SUGAR ILLOVO MALAWI
AN ILLOVO SUGAR AFRICA COMPANY

(Incorporated in Malawi on 31 May 1965 under registration number 839)

EXTRACTS FROM THE UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 29 FEBRUARY 2024(COMPARATIVES ARE FOR THE SIX MONTHS ENDED 28 FEBRUARY 2023)

FINANCIAL PERFORMANCE	Unaudited 6 month period ended 29-Feb-2024	Unaudited 6 month period ended 28-Feb-2023	GROUP Audited Year ended 31-Aug-2023	Unaudited 6 month period ended 29-Feb-2024	Unaudited 6 month period ended 28-Feb-2023	COMPANY Audited Year ended 31-Aug-2023
Condensed consolidated and separate statements of comprehensive income	K'm	K'm	K'm	K'm	K'm	K'm
Revenue	139,035	116,734	272,457	74,179	64,027	148,544
Gross Profit	32,991	42,591	116,701	10,084	16,071	50,340
Fair value change (growing cane)	38,636	30,186	13,779	17,624	16,464	8,617
Exchange (Loss)	(16,904)	(3,158)	(6,234)	(16,326)	(3,346)	(7,055)
Other Administrative Expenses	(25,965)	(20,519)	(42,323)	(13,378)	(11,490)	(23,362)
Operating profit/(Loss)	28,758	49,100	81,923	(1,996)	17,699	28,540
Dividend income	-	-	75	-	30,000	30,000
Net finance income/(cost)	3,814	(463)	(221)	3,346	(32)	910
Profit before taxation	32,572	48,637	81,777	1,350	47,667	59,450
Taxation	(10,183)	(14,909)	(25,019)	(405)	(5,300)	(9,203)
Net profit for the period	22,389	33,728	56,758	945	42,367	50,247
Other comprehensive income	210	18	119	210	18	4
Total comprehensive income	22,599	33,746	56,877	1,155	42,385	50,251
Adjusted for:						
Other comprehensive (income)	(210)	(18)	(119)	(210)	(18)	(4)
Headline earnings	22,389	33,728	56,758	945	42,367	50,247
Number of shares in issue ('000)	713,444	713,444	713,444			
Weighted average number of shares on which net profit per share is based ('000)	713,444	713,444	713,444			
Net profit per share (tambala)	3,138	4,727	7,955			
Headline earnings per share (tambala)	3,138	4,727	7,955			
Dividend per share (tambala)	1,260	1,000	2,624			
Quality of earnings statement						
Operating profit	28,758	49,100	81,923			
Adjust for:						
Change in fair value of growing cane	(38,636)	(30,186)	(13,779)			
Operating (loss)/profit excluding fair value changes	(9,878)	18,914	68,144			
Business segmental analysis						
Revenue						
Sugar production	59,213	34,815	133,240			
Cane growing	79,822	81,919	139,217			
	139,035	116,734	272,457			
Operating profit						
Sugar production	6,025	16,510	42,305			
Cane growing	22,733	32,590	39,618			
	28,758	49,100	81,923			
Condensed consolidated and separate statements of financial position						
ASSETS						
Property, plant and equipment	113,274	82,731	94,733	80,549	56,024	65,574
Investment	876	740	876	324	324	324
Non-current assets	114,150	83,471	95,609	80,873	56,348	65,898
Current assets	232,135	161,376	202,056	173,046	115,977	181,748
Total Assets	346,285	244,847	297,665	253,919	172,325	247,646
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity	152,701	123,665	139,091	33,491	50,364	50,526
Taxation	41,859	41,642	33,144	41,868	41,651	21,906
Non-current liabilities	8,369	9,682	4,636	4,795	5,212	1,737
Current liabilities	143,356	69,859	120,794	173,765	75,098	173,477
Total shareholders' Equity and Liabilities	346,285	244,847	297,665	253,919	172,325	247,646
Depreciation	3,371	4,855	10,527			
Capital expenditure	20,716	8,635	25,735			

