

Hippo Valley Estates Limited

TRADING UPDATE FOR THE THIRD QUARTER ENDED 31 DECEMBER 2024

Operating Environment Overview

The business environment remains challenging at the back of inflationary pressures, exchange rate volatility (with the local currency (ZWG) devalued by 45% at the end of the last quarter), tightening money supply and currency mix dilemma between the ZWG and USD. The official exchange rate between the ZWG currency and the USD was USD1: ZWG13.56 at the beginning of the year and this eventually closed the third quarter on 31 December 2024 at USD1: ZWG27.09. Policy measures were pronounced during the same period to support the stability of the domestic currency, among other measures introduced at the onset to curb against macro environment deficiencies, including raising statutory reserve requirements and increasing the bank policy rate.

These complexities have continued to place immense pressure on the

Company's profit margins, narrowing the capacity to retool the business and fueling the Company foreign currency pressures due to working capital required for critical import type goods and services, cane supply and manpower costs which are largely priced in USD while the Company is not able to generate enough USD from normal sales. In response, the Company embarked on a number of strategies to avoid further depletion of profits and improve the capacity to generate positive cashflows, that are necessary for business continuity particularly project 'Zambuko' through which the business has to date initiated an employee retrenchment process based on operational requirements and in terms of the Labour Act of Zimbabwe. The process shall be conducted in three phases, first by end of February in the current year, with May and August following respectively, post the Company's year-end.

Business Performance

Operational Performance:

Area under cane (hectares)			Sugar cane yield/hectare (tons)		Cane supply (tons)			Sugar production (tons)		Cane to Sugar ratio*
4% ↓	1% ↓	2% ↓	7% ↑	4% ↑	18% ↑	7% ↓	10% ↑	13% ↑	19% ↑	1% ↓
10 342	11 977	22 319	95.4	66.7	1 020 986	744 815	1 765 801	219 112	439 542	8.05
10 772	12 101	22 873	89.2	64.4	864 090	745 340	1 609 430	194 684	370 600	7.98
Company	Private Farmer	Total	Company	Private Farmer	Company	Private Farmer	Total	Company	Industry	

■ Dec-23 ■ Dec-24 □ Change

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

The harvesting season closed with good performances following an 18% increase in cane deliveries from the Company's plantations (miller-cum-planter) driven by a 7% improvement in yields and a more consistent rate of delivery of sugar cane. Private farmers recorded a marginal drop in cane deliveries despite a 4% increase in yield, resulting from reduced area under cane by 124 hectares.

Resultantly, the crushing period ended with increased sugar production, supported by improved mill uptime after a successful off crop (annual) maintenance programme prior to commencement of the 2024/25 season.

Focus remains on the current off crop maintenance programme, which commenced in December 2024, and is progressing well with the anticipation to commence the 2025/26 season in April 2025.

Sales and Marketing Performance:

Industry sugar sales (tons)				
	Local	Export	Total	Company's share
Dec-24	279 112	32 003	311 115	49.80%
Dec-23	227 855	67 527	295 382	52.54%
Change	22% ↑	53% ↓	5% ↑	2.74% ↓

Local sales volumes increased following the repeal of SI80 at the end of January 2024, triggering demand for the Hullets 'Sunsweet' brand.

Low margin export sales volumes went down by 53% after deliberate prioritisation of the local market demand.

The Company has adequate sugar stocks to satisfy firstly the local market and critical export markets. Unfortunately, unfortified sugar brands illegally imported are still visible in the local market and relevant authorities have been alerted.

Safety, Health and Environment (SHE):

A total of 2 Lost Time Injuries (LTIs) were recorded during the period under review, (2023: 2 LTIs), resulting in a Lost Time Injury Frequency Rate (LTIFR) of 0,024 (2023: 0,020).

Outlook:

Following the good Agriculture and Milling operational performances in the 2024/25 season, the Company is banking on continuous improvements supported by;



Adequate water cover for the ensuing year with Mkwasi water challenges managed through water rationing.



A successful off crop campaign, which is currently progressing well to guarantee good mill recoveries and efficient cane delivery.



The authorities upholding the reinstated duty on imported sugar.



Cost savings achieved through Project 'Zambuko'.

In December 2024, the Company achieved recertification in respect of the Occupational Safety and Health Management System (ISO 45001:2018) and Environmental Management Systems (ISO 14001:2015) following clearance of all major findings that were raised.

During this period, no material environmental incidents were recorded and this reaffirms the Company's commitment to promote sustainable practices. The Company continues to invest in clean renewable energy sources, reforestation and sustainable waste management systems with 5 000 tree seedlings having been distributed for planting within the lowveld.

Financial Performance:

Cautionary – At the beginning of the current year, the Company adopted the USD as the reporting currency and users are cautioned over reliance on translated hyperinflation adjusted financial statements to determine USD equivalent opening balances and comparative financial statements.

Revenue realized at the end of the third quarter increased 16% from prior year same period, driven by a strong recovery of local market sales volumes where higher price realisations are generated and the deliberate prioritisation of the local market in place of the lower priced exports which saw a 53% volume decrease. However, the increase in the cost of doing business which largely relate to cane purchases and manpower costs, squeezed profit margins resulting in the need for the business to refine its operational strategies and implement sustainable cost containment plans.

While December marked the end of the 2024/25 milling season, the business assures product availability to all its customers up until the commencement of the next season.

The Company filed an appeal with the Supreme Court regarding the recent adjustment to the Division of Proceeds (DOP) arrangement under the cane milling agreements, which increased the DOP allocation to private farmers. Further updates will be provided when available.

Strategic focus remains on ensuring the business has adequate cash resources to successfully start the next season while ensuring cost optimization efforts remain aligned to overall sustainability goals.

By Order of the Board


CF Dube
Chairman


RT Masawi
Chief Executive Officer

10 February 2025

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