggregates sales volumes registered a 164% volume growth during the period under review buoyed by penetration into new CPM (Concrete Products Manufacturers) and Contractor markets. The positive growth trajectory is expected to continue in the short to medium term.

KEY ISSUES AFFECTING THE BUSINESS

The Company experienced a number of costly breakdowns of the kiln largely caused by the three-year postponement of the kiln maintenance shutdown due to working capital constraints. Consequently, a strategic decision was taken to mothball this plant during the last quarter of 2023 and focus on a grinding station model whilst the kiln is being repaired. A total of 1,000 hours were lost as a result of the unplanned breakdowns which in turn impacted negatively on both clinker, cement production and sales volumes and with it profits and cash generation.

The Company continues to face unfair competition from cheaper cement imports. This has impacted general market preference of products due to pricing which further disadvantages local players. However, the Government's efforts to protect the local industry from imports are highly commendable and appreciated.

Despite these challenges, the Company managed to grow sales volumes by 38% across the board.

CHANGES IN EXECUTIVE AND NON-EXECUTIVE DIRECTORS

In December 2022, the Company announced the resignations of Mr. Geoffrey Ndugwa as the Chief Executive Officer as well as that of Mr. Amr El Mouwafy as Chief Finance Officer. Both executives also resigned from the Board of Directors. Mr. Innocent Chikwata was appointed as Acting Chief Executive Officer, while Mr. Willcort Dzuda was appointed as Acting Chief Finance Officer. Their respective positions were made substantive on 1 April 2023 and they were also appointed onto the Board of Directors on the same day.

Mr. John William Stull also resigned from the Board with effect from 1 December 2022. Mrs. Gloria Eva Zvaravanhu and Mr. Shepherd Shonhiwa resigned from the Board with effect from 19 December 2022 and 31 December 2022 respectively. Ms. Sabinah Nyarai Chitehwe and Engineer Tendai Noah Howard Kapumha were appointed as independent non-executive directors with effect from 1 March 2023.

PUBLICATION OF AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

The company experienced a myriad of challenges which consequently resulted in the delay in publishing audited financial statements for the year ended 31 December 2022. The audited results are now expected to be published by 30 June 2024.

OUTLOOK

We welcome and support efforts by Government and regulatory agencies to stabilise the macroeconomic environment and maintain the viability of the cement industry. The need to regulate cement imports, bring inflation under control, address the electricity shortages, and improve the state of the global economy are likely to dominate the Company's performance for the year 2024. The Company will also continue to meet the market demand for its products and to adapt its business strategy so as to thrive in the ever-changing environment.

Encouraging signs are being observed in the individual household sector and Government-funded infrastructure projects. There are also high hopes of the Government continuing to be heavily involved in growing the local agricultural sector in line with the milestones set in Vision 2030. The Company is uniquely positioned to support these Government-driven initiatives through its Dry Mortar Products, which include agricultural lime. In the circumstances, the Directors are satisfied with the positive trend in production, sales and profitability recovery despite power voltage fluctuations and that overall performance will continue improving going forward.

By order of the Board of Directors

Arnold Z. Chikazhe
Company Secretary & Legal Advisor
14 June 2024

KHAYAH
Formerly Lafarge Cement Zimbabwe

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