Delta Corporation LIMITED

Trading Update

FOR THE FIRST QUARTER ENDED 30 JUNE 2024

The Company hereby issues a business update for the first quarter ended 30 June 2024.

CONDOLENCES – LATE MR. STERNFORD MOYO

Our late former Chairman Mr. Sternford Moyo passed away on 5 July 2024. The Board, Management and staff express its condolences to the family, friends and colleagues of Mr. Moyo. He was appointed to the Board and as Chairman of the Company in July 2021 but had been associated with the Group for many years as a member of the Scanlen and Holderness legal team and a director at subsidiary entities. It's a great loss particularly for the legal profession and corporate leadership.

OVERVIEW OF OPERATING ENVIRONMENT

The key developments in the quarter under review include introduction of the new Zimbabwe Gold (ZiG) currency and the impact of policy changes from the 2024 fiscal budget, such as the sugar tax and route to market regulations. These factors were further compounded by significant economic repercussions from the drought.

The ZiG exchange rate remained stable during the quarter, despite inherent economic and structural pressures affecting the currency's implementation. The formal sector experienced a reduction in foreign currency inflows from trading and banking channels. Additionally, formal trade channels saw a significant increase in trade volumes in ZiG, increasing pressure on the banking sector to allocate foreign currency.

The economy has been adversely affected by lower mineral prices and reduced agricultural output due to the El Niño-induced drought. Specifically, the 2024 tobacco output was reported to have declined by 27% in volume and 15% in value compared to the prior year. Mitigating factors include increased output of certain minerals, resilient Diaspora remittances, and the expansionary effect of the ongoing government infrastructure development projects.

In South Africa, general elections were held during the quarter but did not generate meaningful spending. There were reduced power supply disruptions, with the Rand trading within a narrow range. The future of the economy will depend on the Government of National Unity inaugurated in July 2024.

Zambia has been affected by drought and the depreciation of the Kwacha. However, there was relative currency stability following the resolution of the debt rescheduling program with international lenders. There has also been a surge in utility supply disruptions.

VOLUME PERFORMANCE

Lager Beer

Lager beer volume grew by 9% for the quarter compared to the previous year. This growth is attributed to strong demand and a consistent supply of brands and packs. There were increased consumer activations with a focus on sporting and other social events. The manufacturing platform remains stable, benefiting from recent investments and focused maintenance efforts.

Sorghum Beer

Sorghum beer volume in Zimbabwe declined by 10% for the quarter compared to the previous year. This reduction was due to the cessation of exports to regional markets following the completion of capital projects in those countries and the onset of the drought. The category is also impacted by competition from hard spirits, our own increased lager beer supply, and investments by competitors in the same category. The sorghum beer category is the most affected by the drought due to lower consumer disposable incomes in rural markets and cost pressures on key cereals such as maize and sorghum.

Volume at Natbrew Zambia declined marginally by 2% due to setbacks related to power and water supply disruptions and prolonged plant breakdowns. The focus remains on stabilising the manufacturing platform and optimising the route to market. Operating margins remain under pressure due to the high cost of maize and the depreciation of the Kwacha.

Volume at United National Breweries South Africa remained flat compared to prior year as the business transitioned to self-reliance on Chibuku Super following the commissioning of the new plant. There were some disruptions to operations during the quarter due to labour union activities. Crime continues to negatively impact day-to-day operations on certain routes. However, the penetration of Chibuku Super into new trade channels and the recruitment of new consumers is encouraging. The carbonated product offering has been expanded to include our regional brands.

Sparkling Beverages

The Sparkling Beverages volume grew by 11% for the quarter, benefiting from a delay in the implementation of the sugar tax-induced price increases and intense marketing campaigns. Generally, the sector's competitiveness has been affected by the relatively higher sugar tax, resulting in increased informal imports of similar offerings from neighbouring countries.

Wines and Spirits

African Distillers Limited (Afdis) recorded a volume growth of 6% for the quarter compared to the previous year, benefiting from improved product supply and some price moderations. However, there is concern about the increase in informal imports and the prevalence of illicit offerings.

Associate Entities

Schweppes Holdings Africa Limited recorded a volume decline of 12% for the quarter, primarily due to significant price increases resulting from the sugar tax, which particularly affected cordials. The sector is further weighed down by a surge in informal imports of the flagship Mazoe Orange Crush from regional markets, driven by the price disparity created by the new tax. Volume was also impacted by disruptions in the route to market arising from the fiscal regulations. However, there was an encouraging recovery in juice drinks and bottled water volume following the installation of the new plant in October 2023.

