

Trading Update for the First Quarter (FY2020)

In compliance with Zimbabwe Stock Exchange (“ZSE”) Practice Note 11, Padenga Holdings Limited hereby issues the following trading update for Q1 of 2020, ending 31 March.

Trading Environment

The trading environment in the three months has been challenging. The effects of the local hyper-inflationary environment, coupled with tight liquidity conditions has placed relentless pressure on the prices of locally procured inputs. Emphasis was therefore directed towards controlling and aligning overheads in a manner that would preserve margins. The Rand depreciated by approximately 31% against the USD and this had a positive effect on the Company’s imported input costs.

In the USA, Texas has reopened after shelter at home orders were lifted and those in Louisiana have been extended to 18th May. Notwithstanding this, businesses are reopening slowly in Louisiana and it is anticipated that the Tannery in Lafayette will be fully operational by early June. TCR continued operations as an essential livestock service and no material prejudice was suffered by this operation. The business received stimulus funding under the PPP initiative which covered permanent staff salaries and wages for a period of 2.5 months.

The COVID-19 pandemic has significantly affected the regions that we market into. There have been hurdles in getting product to customers but we have successfully overcome these to-date. Further initiatives are under consideration to ensure that skins and meat delivery continue without interruption. Tanneries and manufacturing operations reopened in France mid-April and those in Italy are close to reaching the same status as that country emerges from lockdown. Premium brand retail outlets have reopened in mainland China and have reported brisk demand for high-end products.

Harvesting Offtake and Skin Sales

Zimbabwe Crocodile Operation

In the Zimbabwe operation, skin volumes were up 158% compared to prior period (5,463 skins vs 2,120 skins) as harvesting for FY20 commenced early in January.

By 31 March 2020, 6,338 crocodiles had been harvested. The size and quality of the harvestable crop in the pens was consistent with expectations to achieve our budgeted harvest of 46,000 skins by year-end.

The first sales grading of the year was concluded with 5,463 skins being sold and grades achieved being consistent with budget. A further 10,513 skins are forecast to be presented for sale in the next sales grading at the end of June.

New regulations recently implemented by the European Commission governing trade in crocodilian meat are the first steps towards a harmonized EU policy for this commodity. Zimbabwe is compliant with the new regulations and meat exports should continue without interruption. A resumption in sales to the Asian market has occurred following the COVID-19 pandemic with customers seeking product from operations that have a credible and compliant processing facility. An initial 8.5 tons of meat was shipped to Hong Kong in March 2020, with an additional order for 12 tons received for year-end delivery. We anticipate selling all the meat that we will produce in FY20.

We currently have 46,772 Born 18 stock and 53,605 Born 19 stock on the ground in Zimbabwe. Both crops are performing well in terms of growth and skin quality. Crocodile numbers are in line with our objective of sustaining annual production at constant volumes in 2021.

United States Operation – Tallow Creek Ranch (“TCR”)

In the United States, skin volumes were up 280% compared to the prior period (12,725 vs. 3,349).

In line with decisions previously announced, 8,449 low-grade skins were sold to best advantage. The total harvest to date for 2020 is 6,516 skins. Harvesting of medium and large animals will resume in May 2020 and we will meet our harvest target of 18,727 animals for 2020.

Negotiations are underway in the USA for the procurement of yearlings. TCR will complete the purchase of 7,500 pre-yearling alligators during May 2020 for harvest in 2021, and will not acquire hatchlings beyond those anticipated from the Farm’s breeder project in September 2020. The decision not to purchase hatchlings is consistent with the Operation’s objectives of remaining focused on Medium and Large skin production and minimizing the number of watchband sized skins sold.

Investment into the Dallaglio Mining Group

As previously reported, final regulatory approvals for this investment are still awaited. This process has been compromised by the lockdown in response to the COVID-19 pandemic. Management are excited about the addition of this business to the Group.

Capital Expenditure

Construction of the effluent treatment plant for the northern farms is set to commence after the lockdown, with contract finalisation and sub-tender approvals underway. Commissioning of the second 470kWp phase of the renewable solar energy plant has been delayed due to the lockdown. The installation is awaiting ZERA inspection and then commissioning by ZETDC, and is expected to be completed by 31st May 2020. These installations reinforce the Group’s commitment to sustainability through the application of alternative and renewable energy solutions.

Financial Performance

The first half of the financial year is largely a cost accumulation period with the greater portion of harvesting and turnover following during H2. However, the revenue for Q1 grew by 287% in US\$ terms, driven mainly by carry over skins that were in stock at the beginning of the period. Total expenses for the period to March 2020 were up 24% compared to prior period. This increase was mainly attributable to the differential on the rates being used for local inputs. Suppliers were using alternative market rates to price their products whereas in accordance with policy, we applied the official interbank rate on the conversion of the transactions. Notwithstanding this, total US\$ expenses were in line with budget.

Impact of the Coronavirus COVID-19

The outbreak of pandemic COVID-19 has had a profound disturbance on social, economic, and financial structures worldwide. The spread of the COVID-19 virus into the heart of the leather industry in Italy and France and the rest of Europe has depressed general market sentiment. Many tanneries were in shutdown and fashion/premium brands have closed retail outlets throughout the major capital cities worldwide.

Luxury product retail sales have been impacted, but premium brands were shown during the 2008/9 global financial crisis to be less impacted and to rebound quicker than general commodity traders. The resumption of strong sales in China post COVID-19 are evidence of this. Any short term depression in retail sales will be used by premium brands to catch up on manufacturing finished products to fulfil long outstanding order books and they require continued delivery of raw materials to do so. Strong volume sales are therefore anticipated over the next 18 months to two years as markets return to normal.

PHL increased its stocks of feed, chemicals and other consumables critical to sustaining operations when the pandemic first started in China in early 2020 and well before the national lockdown and consequently has adequate

volumes of these on-hand for between three and six months cover dependent on the perishability of the commodity.

Although international supply chains have been volatile sufficient orders have been placed to ensure business continuity through to early 2021.

Management has developed a comprehensive COVID-19 strategic response plan that was enforced and included the monitoring and continual screening of the health status of all staff. This has been reinforced by extensive and on-going education on disease mitigation. The Company’s clinics were stocked with supportive medicines and equipment appropriate to provide a high level of patient care and treatment. Management staff are practicing self-isolation consistent with their responsibilities and skills transfers implemented to allow a continuation of operations with a reduced workforce under the national lockdown promulgated. The company COVID-19 response team meets on-line regularly to assess the changing epidemiology nationally and to adjust local policy as necessitated. Details of the company’s communications distributed to employees about safeguarding their health and wellness status and the steps taken to achieve this were posted on the Padenga website. (www.padenga.com).

Operations continued under the designation of essential services and there has been no compromise thus far, nor is any anticipated. Lockdown restrictions are being eased across the globe and we are confident that we will meet our sales targets for the year.

Market outlook

The Group is optimistic about positive performances within its business units. Demand for defect-free skins remains steady and prices will hold as long as the quality expectations of the premium market are satisfied for both species that we produce. The Company remains focused on stringent but strategic cost control measures. Capex expenditure has been reduced consistent with the prevailing environment.

Enhanced turnover earnings from the two skins operations together with the profits from the Dallaglio mining operation once formally consolidated into PHL, will facilitate delivery of increased value to shareholders in 2020.



T N Sibanda
Chairman
14 April 2020