	Audited 6 month period ended 29-Feb-2024	Unaudited 6 month period ended 28-Feb-2023	COMPANY Audited Year ended 31-Aug-2023	Unaudited 6 month period ended 29-Feb-2024	COMPANY Unaudited 6 month period ended 28-Feb-2023	Audited Year ended 31-Aug-2023
Condensed consolidated and separate statements of cash flows	K'm	K'm	K'm	K'm	K'm	K'm
Cash generated from operations before working capital changes	38,442	53,955	78,491	2,931	21,083	27,286
Working capital requirements	(6,452)	(31,414)	43,620	1,829	(31,998)	49,561
Finance costs and taxation	(22,684)	(7,893)	(8,859)	(273)	22,533	(1,399)
Net cash flows from operating activities	9,306	14,648	113,252	4,487	11,618	75,448
Net cash flows used in investing activities	(20,716)	(8,635)	(25,355)	(16,707)	(6,204)	11,265
Net cash flows before financing activities	(11,410)	6,013	87,897	(12,221)	5,414	86,713
Net cash flows used in financing activities	(3,429)	(2,009)	(25,840)	(2,618)	(1,411)	(24,656)
(Decrease)/Increase in cash and cash equivalents	(14,839)	4,004	62,057	(14,839)	4,003	62,057
Condensed consolidated and separate statements of changes in equity						
Share capital and premium						
Balance at beginning and end of the period	782	782	782	782	782	782
Retained earnings						
Balance at beginning of the period	137,747	99,710	99,710	49,739	18,213	18,213
Net profit for the period	22,389	33,728	56,758	945	42,367	50,247
Dividends	(8,989)	(11,016)	(18,721)	(18,189)	(11,016)	(18,721)
Balance at end of the period	151,147	122,422	137,747	32,495	49,564	49,739
Non-distributable reserve						
Balance at beginning of the period	562	443	443	4	-	-
Cash flow hedges	210	18	4	210	18	4
Fair value gain on revaluation of investment	-		115	-	-	
Balance at end of period	772	461	562	214	18	4
Shareholders' equity	152,701	123,665	139,091	33,491	50,364	50,525

CHANGE IN DISCLOSURE REGARDING EXCHANGE LOSSES

In response to the prevailing adverse economic conditions, particularly the fluctuations in exchange rates, we have proactively disclosed exchange losses for the six months ended February 29, 2024, separately on both the condensed consolidated and separate statements of comprehensive income. This step is aimed at providing stakeholders with a comprehensive understanding of our financial performance and the impact of these fluctuations. Consequently, we have bolstered our disclosures pertaining to exchange losses to ensure clarity in our financial reporting practices.

Subsequent Events – Flood Damage and Tax Changes

Flood Damage

Subsequent to period end, severe flooding occurred in Dwangwa due to heavy rainfall, resulting in breaches in the flood protection dyke and substantial damage to the surrounding cane fields. The extent of the flood impact will be reflected in our full-year results.

Tax Changes

Proposed increase to the corporate tax rate from 30% to 40% for taxable profits above K10 billion will lead to increased tax liabilities by the end of the financial year ending 31 August 2024. This change has since been sanctioned by Parliament subsequent to the six-month ended 29th February 2024. These changes will impact the net profit for the financial year ending 31st August 2024.

OVERVIEW

For the six months ended 29th February 2024, the group registered turnover of K139.0 billion against a prior period comparative of K116.7 billion and profit before tax of K32.5 billion compared to prior period comparative of K48.6 billion.

Agricultural operations continued at a slow pace resulting in lower cane produced as a result of the impact of cyclones on the cane fields in the two previous seasons, especially at Nchalo. The supply of fertilizer, pesticides and other important factory and agricultural inputs was affected by scarcity of foreign currency to procure these inputs in a timely manner. Theft of cane, irrigation and other agricultural equipment, and violence against company security staff influenced by the hard economic times remained a major problem especially at Nchalo. These factors resulted in lower agricultural output for both own and grower cane, than initially envisaged. Plant downtime affected overall factory output which was further impacted by the lower than planned cane supply. This resulted in reduced availability of sugar on the market especially from February 2024.

The off-crop maintenance program was implemented from December 2023 and a significant amount of work was done to prepare the factories for a more efficient crush in the new season. Limited availability of foreign currency impacted on timely sourcing of necessary spares and contractor services for a successful off-crop, aside from the inflationary effect of the 44% devaluation of the Kwacha in November 2023 ; the recent flooding that occurred in March 2024 in Nkhotakota also had the potential to delay timely completion of the factory maintenance at Dwangwa as part of the estate was significantly flooded and the main access roads to the site were cut off. Careful planning and other interventions were put in place to ensure that the milestones on the factory maintenance program were achieved.