Volume at Nampak Zimbabwe Limited remained steady, following trends in key customer segments. There is a focus on addressing gaps in the supply of key inputs and stabilising the manufacturing platform.

FINANCIAL PERFORMANCE

The Group adopted the US Dollar as the reporting and functional currency effective 1 October 2023. The comparative figures were restated to US Dollars in line with International Financial Reporting Standards (IFRSs).

Group revenue grew by 23% for the quarter compared to the restated prior year figures. The distortions arising from the restatement of prior year inflation adjusted numbers to comply with IFRSs show a high revenue increase compared to an indicative 3% on management based estimate. Collections of foreign currency through domestic sales have declined from an average of 80% in the prior year to 65% following the introduction of the ZiG currency and the strict enforcement of dual pricing at official exchange rates in the formal retail sector. While some modest gains have been realised through the willing buyer, willing seller arrangement, this area remains a key focus in accessing the much-needed foreign currency to meet the Group's requirements and the deployment of the increased ZiG inflows.

UPDATE ON TAX MATTERS

As previously reported, there were areas of disagreement regarding the currency of payment for certain taxes and the methods of splitting the taxes by currency for the period 2019 to 2021. The Zimbabwe Revenue Authority (ZIMRA) issued additional income tax and value-added tax assessments, including penalties and interest against Group entities amounting to US$54,7 million. ZIMRA contends that these amounts should have been paid exclusively in foreign currency and the amounts originally paid to be refunded in the debased nominal values. Whilst the recent court judgments in our case and other similar cases support ZIMRA's position on the matter, there are significant legal and factual issues still to be addressed. ZIMRA is empowered to collect any taxes it deems due under the "pay now, argue later" principle. The Group had accumulated payments amounting to US$7 million as of 30 June 2024 in line with this principle and as per agreed payment plans. We believe any revisions to the payment plan will be rational, taking into account the financial health of the business and the fact that the principal amounts were fully paid in legal tender at the relevant periods, based on the best available interpretation of the legislation. There are also engagements with authorities on trading off some financial instruments that could offset the part of the final amount that becomes payable.

There are still areas that require clarity and adjustment in the assessments raised. Management continues to engage with ZIMRA while appealing certain areas of the assessments and the judgments, with guidance from tax experts and legal counsel. These assessments have a material impact on the Group's operations, if they materialise as per the extant assessments.

There are also administrative matters related to the implementation of the sugar tax on beverages. Although legislative provisions mandating the collection of sugar tax were in place from January, consultations between the government and the beverage industry resulted in transitional measures that delayed the price changes arising from the proposed tax. Management continues to engage with ZIMRA and the government to find a workable solution that recognises the social contract among stakeholders. At this stage, the board cannot estimate the likely outcome or timing of the resolution of these matters.

Following the Supreme Court judgment, the company is in the process of reconciling certain positions with the regulator. The outcome of these engagements will determine the accounting treatment and recognition of the assessments and payments made to date.

OUTLOOK

The fiscal and monetary measures being implemented in Zimbabwe are still in their early stages, requiring policy refinements to ensure the stability of the new currency. The beverage sector, in particular, and indeed the broader market, have been affected by the sugar tax and restrictions on route-to-market strategies. Ongoing engagements with the government aim to address disparities impacting competitiveness caused by the sugar tax compared to regional peers.

The full effects of lower mineral prices and reduced agricultural output due to the El Niño-induced drought have yet to be fully realised. Ensuring the availability of foreign currency to support imported inputs will be crucial for sustaining the industry. We hope that complementary measures will be introduced to support the ZiG currency.

The business is well-positioned to seize opportunities from increased consumer spending, following the recent expansion in production capacity. Our focus remains on capitalising on activities that generate aggregate demand.

ADVANCING OUR SUSTAINABILITY PRIORITIES

The Group remains focused on its sustainability agenda, with increased activities in responsible alcohol consumption, reduction in waste and pollution, community involvement and optimising resource utilisation. In the current year we have amplified our communication on underage drinking under the Pledge 18 campaign, Make A Difference-Recycle executions and uprated the brand activations supporting sports and culture.

By order of the board

Ms F Musinga
Company Secretary
26 July 2024