The group has experienced a significant rise in foreign payables due to a scarcity of foreign exchange, which in turn has led to an increase in Malawi Kwacha cash balances. This approach is aimed at ensuring the group's financial sustainability and operational stability until the liquidity of foreign currency improves. By carefully managing resources and expenditures, the group intends to navigate the current economic challenges and position itself for long-term success once the foreign exchange situation stabilizes. The group achieved sugar sales of 107,629 tons compared to 111,958 tons over the same period in the prior year. The lower agricultural and factory output impacted overall sales volumes. Price arbitrage at the country's borders encouraged illegal export of sugar contributing to scarcity of sugar in the local market. The group engaged with the Government to ensure that joint efforts were made to ensure adequate supply of sugar, despite the reduced production. Import permits for sugar were consequently issued by the authorities to reduce the gap between demand and supply of the commodity in the country. The group remains committed to putting in significant effort to increase its production and sale of good quality sugar to its primary domestic market in various formats and affordable pack sizes. The group also intends to formally export the surplus sugar to contribute to the overall supply of foreign currency in the country.

The group continues to partner with Government, some local universities, Non-Governmental Organizations, and other development bodies to play a significant role in ensuring a Thriving Malawian community, through various avenues including education, health, nutrition, employment for the citizenry, multiple corporate shared value efforts, and contributing to boosting various taxes and other regulatory remittances towards the fiscus.

The group provided accommodation to a significant number of people from the surrounding community after the flooding in Dwangwa and will continue playing a major role in the recovery efforts to the estate and its precincts. Additional initiatives are also being pursued at Nchalo to engage the communities towards co-creation of mutually beneficial solutions to the societal problems underlying the vandalism to irrigation equipment and cane theft.

PROSPECTS

The group is currently experiencing significant cost pressures due to the devaluation of the Kwacha, which is eroding its profit margins. Additionally, high domestic market demand has hindered the group's ability to export sugar and achieve foreign exchange self-sufficiency. Going forward, the group will evaluate all projects and investments that require foreign exchange to prioritize financial sustainability and operational stability until the liquidity of foreign currency improves. Although the group continues to generate positive cash flow, obtaining foreign currency for investment and expansion remains challenging due to the scarcity of foreign exchange.

Continued investment in its people, the group's most valuable asset, remains pivotal to the overall success of the business. However, the scarcity of foreign currency significantly impacts the implementation of key projects, such as the Shire Valley Transformation Project, which aims to reduce electricity and water usage and provide the Nchalo estate with clean water for irrigation. Other critical initiatives include the Nchalo and Dwangwa Transformation initiatives, focused on yield increases, debottlenecking the plant, expansion, and co-generation projects.

The group is closely monitoring foreign currency liquidity to facilitate and implement these expansion projects, as it generates sufficient cash flow to support such initiatives.

Availability of foreign currency, weakening exchange rates of the Malawi Kwacha against its major trading currencies, the policy rate and bank interest rates, rising inflation and other macroeconomic variables will continue impacting on the group's profitability. The business will continue to strategize to ensure continued growth and profitability for the benefit of its shareholders and all other stakeholders into the foreseeable future. Consistent power supply by EGENCO, reliable weather patterns, plant rehabilitation and preventative maintenance programs will also remain key to the achievement of optimal results in both agricultural and factory operations.

The directors have decided not to recommend a first interim dividend for the half-year results. Instead, they have chosen to take additional time to comprehensively evaluate the group's performance as of August 2024. This decision reflects the directors' commitment to ensuring a thorough understanding of the company's financial health and operational outcomes before making any dividend declarations. By deferring this recommendation, the directors aim to make well-informed decisions that will support the long-term stability and growth of the group. This approach underscores the importance of careful financial planning and prudent management in navigating the current economic environment.

DIVIDEND

Notice is hereby given that no interim dividend has been declared in respect of the six-month period ended 29th February 2024 (2023: 1,080 tambala per share)

Jimmy Lipunga
Chairman

Lekani Katandula
Managing Director

16 May 2024